

EPPA Update 00-05

MAXIMUM COMMUTABLE AMOUNTS

NEW LEGISLATION PROCLAIMED IN FORCE ON MARCH 1, 2000

The *Employment Pension Plans Amendment Act*, proclaimed in force on March 1, 2000, sets out new and revised provisions regarding the maximum amounts that may be commuted from a pension plan or out of a locked-in contract under Alberta's jurisdiction.

The revised *Employment Pension Plans Regulation* details the procedures required in order to be able to commute (cash out) locked-in pension funds either upon termination from a registered pension plan, or funds from a Locked-In Retirement Account (LIRA), Life Income Fund (LIF) and Locked-In Retirement Income Fund (LRIF) contract.

MAXIMUM COMMUTABLE AMOUNTS, Act s. 46, Regulation. s. 45

A pension plan must provide for the commutation of the pension benefit at the earliest of termination of membership, termination of the plan, death or pension commencement, if the pension or its commuted value falls below a threshold amount. Such a provision was previously optional. It is now mandatory for the plan to offer commutation.

Similarly, LIRA, LIF and LRIF contracts must provide for the commutation of the locked-in account when the balance in the account falls below a prescribed threshold. There was no ability previously for locked-in vehicles to offer a commutation option.

In all instances, these amounts are considered to be too small to provide an adequate amount of retirement income, so the individual may apply to have his benefit commuted or "unlocked". This allows the individual to either receive the funds in cash, or to transfer them into an unrestricted RRSP or RRIF. Once the locked-in funds are commuted, they are no longer protected from creditors.

The prescribed thresholds are based on a percentage of the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan. For the year 2003, the YMPE is \$39,900. The limits are as follows:

In the case of a **pension plan** containing a **defined benefit provision**, the threshold is:

- the annual pension payments that would be payable to him at or after pensionable age must not exceed 4% of the YMPE for the

calendar year in which that earliest event occurred. For the year 2003, the limit is \$1,596 (or a monthly pension of \$133.00),

OR

- the commuted value of the pension to which he is entitled must not exceed 20% of the YMPE for that year. For the year 2003, the limit is \$7,980.

In the case of a **pension plan** containing **only defined contribution provisions**, the total value of the accrued contributions with interest must not exceed 20% of the YMPE.

In the case of **LIRA, LIF and LRIF contracts**, the threshold is as follows:

- The value of the LIRA, LIF or LRIF contract must not exceed 20% of the YMPE. For the year 2003, the limit is \$7,980. *NOTE: a contract cannot be split into smaller portions in order to fall below the threshold.*
- For an individual who was at least 65 years old as of the end of the previous calendar year, if the total value of all LIRA, LIF and LRIF contracts and defined contribution pension plans does not exceed 40% of the YMPE, the funds may be commuted. For the year 2003, this limit is \$15,960. If an individual wishes to withdraw locked-in funds under this rule (rather than under the “20% rule” as outlined above) he or she must complete Alberta Form EP 46/02 *Declaration Accompanying Application for Lump-Sum Payment* (attached) and submit it to the financial institution.
- Please note that the only situation in which Form EP 46/02 must be completed is where the recipient is 65 years old or older and wants to withdraw between 20% and 40% of YMPE. For withdrawals up to 20% of YMPE, the owner is not required to fill out any form prescribed by the Government of Alberta.

PENALTY FOR MISLEADING STATEMENT, Act s. 92(2)

Under the *Employment Pension Plans Act*, a person who makes a false or misleading statement for the purpose of commuting a locked-in benefit is guilty of an offence and liable to a fine not exceeding \$15,000.

For more information please contact:

Alberta Superintendent of Financial Institutions
Alberta Finance
Room 402, 9515 – 107 Street
Edmonton, AB T5K 2C3

Telephone: (780) 427-8322*
Fax: (780) 422-4283

Internet: <http://www.finance.gov.ab.ca/business/pensions>

* For toll-free dialing, contact your local Alberta Government R.I.T.E. line by calling 310-0000.

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**DECLARATION ACCOMPANYING APPLICATION FOR
LUMP-SUM PAYMENT**

I declare that the sums in my accounts in or in respect of all of the following retirement savings vehicles that I own total \$ _____ :

- a) defined contribution provisions of any pension plan;
- b) life income funds;
- c) locked-in retirement income funds;
- d) locked-in retirement accounts.

Date

Signature

COMMENTS AND INSTRUCTIONS

In addition to any forms that the financial institution may require, if an individual is requesting commutation of locked-in pension funds under Section 45(2)(b) of the Alberta *Employment Pension Plans Regulation*, this form must be completed and filed with the financial institution at the time of such application.

The owner of the locked-in contract(s) must have attained the age of 65 years or more at the end of the preceding calendar year, and the total declared above must not exceed 40% of the Year's Maximum Pensionable Earnings in the year of application.

Under Section 92(2) of the *Employment Pension Plans Act*, a person who makes a false or misleading statement for the purpose of commuting a locked-in benefit is guilty of an offence and liable to a fine not exceeding \$15,000.

If you have any questions, call
Alberta Superintendent of Financial Institutions
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(780) 427-8322

