Finance

Policy Bulletin #30

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Defined Contribution Retirement Income Accounts

Effective August 10, 2006, The *Employment Pension Plans Act* and *Regulation* (the Act and Regulation) are amended to permit pension plans with defined contribution provisions to provide for retirement income payments directly from the pension plan through the establishment of a Defined Contribution Retirement Income Account (DC RIA).

This Bulletin has no legal authority. The Act and Regulation should be used to determine specific legislative requirements.

Provision for a DC RIA

pension plan may offer a DC RIA; and a plan must be amended to provide for the DC RIA.

Where a plan allows for a DC RIA, and where a member wishes to retire under the Plan, the retirement statement must indicate that the member has the option to convert his defined contribution account into a DC RIA.

However, **ONLY** the benefits earned under a defined contribution provision, and those which are subject to the provisions of the Act, are eligible to be converted to a DC RIA. It is not permitted for a defined benefit provision to allow a member to convert the commuted value of their defined benefit pension into a DC RIA.

The age at which a member can elect to retire under the plan and commence payments from a DC RIA is stipulated by the terms of the pension plan text, but can be no earlier than age 50.

Pension Partner Waiver to Commence a DC RIA

If the plan member has a pension partner (married or common-law spouse), a DC RIA cannot be established unless the partner waives entitlement to the 60% joint life pension by completing Option 2 of Part 1 of **Form 6 – Waiver to Permit Transfer to LIF, DC RIA, or Annuity**.

50% Unlocking at Pension Commencement

If a member chooses to commence a DC RIA, the plan administrator must provide that person with the option to withdraw up to 50% of his account balance as at the date of pension commencement as a transfer to a Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF) or as a lump sum payment (less tax), subject to the pension partner (if there is one) completing the Option 1 waiver of Part 1 of Form 6.

The unlocked portion of the accrued benefit must be transferred **concurrently with** the transfer of funds to the DC RIA.

Permitted Withdrawals from a DC RIA

The contents of the annual statement that must be given to participants are listed later in this Bulletin. Based on that information the participant each year chooses how much to withdraw and informs the plan administrator. The calculation of the minimum and maximum withdrawals from a DC RIA is identical to those permitted in a LIF.

- The minimum withdrawal, for purposes of the *Income Tax Act,* is that which is required from a RRIF. This amount must be withdrawn as cash, less tax. The minimum amount that must be withdrawn in the first year is $0.

- The maximum withdrawal is the greater of a) or b):

  a) The amount determined by applying the withdrawal factor associated with the member's age at January 1, or

  b) The investment gains and losses in the DC RIA from the previous calendar year.

  If the calculated maximum withdrawal is greater than what the former member wishes to withdraw as income, the former member is permitted to transfer the excess amount to a regular RRSP or RRIF. A list of the withdrawal factors, (expressed as a percentage), is found at the end of this Bulletin.

  In the first year of the DC RIA only, the calculation under b) does not apply. Finally, if a DC RIA is started in a month other than January, appropriate pro-ration of the maximum withdrawal is required.

If a member turns age 50 during a calendar year, (and provided that the plan permits a member to start a DC RIA at age 50), the age used to determine the relevant withdrawal factor is the member's age on the date of pension commencement (rather than the age as of January 1 of that calendar year).

Transfers of a DC RIA into/ out of a Pension Plan

Transfers In

If the plan permits, a member can transfer funds to the DC RIA from another plan, a LIF, a LIRA. In all cases, the administrator of the Plan must be provided with the information listed later in this Bulletin.

The DC RIA can hold only Alberta locked-in money. Any locked-in money that is subject to another jurisdiction's pension legislation, or any non-locked-in money cannot be held in the DC RIA. Money is subject to another jurisdiction's legislation if the plan member worked in that other jurisdiction immediately before terminating employment. This also includes work performed in Alberta for an employer under federal jurisdiction. Such employers include federal civil, military, police services and federally regulated industries: banking, shipping, inter-provincial transportation and telecommunications.

Transfers Out

At any time, a DC RIA participant can transfer the DC RIA to:

- a Life Income Fund with a financial institution;
- another DC RIA with another pension plan, if that plan permits the transfer; or
- a life annuity with an insurance company.

A transfer from a DC RIA to a LIRA is not permitted. The reason is to eliminate any "double dipping" in respect of the 50% unlocking rule.

Before transferring funds the plan administrator must:

1) in the case of a LIF, ascertain that the financial institution is acknowledged on the Superintendent's List with respect to LIFs,

2) advise the receiving plan administrator or LIF issuer that the money being transferred is Alberta locked-in funds,
3) if the DC RIA participant had a pension partner at the date the DC RIA was established, provide the receiving plan administrator or LIF issuer with a certified true copy of the signed **Form 6**.

In regard to the disclosure requirements on the transfer out, the administrator must provide the financial institution / pension plan administrator with the information listed later in this Bulletin.

Payment of Death Benefits from a DC RIA

If a DC RIA participant dies, the payment of the DC RIA is made to the person who was their pension partner at the time that retirement income first commenced unless that pension partner had previously waived beneficiary status under Option 3 of Form 6. The payment can be made either as a lump sum withdrawal (less tax) or as a transfer to an RRSP or RRIF. Furthermore, *if the plan so provides*, the pension partner may continue to receive payments from the DC RIA so long as that pension partner is designated as a "specified beneficiary" under the *Income Tax Act*.

Where there is no pension partner, the pension partner has waived beneficiary status, or if the DC RIA was split under a marriage breakdown situation such that the person who would qualify as the pension partner no longer has an entitlement to any benefits of the DC RIA participant, the payment is made to the designated beneficiary (or estate, if there is no beneficiary).
Disclosure requirements in the event of death are set out on page 7.

Re-employment of a DC RIA Participant

If a DC RIA participant again becomes an active member of the plan, he may elect to continue or suspend payments from the DC RIA. The individual will be **re-enrolled as a member of the plan**. Upon re-retirement, portability options must be provided in respect of the additional benefit and the 50% cash-out option will apply. Another pension partner waiver will be required if the accrued benefit is not converted to at least a 60% joint and survivor form of pension.
Funds in the DC RIA may not be co-mingled with the actively accruing contributions unless or until the member re-retires and elects to transfer the newly accrued benefit to the DC RIA.

Commutation Unlocking Provisions

A DC RIA may be commuted, at any time, if the value of that DC RIA does not exceed 20% of the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) for the year in which an application is made.

The DC RIA must also permit commutation and unlocking of the benefit if the participant has a considerably shortened life expectancy as certified by a physician or if the DC RIA participant has become a non-resident of Canada under the terms of the *Income Tax Act*. In both of these instances, if the DC RIA participant had a pension partner when retirement income commenced, the benefit can not be unlocked unless a **Form 5 waiver** is first signed by that pension partner and filed with the plan administrator.

Marriage Breakdown

A DC RIA can be divided between a DC RIA participant and his/her pension partner upon their presenting the administrator with a valid matrimonial property order. However, section 58(5) of the Regulation requires that where the non-member pension partner's share is held in a DC RIA, that share must be transferred to another permitted vehicle.

Disclosure Requirements

Members Terminating or Retiring under the Plan

Members or former members who terminate or elect to retire under the plan must be given the appropriate statement required by s.15 or 16 of the Regulation. The statement must indicate that the member / former member has the option to transfer to a DC RIA (as long as they meet the age requirements to start a DC RIA if they are terminating rather than retiring).

If a person elects to commence payments from a DC RIA, the administrator must then provide that person with the minimum amount that must, and the maximum amount that may, be paid under the DC RIA in the first year.

Annual Statements to Current DC RIA Participants

Within 60 days from the end of a calendar year, the administrator shall provide to each DC RIA participant a statement with the following (as applicable):

a) the name of the plan and its CRA registration number;

b) the DC RIA participants and date of birth;

c) the date the DC RIA was established;

d) where the DC RIA participant had a pension partner at the date the DC RIA was established, the name of the pension partner who executed the Option 2 waiver under **Form 6**, and if applicable, acknowledgement that the pension partner has signed Option 3 of **Form 6**. (Note this does not apply where benefits are being paid to a surviving pension partner).

e) the name of the designated beneficiary;

f) the account balances as at the beginning and the end of that calendar year;

g) the interest, gains and losses during that calendar year;

h) the amount withdrawn during that calendar year;

i) the amounts transferred in from other sources in that year;

j) the fees charged against the account during that calendar year;

k) the minimum and maximum amounts that may be withdrawn in the current year;

l) the deadline for making the election as to the amount and timing of payments for the current year;

m) the process for changing that election.

n) the default amount and timing of the payments for the current year if an election is not received.

Information on the Death of a DC RIA Recipient

Where a DC RIA participant dies, the administrator shall provide within 60 days, to the person entitled to the death benefit, a statement containing the following information (as applicable):

a) the name of the plan and its CRA registration number;

b) the deceased's name and his date of birth;

c) the date the DC RIA was established;

d) where the DC RIA participant had a pension partner at the date the DC RIA was established, the name of the pension partner who executed the Option 2 waiver under **Form 6**, and if applicable, acknowledgement that the pension partner has signed Option 3 of **Form 6**. (Note this does not apply where benefits are being paid to a surviving pension partner).

e) the name of the deceased's designated beneficiary;

f) the account balances as at the beginning of the calendar year in which death occurred and as at the date of death;

g) the interest, gains and losses from the beginning of that calendar year to the date of death;

h) the amount withdrawn during that calendar year to the date of death;

i) the amounts transferred in from other sources in that year;

j) the fees charged against the account during that calendar year;

k) a statement that the account balance will be adjusted with interest, gains and losses to the date of payment;

l) the portability options;

m) if the plan allows (subject to the Tax Act), an option for a surviving pension partner to remain in the plan. If this applies, that person can alter the payment to be made from the DC RIA);

n) the deadline for election of options and an explanation of what will happen if an election is not made.

<u>Transfers of DC RIA to a LIF</u>

Within 90 days after a DC RIA participant makes an application to transfer their DC RIA out of the pension plan fund to a Life Income Fund with a financial institution, the administrator shall provide the following information about that individual (as applicable):

a) the name of the plan and its CRA registration number;

b) the DC RIA participant's name and birth date;

c) the date the DC RIA was established;

d) where the DC RIA participant had a pension partner at the date the DC RIA was established, the name of the pension partner who executed the Option 2 waiver under **Form 6**, and if applicable, acknowledgement that the pension partner has signed Option 3 of **Form 6**. (Note this does not apply where benefits are being paid to a surviving pension partner).

e) the name of the former member's designated beneficiary;

f) a copy of any decision made by the DC RIA participant respecting the amount to be withdrawn in the current year.

g) a statement reconciling the DC RIA balance immediately after the transfer and as the end of the previous calendar year;

h) the interest, gains and losses from the beginning of that calendar year to the date the application is processed;

i) the amount withdrawn during that calendar year to date;

j) the amounts transferred in from other sources in the year;

k) the fees charged against the account during that calendar year;

l) a statement that the account balance will be adjusted with interest, gains and losses to the date of payment;

m) the portability options

n) the deadlines for election of options

Table of Withdrawals from DC RIAs under Alberta's Jurisdiction for the year 2006 (as a percentage of the Account Balance at January 1). NOTE: The amounts generated by this table are for a 12-month period. Therefore, if a DC RIA is started in a month other than January, appropriate pro-ration is required.

Age at Jan. 1	Minimum Withdrawal from DC RIA	Maximum Withdrawal from DC RIA[1]
50	2.50%	6.51%
51	2.56%	6.57%
52	2.63%	6.63%
53	2.70%	6.70%
54	2.78%	6.77%
55	2.86%	6.85%
56	2.94%	6.94%
57	3.03%	7.04%
58	3.13%	7.14%
59	3.23%	7.26%
60	3.33%	7.38%
61	3.45%	7.52%
62	3.57%	7.67%
63	3.70%	7.83%
64	3.85%	8.02%
65	4.00%	8.22%
66	4.17%	8.45%
67	4.35%	8.71%
68	4.55%	9.00%
69	4.76%	9.34%
70	5.00%	9.71%
71	7.38%	10.15%
72	7.48%	10.66%
73	7.59%	11.25%
74	7.71%	11.96%
75	7.85%	12.82%
76	7.99%	13.87%
77	8.15%	15.19%
78	8.33%	16.90%
79	8.53%	19.19%
80	8.75%	22.40%
81	8.99%	27.23%
82	9.27%	35.29%
83	9.58%	51.46%
84	9.93%	100.00%

[1] If the interest gains and losses in the previous calendar year are **GREATER** than the amounts generated by this table, that amount will instead be the calculated maximum for the current calendar year in the DC RIA.

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