

Consequences of the 2003 Federal Budget on Pension Plans registered under the EPPA

On February 18, 2003, the Federal Government released the Federal Budget. Certain provisions within the budget may affect the administrative practice of pension plans registered under the *Employment Pension Plans Act* (the EPPA).

Retirement Savings Limits

Plan sponsors should be aware that the announced increases in Defined Contribution (DC) and Defined Benefit (DB) Registered Pension Plans (RPP) might increase the contributions prospectively required to fund an RPP that provides for the accrual of retirement benefits on a DC and/or DB basis.

The new limits are:

Year	DB RPP (per year of service)	DC RPP
2003	\$1,722.22	\$15,500
2004	\$1,833.33	\$16,500
2005	\$2,000.00	\$18,000
2006	indexed	indexed

DC RPP

High-income earning plan members who are currently constrained by the maximum benefit accrual limits imposed by Canada Customs and Revenue Agency (CCRA) under the *Income Tax Act* (the ITA), may be entitled to additional employer required contributions and may be required to make higher contributions themselves, if the plan requires employee contributions.

If the plan text currently indicates that maximum benefits under the plan are limited to 18% of salary or the money purchase limit as prescribed by the ITA, then required contributions for high-income earners would increase. If the plan text defines the money purchase limit to be a specific dollar amount (typically \$13,500), then no increase in contributions would be required.

DB RPP

Increases to the maximum annual pension benefit do not come into effect until 2004. As such, liabilities associated with high-income earning plan members may increase.

If the plan text currently indicates that maximum benefits under the plan are limited to \$1,722 per year of service or such higher limits as prescribed by the ITA, then liabilities in respect of high-income earners will increase. Note that the Superintendent of Pensions, Alberta, (the Superintendent) does not require that current actuarial valuations filed with the Office of Superintendent of Financial Institutions be updated to reflect the increase in liabilities to the plan.

If plan provisions currently state that the maximum benefit limit is \$1,722.22 per year, then no amendment is required by the EPPA. However, if a DB pension plan with this provision is amended to take advantage of the increase to the maximum allowable annual benefits permissible under the ITA, that amendment is subject to section 27(3) of the *Employment Pension Plans Regulation*. That is, the amendment must at least be accompanied by a statement showing the effect that the amendment will have on the going concern liabilities, special payments, and normal actuarial cost and the changes that will result to the latest cost certificate filed.

Notwithstanding the above, if an actuary has the opinion that the increase in liabilities will not result in a material impact on the funded status of the pension plan, then written confirmation of that opinion will suffice in lieu of an amended cost certificate. This may be the case if the plan has:

- no high-income earners, or if the increase in the limits has already been substantially captured in the current actuarial valuation assumptions, or
- sufficient excess assets on a going-concern basis.

Supplemental Employee Retirement Plans (SERPs)

Any plan sponsor providing a SERP as a “wrap around” benefit in addition to an RPP, that provides for benefits on a full salary of an employee of the company *less* the RPP benefit¹, must amend the RPP plan text (if necessary, depending on the existing wording) to reflect the new maximum benefit limits permitted under the ITA.

If an amendment that increases the maximum allowable yearly benefit up to the ITA limits is not made to the RPP, this will result in the SERP providing for some amount of benefit that is under the ITA limits. For that reason, the SERP must be registered under the EPPA.

¹ SERPs that provide benefits entirely in excess of the maximum benefit or contribution limits of the ITA (to which that plan is supplemental) are exempt from the requirements of the EPPA as stated by section 68(1)(d) of the *Employment Pension Plans Regulation*.

RRIF Payments out of DC RPPs

The Federal Government has proposed to allow DC RPPs to pay amounts similar to RRIF payments directly from the DC plan fund. These payments are subject to any locking-in requirements of provincial pension benefits standards legislation. By definition, a pension is payable for life. When a DC pension plan member elects to commence their pension, the options available to provide a retirement pension are limited to a purchase of a life annuity or a transfer to an approved locked-in vehicle (i.e. a LIRA, LIF, or LRIF).

In practice, therefore, in a DC RPP, “RRIF Payments” should be taken to mean LIF or LRIF payments. Whereas a RRIF typically will have no restriction on a maximum withdrawal limit, a benefit formerly held in a pension plan necessarily will have such a maximum limit.

The Superintendent will await further information from CCRA regarding any proposed amendments to the ITA before deciding whether our existing legislation would allow for such payments and if not, whether changes should be made to accommodate them.

All of the above products are established to ensure that the accrued pension benefit will provide an income for the life of the member. Additionally, locked-in products may only be provided by acknowledged financial institutions that appear on the Superintendent’s List of financial institutions offering locked-in products.

At this time, no Alberta registered DC RPP may offer the payment of a lifelong retirement pension, or a RRIF, until further notice.

Locked-In Transfers/Rollovers to Infirm Children

The Federal Government proposes to permit the transfer of RRSP/RRIFs to infirm children or grandchildren on a tax deferred basis, provided that the income of the infirm recipient for the year preceding the year of death is less than a threshold limit. The recent federal budget has increased that threshold limit from \$7,634 to \$13,814.

The EPPA clearly permits the payment of benefits upon the death of a member or former member of a pension plan. Benefits are first provided to the spouse of the member, or the designated beneficiary (if there is no spouse), or the estate of the member (if there is neither a spouse nor a designated beneficiary).

Where a former pension plan member who owns a locked-in account dies, has no spouse, and has named an infirm child/grandchild as the designated beneficiary of those funds, the payment of the benefits may be made to an unrestricted RRSP in the name of the child (subject to the income threshold limits prescribed in the ITA). If the annual income of the child in the year preceding the year of death of the member exceeds the threshold limit, then the death benefit is payable as a lump sum amount (less applicable tax).

More Information

For on-line information concerning the 2003 Federal Budget, please use the following link:

<http://www.fin.gc.ca/budtoce/2003/budliste.htm>

For further 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: www.finance.gov.ab.ca

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