Pension Adjustment Guide

T4084(E) Rev. (12/98) ***3215***

Before You Start

Is this guide for you?

Use this guide if you want information about how to calculate a pension adjustment (PA) amount. All employers who sponsor or participate in a registered pension plan (RPP) or deferred profit sharing plan (DPSP) must calculate a PA for each plan member. In some situations, the RPP's administrator has to calculate the PA.

A sponsor of a specified retirement arrangement (SRA), government-sponsored retirement arrangement (GSRA), or an unregistered foreign pension plan with Canadian resident members may also have to report a PA or a prescribed amount.

This guide describes:

- what a PA is and what its components are; and
- how to calculate PAs for various types of plans and provisions.

The guide provides a summary of the basic concepts of calculating pension credits, including a description of the different types of plans and plan provisions. It also contains some general information on the overall limit that applies to tax assistance for an individual's retirement savings and the effect a PA has on the overall limit.

Following these introductory chapters, the guide presents examples of how to calculate a PA in each case.

Glossary – We have included the definitions of some of the terms used in this guide in a glossary on page 4. You may want to read the glossary before you start.

Forms and publications – In this guide, we refer to certain forms and publications. You can get any of these forms or publications from your tax services office. For our addresses and telephone numbers, see the telephone listings under "Revenue Canada" in the Government of Canada section of your telephone book.

Internet – Many of our publications are available on the Internet. Our Internet address is: ***http://www.rc.gc.ca***

What if you need more help?

The plan administrator is the person most familiar with the benefits payable under your registered plan and can answer many of your questions.

In this guide we use plain language to explain the laws and terms you need to know to calculate the PA amount. If this guide does not contain enough information to help you or your plan administrator to calculate PA amounts under your plan, please write to:

Registered Plans Division
Revenue Canada
400 Cumberland Street
Ottawa ON K1A 0L5

or call toll free:

1-800-267-3100 (English)
1-800-267-5565 (French)

In Ottawa, call Monday to Friday between 8:00 a.m. and 5:00 p.m., Eastern Time:

(613) 954-5102 (English)
(613) 954-5104 (French)

La version française de cette publication est intitulée ***Guide du facteur d'équivalence***.

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What's new?

This guide includes recent income tax changes and proposed changes that have been announced but were not law at the time of printing. If the proposed changes become law, they will be effective on the dates indicated. This guide was written with these changes in mind.

Included in the guide are the following:

- The money purchase limit will be frozen at the 1996 level of $13,500 until 2002. For 2003 and 2004, it will be increased to $14,500 and $15,500 respectively. The changes to the money purchase limit reduce the pension adjustment (PA) limits from 1996 to 2003. Because there are no changes to the rules for calculating a PA, high-income earners may exceed the reduced PA limit. A transitional relieving provision ensures that, in certain circumstances, an excessive PA will not make the RPP revocable. Please see the Glossary on page 6 for more information on the PA limits, and how they affect your plan.
- The $1,000 offset amount that reduces the pension adjustment (PA) calculation for all defined benefit provisions of registered pension plans and certain unregistered pension arrangements will be reduced to $600 for 1997 and later years.
- The Pension Adjustment Reversal (PAR) will be introduced. Individuals who cease to be a member of a registered pension plan or deferred profit sharing plan in 1997 or a later year may have lost RRSP contribution room reinstated. Although the PAR rules begin to apply in 1997, reporting will be deferred to a later year to allow plan administrators and trustees to adjust to the new requirements. A guide on PAR will be published. The introduction of PAR means that after 1996, non-vested terminating employees no longer have their PAs calculated using the ***year of termination*** rule.
- Changes to the PA calculation for members of foreign plans – see the section called "Calculating Pension Credits for Foreign Plans" on page 16 describing the changes.
- Changes to the PA calculation for members of Specified Retirement Arrangements – see the section called "Calculating Pension Credits for Specified Retirement Arrangements (SRAs)" on page 16 describing the changes.
- Changes to the calculation of prescribed amounts for members of government-sponsored retirement arrangements – see the section called "Calculating Prescribed Amounts for Government-Sponsored Retirement Arrangements (GSRAs)" on page 17 describing the changes.

We review this guide each year to make sure the information it contains is up-to-date. However, it is possible that there will be legislative changes before the next revision that affects the information in this version of the guide. If you are not sure whether you have the most recent information, contact your tax services office or tax centre.

Glossary

This guide uses plain language to describe how to calculate a pension adjustment. It is not a legal text.

In this section, we explain or define the expressions used in this guide. In this guide, references to the "Act" mean the ***Income Tax Act***, and references to the "Regulations" mean the ***Income Tax Regulations***.

Additional voluntary contribution (AVC)

A member contribution to a money purchase provision that is not required as a general condition of membership in the plan is commonly known as an additional voluntary contribution.

Annualized earnings

Most plans base benefits on full or partial years of service. You have to calculate the earnings received by part-time employees or employees who worked only part of a year on an annual basis. Do this by dividing the earnings received by the period actually worked, then multiply the result by the period representing a full year's work. For example, under the plan a full year's service may be 12 months per year, 5 days per week, or 1500 hours per year.

The formula is:

$$\frac{\text{earnings received}}{\text{months worked}} \times 12 \text{ months} = \text{annualized earnings}$$

Benefit earned

The benefit earned is the portion of a member's pension that is considered to have accrued during the year. It applies to a defined benefit provision only. You generally calculate this by multiplying the plan's formula for the lifetime benefit by the member's pensionable earnings. In the case of a flat benefit plan, the benefit earned would be the year's flat amount.

The Regulations limit the benefit earned for each year from 1990 to 1994 to a dollar limit (there is no such dollar limit for years after 1994). The dollar limit applies when the defined benefit provision calculation above produces a higher figure. This would be the case for high-income earners (see the section called "Member with high earnings" on page 17 for more information). The dollar limits are:

- $1,277.78 for 1990;
- $1,388.89 for 1991 and 1992;
- $1,500.00 for 1993; and
- $1,611.11 for 1994.

The benefit earned can also be affected by an overriding provision in the plan that limits the maximum amount of pension that can be paid. For example, most plans restrict lifetime retirement benefits to the maximum amount allowed under the Regulations. In some plans, the overriding provision is even more restrictive than this legislative requirement. If the overriding provision applies to a member, you calculate the benefit earned using the overriding provision rather than the plan's regular pension formula. If the overriding provision is the limit imposed by the legislation, the benefit earned is one of the following amounts, whichever is ***lower***:

- 2% × earnings in the year; or
- the ***defined benefit limit*** (described below).

We show how to apply an overriding provision in the section called "Member with high earnings" on page 17.

The dollar limit or overriding provision outlined above can also affect the benefit earned if retroactive benefits are provided and you have to redetermine the pension credits. We discuss retroactive benefits and redetermination of pension credits in the section called "Disability and other leaves of absence" on page 20.

Connected person

A connected person is someone who:

- directly or indirectly owns 10% or more of the issued shares of any class of the capital stock of the employer or any related corporation;
- does not deal at arm's length with the employer; or
- is a specified shareholder of the employer by reason of paragraph (d) of the definition of specified shareholder in subsection 248(1) of the Act.

Also, a person may be a connected person if shares of the employer or a corporation related to the employer are owned by:

- someone related to the person;
- a trust of which the person is a beneficiary; or
- a partnership of which the person is a member.

Deferred profit sharing plan (DPSP)

A DPSP is an arrangement where an employer may share the profits from the employer's business with all employees or a designated group of employees. A DPSP provides benefits based on the contributions made out of the profits or in reference to the profits of participating employers.

Defined benefit limit

The defined benefit limit is the ***greater of***:

- $1,722.22; and
- 1/9 of the ***money purchase limit*** (described below).

The defined benefit limit is one of the factors used in the legislative formula that limits the maximum lifetime retirement benefits that can be paid from a defined benefit provision. The terms of most plans limit lifetime retirement benefits to this maximum, but they can be even more restrictive. Whatever the limit, it is usually a provision that overrides the regular formula for calculating pension benefits. We show how to apply such an overriding provision in the section called "Member with high earnings" on page 17.

Defined benefit provision

A defined benefit provision uses a pension benefit formula which provides a specified level of pension income. Please see the section called "Calculating Pension Credits – Basic Concepts" on page 7 for a description of the various forms of defined benefit provisions.

Earnings

Earnings mean the amount of compensation that your plan uses to calculate pension benefits earned.

The Regulations require that you exclude benefits for a certain range of earnings when you calculate the ***benefit earned*** (described above) for 1990 to 1994. We show how to exclude benefits for a range of earnings in the section called "Member with high earnings" on page 17. The ranges of earnings are:

- from $63,889 to $86,111 for 1990;
- from $69,444 to $86,111 for 1991 and 1992;
- from $75,000 to $86,111 for 1993; and
- from $80,556 to $86,111 for 1994.

The exclusion also applies if retroactive benefits are provided and a redetermination of pension credits for any of the above years is required. We discuss retroactive benefits and redetermination of pension credits in the section called "Disability and other leaves of absence" on page 20.

Forfeited amount

A forfeited amount is an amount a member no longer has rights to under a DPSP or a money purchase provision. Amounts are often forfeited when a member terminates employment before employer contributions have vested. If these forfeited amounts are allocated to the remaining members, include them in the pension credit of the remaining members.

Government-sponsored retirement arrangement (GSRA)

A GSRA is an unregistered retirement plan that provides retirement income to individuals who are not employees of the government or another public body, but who are paid from public funds for their services.

Money purchase limit

The money purchase limit is as follows:

- $11,500 for 1990;
- $12,500 for 1991 and 1992;
- $13,500 for 1993;
- $14,500 for 1994;
- $15,500 for 1995;
- $13,500 for 1996 through 2002;
- $14,500 for 2003;

- $15,500 for 2004; and
- for each subsequent year, the ***greater*** of:
  - $15,500 × (average wage for the year divided by the average wage for 2004), rounded to the nearest multiple of $10, or, if the amount is the same distance between two multiples of $10, rounded to the higher number; and
  - the money purchase limit for the previous year.

You can get information on the average wage from Statistics Canada. Your telephone book contains telephone numbers for your local Statistics Canada office. You can also contact the Employment and Earnings Statistics Division in Ottawa by telephone at (613) 951-4090.

The terms of a DPSP or money purchase provision of an RPP may limit contributions to satisfy certain limits in the legislation that involve the money purchase limit. Also, the terms of most defined benefit provisions limit lifetime retirement benefits to the maximum allowed under the Regulations. One of the factors in the legislative formula for determining maximum benefits is the ***defined benefit limit*** (described above) which, in turn, involves the money purchase limit.

Money purchase provision

A money purchase provision provides a pension benefit based upon whatever the member's account will buy at retirement. The section called "Calculating Pension Credits – Basic Concepts" on page 7 provides more information on money purchase provisions.

Multi-employer plan (MEP)

A MEP is a registered pension plan in which a group of employers participate. Please see the section called "Calculating Pension Credits – Basic Concepts" on page 7 to determine if your plan is considered a MEP.

PA offset

The PA offset is used in the ***pension credit formula*** (described below). The offset was $1,000 until the end of 1996. Starting in 1997 and afterwards, the offset is $600. Throughout this guide, we will use $600 as the offset.

Pension adjustment (PA)

The PA is an individual's ***total*** pension credits for the year. It measures the level of retirement saving in a year by or for an individual in an employer's RPPs and DPSPs, and possibly, some unregistered retirement plans or arrangements.

If an individual participates in only one employer-sponsored plan and cannot or does not make additional voluntary contributions, the year's PA equals the pension credit. An individual's PA in a year reduces the maximum amount that an individual can deduct for RRSP contributions for the ***next*** year. A PA can be nil, but it is never a negative amount.

Pension adjustment (PA) limits

The PA limits for a single-employer plan are set out in subsection 147.1(8) of the Act, and for a multi-employer plan, in subsection 147.1(9). For specified multi-employer plans, subsection 8510(7) of the Regulations sets out the limits. A plan or plans causing the PA limits to be exceeded for one or more individuals can have the registration of the plan revoked.

The changes to the ***money purchase limit*** (defined above) reduce the PA limits in the Act from 1996 to 2003. Subsection 8509(12) of the Regulations contains a transitional relieving provision to ensure that an otherwise acceptable defined benefit RPP will not be revoked. In general terms it provides that, if the defined benefit pension credits of a member exceed the money purchase limit in any year from 1996 to 2003, the portion of the pension credits that is more than the money purchase limit, but less than $15,500, is disregarded. If the pension benefit is the sum of a defined benefit provision and money purchase provision which results in the total PA exceeding the money purchase limit, then the plan can be revoked. Example 17 shows how subsection 8509(12) applies to an RPP.

While not required to do so, the terms of some plans actually limit contributions or benefits to the PA limit.

Pension credit

A pension credit reflects the value of the benefit that a member earns under a DPSP or a money purchase or defined benefit provision of an RPP. An employee's PA is the total of their pension credits.

Round all pension credits to the nearest dollar. If the amount is the same distance between two dollar amounts, round it to the next highest dollar.

Pension credit formula

Use the pension credit formula to arrive at the pension credit only for a defined benefit provision of an RPP (except a SMEP). Multiply the benefit earned by 9 and then subtract the ***PA offset*** [i.e. (9 × benefit earned) – $600]. If the calculation results in a negative amount, the pension credit is nil.

Provision

Provision refers to the terms of a pension plan that describe how benefits are determined for a member. There may be more than one provision in a pension plan.

Resident compensation

An individual's resident compensation is the total of the individual's salaries, wages, and other amounts from an office or employment, excluding amounts that are exempt from income tax in Canada by virtue of a tax convention or agreement. This term is used to calculate pension credits or prescribed amounts under foreign pension plans and specified retirement arrangements (SRAs).

Service

Service refers to the number of years and partial years of service since the member joined the plan for which the plan provides retirement benefits. Plans often refer to this as pensionable service or credited service. Use the service described in your particular pension plan text to determine the benefits payable. Express partial years as fractions of the year.

Specified Multi-Employer Plan (SMEP)

A SMEP is a registered pension plan that is sponsored by a group of employers which satisfies certain conditions. See the section called "Calculating Pension Credits – Basic Concepts" on page this page to determine if your plan is a SMEP.

Specified Retirement Arrangement (SRA)

An SRA is an unfunded or partially-funded pension plan, other than a plan that is regulated by federal or provincial pension benefits legislation, or a plan or arrangement that is a retirement compensation arrangement, or would be if the employer contributed to it. Under the arrangement, payments are to be, or may be, made after an individual ends employment. An SRA does not include an arrangement where payments are to end by the individual's 69th birthday or by the day that is five years after the individual terminates employment, whichever is later. It also does not include an arrangement where funding is regulated by pension benefits legislation. Neither does it include an arrangement that is not subject to federal pension benefits legislation, but is being funded as though it were.

Surplus

A surplus is an amount that has not, at a particular time, been allocated to plan members. In a money purchase pension plan, a surplus does not include forfeited amounts and related earnings, or regular earnings of the plan, that will be allocated to members. Usually, a surplus will only occur in a money purchase plan when a defined benefit plan converts to a money purchase plan or when a money purchase plan replaces a defined benefit plan. Surplus amounts held under defined benefit provisions have no effect on PA.

Year's Maximum Pensionable Earnings (YMPE)

YMPE is the amount of earnings, defined by the Canada Pension Plan, on which benefits from the Canada Pension Plan and Quebec Pension Plans are based.

YMPE amounts for the years 1990-1998 were:

- 1990 – $28,900;
- 1991 – $30,500;
- 1992 – $32,200;
- 1993 – $33,400;
- 1994 – $34,400;
- 1995 – $34,900;
- 1996 – $35,400;
- 1997 – $35,800;
- 1998 – $36,900.

You can get YMPE information from the Trust Accounts Section of your tax services office.

Calculating Pension Credits – Basic Concepts

Tax-assisted retirement savings arrangements are designed and administered to provide income to individuals at retirement. Using these arrangements, Canadians can get tax assistance to build their retirement savings. The system is based on an overall limit of 18% of an individual's earned income, to a dollar maximum. The overall limit applies to ***total*** retirement savings under employer-sponsored registered pension plans (RPPs), and deferred profit sharing plans (DPSPs), and registered retirement savings plans (RRSPs).

Each DPSP and each provision of an RPP produce a ***pension credit*** for the member. The pension credit is a measure of the value of the benefit earned or accrued during the calendar year. The method you use to calculate pension credits depends on the type of plan and provision. A member's ***pension adjustment*** (PA) is the total of that member's pension credits from all plans in which the member's employer participates in the year, excluding RRSPs. The PA reduces the maximum amount that a member can deduct for contributions to an RRSP for the ***following*** year. The first year in which PAs had to be calculated was 1990. There are no PAs for earlier years. The first year that RRSP deduction room was reduced by PAs was 1991.

RRSPs do not generate pension credits or PAs.

All employers who sponsor or participate in an RPP or DPSP must calculate a PA for each of their employees that participate in the plan. In some situations, the RPP's administrator must calculate the PA. For example, this would be the case if, while on a leave of absence from employment, the member makes RPP contributions directly to the administrator. A union or employer association may also share responsibility for calculating a PA. This would be the case if the RPP is a specified multi-employer plan and the union or employer association receives multi-purpose payments, a portion of which is then contributed to the RPP.

Generally, the employer has to report the PA for each employee to us on a T4 or T4A information slip by the last day of February each year. In some situations, the RPP administrator has to report the PA.

Since the PA has to be calculated according to the plan as it is registered, it is important that the administrator file amendments to a plan within the 60-day filing requirement under the Regulations.

The employer should also ensure that the plan(s) in which it participates will not provide benefits that cause a member's PA to be more than the specified limits. This is important because we may have to revoke the plan(s) if the limits are exceeded by any member. You can find the limits for single-employer plans and multi-employer plans in subsections 147.1(8) and (9) of the Act. There are no limits for a specified multi-employer plan, unless the plan contains a money purchase provision. The limit in this case is found in subsection 8510(7) of the Regulations.

Deferred profit sharing plans (DPSPs) and registered pension plans (RPPs) both generate PAs. The designs of these plans usually vary to suit the nature and size of the employer's business, the philosophy of the employer, and legislative requirements. Some arrangements allow or require members to contribute, some do not.

DPSP

A DPSP is not subject to any provincial pension legislation. However, it is subject to the ***Income Tax Act***. Under a DPSP, an employer's contributions are paid by reference to profits or out of profits. They can be a percentage of the employer's profits or a percentage of the member's earnings. Members cannot contribute to the plan. The plan usually pays the benefits in a lump sum. You include DPSP pension credits for the year in the member's PA.

RPP

An RPP can be regulated by provincial and federal pension legislation (e.g., the ***Income Tax Act*** and the ***Pension Benefits Standards Act***.). An RPP, which may require or allow member contributions in addition to employer contributions, produces a retirement benefit that is generally paid out monthly. You include RPP pension credits for the year in the member's PA.

There are two basic types of benefit provisions for RPPs:

1. ***Money purchase provision*** – This provides each member with whatever level of pension income the member's account in the plan will buy at retirement. The benefits are not calculated using a formula, but are based on:
   - the total of all required contributions, AVCs, and related investment earnings; and
   - allocated forfeited amounts and related earnings that have accumulated in the member's account at retirement.
2. ***Defined benefit provision*** – This promises plan members a specified level of pension income on retirement. The amount of income is calculated using the plan's benefit formula. Accumulated contributions and related investment earnings do not determine what the amount of pension income will be.

   Defined benefit provisions come in various forms:
   - ***Flat benefit*** – Generally, benefits are expressed as a dollar amount for each month or year of service.
   - ***Career average*** – Benefits are based on the member's earnings averaged over their entire period of service under the plan.
   - ***Final or best average*** – Benefits are based on the member's earnings averaged over a short period, such as the final few years of service, or the three or five years of highest earnings.

Certain plans are comprised of more than one benefit provision or take into account the benefits under another plan or provision. For example, a plan may be comprised of a defined benefit provision and a money purchase provision. Or, the benefits under a defined benefit provision may be reduced by the benefits under a money purchase provision or under a DPSP. You have to calculate a pension credit for each provision, or for each plan if it is a DPSP.

When referring to RPPs in this guide, we make the following distinctions:

Single-employer plans

Single-employer plans contain a money purchase provision, a defined benefit provision, or both. One employer generally sponsors such a plan for its employees.

In certain cases, more than one employer can contribute to the same plan. This does ***not*** necessarily make the plan a multi-employer plan, which we describe next. References in this guide to single-employer plans include plans in which more than one employer participates, but that do not fit the following description.

Multi-employer plans (MEPs)

Generally, MEPs are RPPs that a group of employers sponsor. However, not all plans to which more than one employer contributes are MEPs. We only consider an RPP to be a MEP if, at the beginning of the year, it is expected that no more than 95% of the active plan members will work for any one of the employers or group of related employers at any time during the year. If this is not the case, we consider the plan to be a single-employer plan.

A union can participate in an RPP as an employer for union employees. For 1995 and later years, a union, its locals, and branches are considered a single employer.

Specified multi-employer plans (SMEPs)

A SMEP is an RPP offered by a group of employers, or by a union acting together with such employers, that satisfies the following conditions:

- The plan is a MEP.
- Employers participate in the plan under a collective bargaining agreement and contributions are made according to a negotiated formula under the agreement.
- The contribution formula does not provide for any variation due to the financial experience of the plan.

- The administrator is a board of trustees, or similar body, not controlled by representatives of participating employers.
- At the beginning of the year, at least 15 participating employers are expected to contribute to the plan for the year, or at least 10% of the active members are expected to work for more than one participating employer in the year. For these purposes, we consider all related employers to be a single employer.
- Employer contributions for the year are determined according to the hours each employee worked for that employer, or on some other basis specific to the employee.
- The administrator has the authority to determine the benefits the plan will provide, subject to any collective bargaining agreements.
- All or nearly all (90% is acceptable) of the participating employers are taxable under Part I of the ***Income Tax Act***.

If it meets all the above conditions, the RPP automatically qualifies as a SMEP. We may also designate an RPP to be a SMEP if it satisfies certain conditions. To get more information about SMEPs or about designations, contact our Registered Plans Division. You can find the address and telephone numbers in the front of this guide.

Calculating Pension Credits for Deferred Profit Sharing Plans (DPSPs)

To calculate pension credits:

- Include all employer contributions made in the year for the member. Treat contributions made by the end of February that relate to the previous year as contributions for that year.
- Include any forfeited amount(s) and related earnings ***allocated*** in the year to the member, except for cash payouts to the member.

Any further reference in this chapter to forfeited amount(s) means allocated forfeitures and related earnings.

Also, the legislation requires that the employer limit its annual contributions to a DPSP for an employee in the three ways outlined below, as they apply. The legislative limit may or may not be detailed in the plan text. Moreover, the plan text may limit employer contributions in a way that is more restrictive than the legislation. The following describes the legislative limit:

- An employer's contributions to one or more DPSPs for a year must not cause the employee's DPSP pension credit (or the total of the employee's DPSP pension credits) calculated by that employer to be more than one-half of the money purchase limit or 18% of the employee's actual earnings in the year, whichever amount is ***less***.
- If two or more non-arm's length employers participate in the same DPSP or different DPSPs, each employer's contributions to the DPSP(s) for the year must not cause the total of the employee's DPSP pension credits calculated by all the employers to be more than one-half of the money purchase limit.
- If the employee is also a member of another DPSP or an RPP in which the employer or a non-arm's length employer participates, each employer's contributions to the DPSP for a year must not cause the total of the employee's PAs reported by all the employers (the sum of all DPSP and RPP pension credits) to be more than the money purchase limit or 18% of the employee's total earnings from the employers, whichever amount is ***less***.

In Example 1, we assume that the employer is the only participant in the DPSP and participates in no other registered plan. We also assume the year is 1997 and combined contributions and forfeited amounts are restricted to one-half the money purchase limit or 18% of member earnings, whichever amount is less.

Example 1

Member's earnings	$ 40,000
Legislative limit = ***lesser*** of:	
■ 1 / 2 × money purchase limit ($13,500)	***$ 6,750***
■ 18% × $40,000	$ 7,200
Formula for contributions	1% of net profits
Net profits	$ 750,000
Forfeited amount	$ 110
Employer's contribution = ***lesser*** of:	
■ (1% × $750,000) ***minus*** forfeited amount ($110)	$ 7,390
■ (1 / 2 × money purchase limit) ***minus*** $110	***$ 6,640***
Pension credit = Employer's contribution ***plus*** the forfeited amount	***$ 6,750***

If two or more employers participate in the same DPSP for a member, each employer has to calculate and report that part of the member's pension credit that arises from working for that employer. In Example 2, we assume that the maximum each employer can contribute under the terms of the plan is $1,000 and that there were no forfeited amounts.

Example 2

Formula for contributions out of profits	1% of member's earnings, to a maximum of $ 1,000
Member's earnings:	
■ Employer A	$ 10,000
■ Employer B	$ 25,000

Pension credit:

- Employer A.. 1% × $10,000
- Employer B .... 1% × $25,000

Total pension credits ($100 + $250)....................... ***$ 350***

Calculating Pension Credits for Single-Employer Registered Pension Plans (RPPs)

Money purchase provision

Pension credits include:

- all employer contributions made in, and relating to, a year for the member (treat contributions made by the end of February that relate to the preceding year as contributions for the preceding year);
- all member contributions made in, and relating to, a year, excluding amounts transferred directly to the plan from an RRSP, RPP, or DPSP;
- any forfeited amount, and related earnings, allocated in the year to the member, except for cash payouts of these amounts [other references in this section to forfeited amount(s) means allocated forfeited amount(s) and related earnings]; and
- any surplus allocated to the member, whether it remains in the plan or is transferred directly out of the plan to another RPP or an RRSP. (A surplus in a money purchase provision may arise if a defined benefit provision is converted to, or replaced by, a money purchase provision.)

Do not include in the pension credit certain contributions that were made in the year, but that are for an earlier year(s). For more information, see the section called “Disability and other leaves of absence” on page 20.

In Example 3, we assume that the employer is the only participant in the plan and participates in no other registered plan. The year is 1997. Note that while contributions are based on a percentage of earnings, the legislation requires the plan to have an overriding limit on total contributions and allocated forfeitures of 18% of member earnings or the money purchase limit, whichever amount is less.

Example 3

Forfeited amount allocated to the member .... $ 100

Formula for contributions:

- by employer.. 5% of earnings
- by member .... 5% of earnings

Member’s earnings.. $ 40,000

Legislative limit on contributions and forfeitures = ***lesser*** of:

- 18% × $40,000 .... ***$ 7,200***
- money purchase limit .... $ 13,500

Pension credit components:

- member contributions (5% × $40,000)............... $ 2,000
- employer contributions (5% × $40,000) .... $ 2,000
- forfeited amount... $ 100

Pension credit.. ***$ 4,100***

If two or more employers participate in the same money purchase provision for a member, the plan administrator may have to calculate the portion of the member’s contributions, or the amounts allocated to the member, that are to be included in the pension credit for each employer. This is important in some cases to avoid exceeding the PA limit. The following is an example of such a determination assuming that:

- the member made a lump-sum AVC during the year; and
- according to the plan, forfeited amounts are allocated equally among all the members.

Example 4

Formula for contributions:

- by member.. 5% of earnings
- by employer .... 5% of earnings

Employer A:

- member’s earnings .... $ 10,000

Employer B:

- member’s earnings .... $ 30,000

Member’s total earnings .... $ 40,000

Member’s AVC .... $ 2,500

Forfeited amount .... $ 500

Total AVC and forfeited amount........................... $ 3,000

AVC and forfeited amount in proportion to service:

- with Employer A ($10,000 / $40,000 × $3,000).................................. $ 750
- with Employer B ($30,000 / $40,000 × $3,000).................................. $ 2,250

Pension credit:

- Employer A (5% × $10,000) + (5% × $10,000) + $750............. ***$ 1,750***

Employer B (5% × $30,000) + (5% × $30,000) + $2,250 .... ***$ 5,250***

Defined benefit provision

Calculate pension credits based on the benefit earned by the member in the RPP during the year. Use the full amount of the benefit earned, even if the benefit is not yet vested.

The first step to determine the pension credit is to calculate the benefit earned during the year by doing the following:

- Calculate the annual amount of retirement pension that would be payable based on all years of service up to and including the year for which the PA is being calculated. Then subtract the annual amount of retirement pension that would have been payable based on all years of service up to, but not including, the year for which the PA is being calculated. Generally, you can use your plan's pension benefit formula, based on one year's service, to determine the benefit earned. For part-time or part-year employees, see the section called "Special Situations" on page 17; or
- If benefits are determined as a percentage of earnings, multiply the member's pensionable earnings for the year by the benefit rate; or
- For flat benefit plans, take the flat benefit amount for the year.

The final step is to apply the pension credit formula:

(9 × benefit earned) – $600 = pension credit

If the calculation results in a negative amount, the pension credit is nil.

To calculate the benefit earned, you should apply the following rules:

Current year's earnings – In final, best, or career average provisions, you have to use the earnings for the year the pension credit is being calculated, even when benefits are based on earnings in other years.

However, from 1990 to 1994, you may have to exclude benefits for a certain range of earnings when calculating the benefit earned. For more information, see the description of earnings in the Glossary on page 5 and the section called "Member with high earnings" on page 17.

Excluded benefits – Do not include the following benefits when calculating the benefit earned:

- bridging benefits (temporary benefits ending at a fixed date that was known before they started), even if paid;
- any indexing of earnings to reflect the increase in average wages and salaries between the year of earnings and the year in which benefits are determined;
- early retirement reduction, even if it applied to a member who has actually retired during the year;
- amounts resulting from the deferred commencement of a pension past age 65, when the increased pension is not more than the actuarial equivalent of the pension payable at age 65 (see "Postponed retirement" below if the increased pension is more than the actuarial equivalent payable at age 65); or
- cost-of-living adjustment made before the end of the year for a member whose pension starts in a year, if the increase is not more than the greater of 4% per annum and the increase in the Consumer Price Index between the date of retirement and the date of the increase;

  Note
  If the increase is more than the greater of the above amounts, you have to include the entire adjustment when you calculate the benefit earned. If this applies to you, contact our Registered Plans Division for information on how to calculate the benefit earned.

- adjustments to a member's pension income that depend on whether the member is totally and permanently disabled when pension payments start; and
- additional benefits provided because a plan member has contributed more than 50% of the value of his or her pension (as required by most provincial pension legislation). This applies to all members, if the plan covers members in a jurisdiction requiring such additional benefits.

Postponed retirement – If a member continues to accrue benefits under the provision beyond age 65, you calculate the benefit earned for the year in the usual manner. An increased pension may be provided to a member who has stopped accruing benefits and postpones receiving a pension beyond age 65. If the increased pension is more than the actuarial equivalent of a pension payable at age 65, you have to include the extra amount when you calculate the benefit earned for the year. This applies to members over age 65 who earned such additional pension in the year. You can use any reasonable method to estimate the amount of the excess.

Year's maximum pensionable earnings (YMPE) – Use the YMPE for the year that the pension credit is being calculated, even if the benefit formula requires the use of the YMPE for other years.

The following examples show how to calculate the benefit earned and pension credits for several types of defined benefit provisions.

Flat benefit

To calculate the benefit earned in the year, multiply the fixed amount by either the number of months or the fraction of the year worked during the year, depending on how the flat rate is expressed.

Example 5

Pension formula:	$25 per month for each complete year worked
Benefit earned:	12 months × $25 = $300
Pension credit:	(9 × $300) – $600 = ***$2,100***

Percentage of contributions

Calculate the benefit earned by multiplying the percentage defined under the plan by the member's contributions made in the year.

Example 6

Pension formula:	40% of member's contributions per year
Member's contribution:	5% of earnings per year
Member's salary:	$40,000
Benefit earned:	40% × (5% × $40,000) = $800
Pension credit:	(9 × $800) – $600 = ***$6,600***

Final, best, or career average earnings

To calculate a member's benefit earned, multiply the plan's benefit rate by the member's pensionable earnings.

Example 7

Pension formula:	2% × average of final 3 years of earnings
Member's earnings:	$40,000
Benefit earned:	2% × $40,000 = $800
Pension credit:	(9 × $800) – $600 = ***$6,600***

Integrated formulas

- ***Step-rated*** (based on YMPE) **–** In certain plans, the calculation of the pension is graded, or step-rated, to account for the pension to be paid from the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP). To do this, the plan's formula refers to the YMPE. In these cases, you should use the amount of the YMPE for the year the pension credit is being calculated. For Example 8, assume the year is 1997.

Example 8

Pension formula:	1.4% × average of best 5 years of earnings up to 3-year average of the YMPE ***plus*** 2% × average of best 5 years of earnings above 3-year average of the YMPE
Member's earnings:	$50,000
YMPE:	$35,800
Benefit earned:	(1.4% × $35,800) + [2% × ($50,000 – $35,800)] = $501.20 + $284 = $785.20
Pension credit:	(9 × $785.20) – $600 = ***$6,467*** (rounded)

- ***Integrated with CPP or QPP*** – In other cases, subtract all or part of the ***actual*** CPP or QPP benefits payable when determining the benefit earned. To calculate the government benefits, take 25% of the YMPE ***or*** the member's annualized earnings, whichever amount is ***less***. You can use another method, if the results are reasonably similar to those produced by this method. For Example 9, assume the year is 1997.

Example 9

Pension formula:	2% × average of final 3 years of earnings ***minus*** 1 / 35 × actual CPP benefits
Maximum service:	35 years
Member's earnings:	$50,000
Member's service:	less than 35 years *
YMPE:	$35,800
CPP offset:	25% × $35,800 × 1 / 35 = $255.71
Benefit earned:	(2% × $50,000) – $255.71 = $744.29
Pension credit:	(9 × $744.29) – $600 = ***$6,099*** (rounded)

* If the member had more than 35 years of service at the beginning of the year, the offset would not apply. If the member reaches 35 years of service in the year, pro-rate the benefit earned.

- ***Integrated with Old Age Security (OAS) benefits*** – If the defined benefit is reduced by all or part of the OAS benefit payable, use the maximum OAS benefit payable in the year for which the PA is being calculated. For 1997, the annual maximum is $4,847.04. This is the amount we use in Example 10.

Example 10

Pension formula:	2% × average of best 3 years of earnings ***minus*** 50% of OAS benefits, with proportionate reduction for member with less than 20 years of service
Member's earnings:	$50,000
Member's service:	less than 20 years *
Maximum OAS benefit:	$4,847.04
OAS offset:	50% × $4,847.04 × 1 / 20 = $121.18
Benefit earned:	(2% × $50,000) – $121.18 = $878.82
Pension credit:	(9 × $878.82) – $600 = ***$7,309*** (rounded)

* If the member had more than 20 years of service at the beginning of the year, the offset would not apply.

Combination of benefit formulas

The defined benefits under one plan may be combined with those provided under another plan or a provision of the same plan. The combination results in the defined benefits being reduced or increased by benefits under another provision or plan.

If we do not cover the combination of benefits for your plan, please contact our Registered Plans Division.

- ***Defined benefits increased by benefits under another plan or provision*** – Calculate the pension credit in the usual way for each provision or plan and include both in the member's PA.
- ***Defined benefits reduced by other defined benefits*** – There are two variations to the usual way that you would calculate the pension credit for each plan or provision. First, reduce the benefit earned under the first provision (the one requiring the reduction) by the benefit earned under the second provision. Second, split the $600 in the pension credit formula so that no more than $600 is offset between the two pension credits.

In more complex situations where, for example, there is a dollar limit on the benefit earned, apply the dollar limit separately to each plan or provision before calculating the second and subtracting it from the first. If this applies to you, please contact our Registered Plans Division.

Example 11

Pension formula:

■ Plan 1:	$30 per month
■ Plan 2:	1.5% × average of final 3 years of earnings
	minus
	pension payable from Plan 1
Member's earnings:	$50,000
Benefit earned:	
■ Plan 1:	12 months × $30 = $360
■ Plan 2:	(1.5% × $50,000) – $360 = $390

In this case, the employer decides to split the $600 offset equally between the two plans when calculating the pension credit.

Pension credit:		
■ Plan 1:	(9 × $360) – $300 =	$2,940
■ Plan 2:	(9 × $390) – $300 =	$3,210
Total pension credits:		***$6,150***

- ***Defined benefits reduced by money purchase or DPSP benefits*** – There is one variation to the usual way that you would calculate the pension credit for the provision requiring the reduction. Before applying the pension credit formula, subtract from the benefit earned one-ninth (1/9) of the pension credit obtained under the money purchase provision or DPSP. Calculate the pension credit for the money purchase provision or the DPSP in the usual way. Example 12 shows how to offset money purchase pension credits from a defined benefit pension credit.

Example 12

Plan 1:	
■ Plan formula:	1.75% × average of final 3 years of earnings
	minus
	benefits provided under Plan 2
Plan 2:	
■ Contributions:	Member – 3% of earnings
	Employer – 2% of member's earnings
Member's earnings:	$40,000
Plan 2:	
■ Pension credit:	(3% + 2%) × $40,000 = ***$2,000***
Plan 1:	
Offset for Plan 1:	$2,000 × 1/9 = $222.22
■ Benefit earned:	(1.75% × $40,000) – $222.22 (offset) = $477.78
■ Pension credit:	(9 × $477.78) – $600 = ***$3,700***
Pension adjustment:	$2,000 + $3,700 = ***$5,700***

In certain combinations where defined benefits are reduced by money purchase benefits, the contributions accumulated in the member's money purchase account may be large enough that benefits under the defined benefit provision will likely never apply, not even for future service benefits. A transitional rule applies in this instance provided that ***all*** the following conditions are met:

- The defined benefit plan has contained an offset for money purchase benefits since January 1, 1981.
- The defined benefit formula has not been changed substantially since the end of 1989.
- The employer has not contributed more than $3,500 per year to the money purchase provision before 1990 for any plan member.
- The defined benefit plan is not a SMEP.

The transitional rule takes into account benefits arising under the money purchase provision from contributions made before 1990. The transition period ends with 1999.

If you meet the above conditions, contact our Registered Plans Division for help to calculate PA.

Benefits based on the greater or lower of two formulas

Some plans contain more than one formula, and benefits are determined according to the formula that produces the greater benefits, or in some cases, the lower benefits. You have to take ***all*** formulas into account when calculating the benefit earned. The Regulations do not permit the greater of a defined benefit provision and money purchase provision.

Example 13

Pension formula:	***Greater*** of: ■ 2% × each year's earnings; or ■ 1.5% × average of final 3 years of earnings
Member's earnings:	$45,000
Benefit earned:	Greater of: ■ 2% × $45,000 = ***$900*** ■ 1.5% × $45,000 = $675
Pension credit:	(9 × $900) – $600 = ***$7,500***

Benefit rates linked to service

If the benefit rate changes with years of service, you have to consider this when you calculate the benefit earned.

Example 14

Pension formula:	1.5% × final average earnings for the first 10 years of pensionable service ***plus*** 1% × final average earnings after 10 years
Member's service:	10 years, as of May 31 (5 / 12 of the year)
Member's earnings:	$50,000
Benefit earned:	(1.5% × $50,000 × 5 / 12)+(1% × $50,000 × 7 / 12) = $312.50 + $291.67 = $604.17
Pension credit:	(9 × $604.17) – $600 = ***$4,838*** (rounded)

Note
If the change in benefit rate affects a prior year's benefit earned, you may need to calculate a past service pension adjustment (PSPA). See our publication called, ***Past Service Pension Adjustment Guide*** [T4104(E)].

Calculating Pension Credits for Multi-Employer Plans (MEPs)

A MEP may have several participating employers and a large membership. A plan in which more than one employer participates is not necessarily a MEP. See the section called "Calculating Pension Credits – Basic Concepts" on page 7 for a description of this type of plan.

Money purchase provision

The calculation of a pension credit is the same as the calculation for a money purchase provision of a single-employer plan.

Defined benefit provision

You calculate a pension credit for a ***defined benefit*** provision in the same way as you do a defined benefit provision of a single-employer plan, except for a member who:

- worked for two or more employers in the year;
- worked part-time or less than the full year; or
- ended employment in the year.

The rules take account of the fact that an employer may not have all the information needed to calculate defined benefit pension credits, such as information about a member's employment in the year with other employers who participate in the plan. In each of the three scenarios above, the pension credit formula is prorated for both the benefit earned and the PA offset by the portion of the year worked with each employer.

Each employer has to calculate a pension credit as though the member had not worked for any other employer. As an employer, you have to annualize the amount earned by the member while the member worked for you. Use the fraction of the year actually worked by the member to calculate the benefit earned. Apply the same fraction to the $600 offset in the pension credit formula. In the next example, assume YMPE for the year is $35,800.

Example 15

Pension formula:	1.5% of final average earnings up to YMPE ***plus*** 2% of final average earnings above YMPE
Employer A:	
■ actual earnings:	$13,000 for 3 months employment (3 / 12 of a year)
■ annualized earnings:	$\frac{\$13,000}{3} \times 12 = \$52,000$
■ benefit earned:	(1.5% × $35,800) + [2% × ($52,000 – $35,800)] = $537 + $324 = $861
■ benefit earned apportioned for service:	$861 × 3 / 12 = $215.25

- pension credit: (9 × $215.25) – ($600 × 3 / 12) = $1,937.25 – $150 = ***$1,787*** (rounded)

Employer B:

- actual earnings: $45,000 for 9 months employment (9 / 12 of a year)
- annualized earnings: $\frac{\$45{,}000}{9} \times 12 = \$60{,}000$
- benefit earned: (1.5% × $35,800) + [2% × ($60,000 – $35,800)] = $537 + $484 = $1,021
- benefit earned apportioned for service: $1,021 × 9 / 12 = $765.75
- pension credit: (9 × $765.75) – ($600 × 9 / 12) = $6,891.75 – $450 = ***$6,442*** (rounded)

You can ask for a waiver of these modified rules that require you to annualize earnings and prorate the $600 offset by writing to our Registered Plans Division. The address of the Registered Plans Division is given at the front of this guide.

Calculating Pension Credits for Specified Multi-Employer Plans (SMEPs)

Money purchase provision

You generally calculate the members' pension credits the same as you would for a money purchase provision of a single-employer plan. However, the rules for contributions or payments stated in the following section called "Defined benefit provision" also apply.

if:

- contributions were made directly to the plan administrator;
- contributions were made indirectly through a union or employer association; or
- multi-purpose payments were made indirectly through a union or employer association,

Defined benefit provision

To calculate a pension credit for a defined benefit provision, you generally follow the money purchase rules, regardless of the plan's defined benefit formula. However, there are some variations. Also, you have to calculate pension credits for all employees for whom you make contributions, not just plan members.

For a defined benefit provision of a SMEP, the pension credit for a calendar year equals the total of:

- ***employee*** contributions made in the year for that same year, or made in the year for a plan year that ends in that same year but started in the previous year. (For example, assume a plan's year starts July 1 of one year and ends June 30 of the following year. If an employee makes a contribution in August 1997 for the plan year July 1, 1996, to June 30, 1997, you include the contribution in the 1997 pension credit. A contribution for an earlier calendar year or plan year is a past service contribution. We tell you how to calculate and report past service contributions in the publication called ***Past Service Pension Adjustment Guide*** [T4104(E)].);
- ***employee*** contributions made in January of the year for the previous year;
- ***employer*** contributions made in the year, or made by the end of February of the following year, for the year or any previous year, based on a measure that relates specifically to the employee, such as number of hours worked or number of units of output. (For example, if an employer made a contribution as late as February 28, 1998, for hours worked by an individual in 1997 or an earlier post-1989 year, reflect the contribution in the individual's 1997 pension credit.);
- additional ***employer*** contributions, unrelated to a measure specific to the employee, made in and for the year, or made by the end of February of the following year for any previous year (see formula and Example 16 below to determine how additional contributions are to be allocated to each employee); and
- ***indirect*** employee and employer contributions (made through a union or employer association), if they are forwarded to the union or employer association before the end of the calendar year.

Indirect contributions – Treat all indirect contributions made through a union or employer association as contributions ***for the year in which they are remitted*** to the union or employer association, even though they may be for a previous calendar year.

Multi-purpose payments – A union or an employer association that receives multi-purpose payments (e.g., combined payments for pension and health plan benefits) in a calendar year determines what part of the payment is a contribution to the SMEP. For reporting purposes, the union or association notifies each employer who remitted multi-purpose payments either of the portion that is the contribution to the plan or how to determine that portion. If an ***employee*** remits multi-purpose payments ***directly*** to the union or employer association, the union or employer association has to notify the plan administrator of the portion that is a contribution to the plan. The administrator reports the PA in this case. These notifications must be made in writing by January 31 of the year after the year for which the PA is calculated. The union or employer association should also give the employer and plan administrator the applicable seven-digit plan registration number.

Direct contributions – The plan administrator, rather than the employer, reports the PA that arises from any contributions to the plan that an employee makes directly to the administrator. Contributions directly to the administrator would occur, for example, if the member were to purchase additional benefits for the year. Also, a member may be allowed to make contributions directly to the administrator while on a leave of absence.

Additional contributions by an employer – Employers can make additional contributions to a defined benefit provision of a SMEP that are not determined by some measure, such as hours worked, specific to individual employees. Registration rules do not allow similar additional contributions to a money purchase provision. These additional contributions must be allocated to employees for inclusion in their pension credits for the year. The allocation is based on each employee's usual share of the regular employer contributions to the plan in a year. To allocate the additional contribution, use the following formula:

$$\frac{A}{B} \times C = \text{Employee's portion of additional contributions}$$

Where:

- ***A*** is the employer's contributions for an employee made on an employee-specific basis under the provision;
- ***B*** equals the total of the employer's contributions for all employees made on an employee-specific basis under the provision; and
- ***C*** equals the additional employer contributions.

Example 16

Employer contributions for all employees	$100,000
Employer contributions per employee	$ 2,000
Employer additional contributions	$ 25,000
Employee's portion of the additional contributions:	
$\frac{\$2,000}{\$100,000} \times \$25,000 =$	$ 500

Calculating Pension Credits for Foreign Plans

Pension credits for foreign plans

If an individual gets pension benefits because of services provided in Canada for the foreign employer or for services outside Canada for an employer in Canada, determine the pension credit for the year as follows.

For years 1992 to 1995, the individual's pension credit is the ***lesser of***:

- 18% of the resident compensation for the year ***minus*** the year's PA offset, and
- the money purchase limit for the year ***minus*** the year's PA offset.

For years 1996 to 2003, the individual's pension credit is the ***lesser of***:

- 18% of the resident compensation for the year ***minus*** the year's PA offset, and
- the money purchase limit for the year.

For years after 2003, the individual's pension credit is the ***lesser of***:

- 18% of the resident compensation for the year ***minus*** the year's PA offset, and
- the money purchase limit for the year ***minus*** the year's PA offset.

Under certain circumstances, an alternative method of calculating pension credits under a foreign plan may be more appropriate. You can send a written request for an alternative determination to the Registered Plans Division for approval.

Prescribed amounts for members of foreign plans

If a Canadian resident was primarily employed outside Canada by a foreign employer and was entitled to a benefit under the foreign employer's pension plan, an amount is prescribed which reduces the deduction limit for the year in a registered retirement savings plan (RRSP) equal to the following.

For years 1994 to 1996, the individual's prescribed amount is the ***lesser of***;

- the money purchase limit for the previous year ***minus*** the previous year's PA offset; and
- 10% of the resident compensation for the previous year.

For years 1997 to 2004, the individual's prescribed amount is the ***lesser of***;

- the money purchase limit for the previous year; and
- 10% of the resident compensation for the previous year.

For years after 2004, the individual's prescribed amount is the ***lesser of***;

- the money purchase limit for the preceding year ***minus*** the previous year's PA offset, and
- 10% of the resident compensation for the preceding year.

If you have questions about calculating pension credits or prescribed amounts for foreign plans, please contact our Registered Plans Division.

Calculating Pension Credits for Specified Retirement Arrangements (SRAs)

Determine a pension credit for an SRA only under the following circumstances:

- the employer is a tax-exempt employer;

- the individual became entitled and remained entitled to SRA benefits for the year.

In addition, if a person belongs to an SRA, but also has a PA from another plan(s) they belong to (e.g., an RPP, DPSP, or foreign pension plan) a pension credit for the SRA is calculated only where the PA from the other plan(s) is less than the following limits. ***If the PA from the other plans is greater than the limits, no pension credit for the SRA needs to be calculated***.

1. For 1993 to 1995, if the individual's PA amount from other plans is less than the following formula:

   $$0.85 \times A$$

   where;

   A is the ***lesser of***:

   - 18% of the resident compensation for the year ***minus*** the year's PA offset; and
   - the money purchase limit for the year ***minus*** the year's PA offset;

   the pension credit for the SRA is calculated using the formula:

   $$A - B$$

   where ***A*** is the same as above, and ***B*** is the PA calculated for the other plans.

2. For 1996 to 2003, if the individual's PA amount from other plans is less than an amount using the same formulas as for 1 above except the value of ***A*** is the ***lesser of:***

   - 18% of the resident compensation for the year ***minus*** the year's PA offset; and
   - $15,500 ***minus*** the year's PA offset;

   the pension credit for the SRA is calculated using the formula;

   $$A - B$$

   where ***A*** is the ***lesser of***:

   - 18% of the resident compensation for the year ***minus*** the year's PA offset; and
   - the money purchase limit for the year; and

   B is the PA calculated for the other plans.

3. For years after 2003, the calculation is the same as for 1 above.

Under certain circumstances, an alternative method of calculating pension credits under a SRA may be more appropriate. If you have questions about this calculation, or you want to make a request for approval of an alternative determination, please contact our Registered Plans Division.

Calculating Prescribed Amounts for Government-Sponsored Retirement Arrangements (GSRAs)

GSRAs have amounts prescribed by the Regulations which reduce the amounts an individual can contribute to their registered retirement savings plan (RRSP).

For 1994 to 1996, the prescribed amount for a GSRA is equal to the money purchase limit ***minus*** $1,000.

For years after 1996, the prescribed amount for a GSRA is equal to the preceding year's money purchase limit.

If you have questions about calculating prescribed amounts for GSRAs, please contact our Registered Plans Division.

Special Situations

This section primarily describes how to calculate pension credits for defined benefit provisions in special situations. If your specific situation is not adequately covered in this chapter, contact the Registered Plans Division. You can find the address and telephone numbers in the front of this guide.

For money purchase provisions of single-employer plans and of MEPs, and for SMEPs and DPSPs, you may need to use this section to calculate pension credits for two special situations. The special situations are:

- Benefits are granted, or contributions are made, retroactively for periods of disability and other leaves of absence. See the section called "Disability and other leaves of absence" on page 20.
- An employee is on loan from or to another employer. See the section called "Employee on loan to or from another employer" on page 24.

Member with high earnings

When calculating the benefit earned, you may have to modify the plan's formula to exclude benefits for a certain range of earnings. The description of earnings in the Glossary on page 5 outlines the exclusionary range and the years for which this rule applies.

Also, if the benefit earned using the plan's formula is more than the dollar limit on the benefit earned, you use the amount of the dollar limit as the benefit earned. The description of benefit earned in the Glossary on page 4 outlines the years for which a dollar limit applies and the amount of the dollar limit.

If the benefit earned for a member using the plan's regular formula is more than the maximum amount of pension permitted to be paid according to an overriding provision in the plan, use the overriding provision to calculate the benefit earned. We discuss overriding provisions in the description of benefit earned in the Glossary on page 4.

If more than one of the above rules apply, use the ***lowest*** of the amounts as the benefit earned to calculate the member's pension credit.

The next three examples show how to apply these rules if the member worked a full year. Example 23 shows how to apply these rules when a member with high earnings works only part of a year.

In Example 17, we show how an overriding provision in the plan that limits benefits affects the benefit earned. For this example, we assume the overriding provision is equal to the maximum pension allowed by the legislation. If the overriding provision in your plan is more restrictive, use it to calculate the benefit earned. We also assume that the year is 1997.

Example 17

PA year:	1997
Pension formula:	1.75% × average of best 3 years of earnings
Member's earnings:	$100,000
Benefit earned:	the lower of: ■ plan formula: 1.75% × $100,000 = $1,750 ■ overriding provision: 2% × $100,000 = $2,000 or ***$1,722.22***, (whichever is lower)
Pension credit:	(9 × $1,722.22) – $600 = ***$14,900*** (rounded)

In this example, the pension credit is $14,900, which would otherwise exceed the PA limits of 147.1(8) of the Act and make the plan revocable. In this case, subsection 8509(12) of the Regulations permits the pension credit of $14,900 without making the plan revocable.

For years before 1995, certain ranges of earnings were excluded when calculating the benefit earned (see the definition of ***Earnings*** in the Glossary on page 5). In Examples 18 and 19, we use the year 1993 to show how to exclude benefits for a range of earnings. In Example 18, we assume the overriding provision in the plan limits benefits to the legislative maximum. However, the member has not earned benefits high enough that the maximum applies.

Example 18

PA year:	***1993***
Pension formula:	1.4% × average of best 5 years of earnings up to 3-year average of the YMPE ***plus*** 2% × average of best 5 years of earnings above 3-year average of the YMPE
Member's earnings:	$90,000
YMPE:	$33,400
Benefit earned:	(1.4% × $33,400) + [2% × ($75,000 – $33,400)] + (2% × $90,000 – $86,111) = $467.60 + $832.00 + $77.78 = $1,377.38 *
Pension credit:	(9 × $1,377.38) – $1,000** = ***$11,396*** (rounded)

* This amount is less than the dollar limit of $1,500 on ***benefit earned*** (see the Glossary on page 4), so the dollar limit is not a consideration here.

** The PA offset for 1993 was $1,000 (see the Glossary).

In Example 19, we show how both a dollar limit on the benefit earned and an exclusion of a range of earnings applies. For this example, we assume the year is 1993 and the overriding provision limits benefits to the legislative maximum.

Example 19

PA year:	***1993***
Pension formula:	2% × average of best 3 years of earnings
Member's earnings:	$90,000
Benefit earned:	lowest of: ■ plan formula: 2% × $90,000 = $1,800 ■ earnings exclusion: (2% × $75,000) + [2% × ($90,000 – $86,111)] = $1,577.78 ■ dollar limit on benefit earned: ***$1,500*** ■ overriding plan provision: (2% × $90,000) = $1,800 or $1,722.22, (whichever is lower)
Pension credit:	(9 × $1,500) – $1,000* = ***$12,500***

* The PA offset for 1993 was $1,000 (see the Glossary).

Member who works for two or more employers in a year

Single-employer plan – If a member earns benefits under the same defined benefit provision for employment with two or more employers in the year, each employer must calculate a pension credit for that member. In the next example, assume YMPE for the year is $35,800.

Example 20

Pension formula:	1.5% of final average earnings up to the YMPE ***plus*** 2% of final average earnings above the YMPE
Member's earnings:	
■ Employer A:	$13,000, for 3 months or 0.25 of a year
■ Employer B:	$45,000, for 9 months or 0.75 of a year
Total earnings:	$13,000 + $45,000 = $58,000
Benefit earned:	(1.5% × $35,800) + [2% × ($58,000 – $35,800)] $537 + $444 = $981
Pension credit:	(9 × $981) – $600 = ***$8,229***

Each employer would then report the pension credit that reasonably applies to the member's service with that employer, e.g., prorated to service:

Employer A:	$8,229 × 0.25 = ***$2,057***
Employer B:	$8,229 × 0.75 = ***$6,172***

Employers can also choose any reasonable way to split the credit, if they prorate or share the $600 offset. Another possibility is for one of the employers to calculate the pension credit without considering the $600, letting the other employer use the full $600 offset in its calculation.

Member who works only part of a year

Member who joins the plan in the year

In a flat benefit plan, the benefit earned will generally be prorated to the portion of a full year of service credited to the member.

To calculate the benefit earned under a career, final, or best average plan, use the member's actual service and annualized earnings.

Member who retires in the year

Calculate the benefit earned the same way as you would for a member who joins the plan during the year.

Member who ends employment in the year

If employment ended in the year, calculate the benefit earned in the same way as for a member who joins the plan during the year.

Example 21 shows the benefit earned and pension credit calculations under a flat benefit plan for the above three situations. We assume the benefit earned is not limited by an overriding provision (see ***Benefit earned*** in the Glossary on page 4).

Example 21

Pension formula:	$40 per month, or $480 per year
Length of service:	8 months, or two-thirds of a year
Benefit earned:	$40 × 8 months, or $480 × 2 / 3 = $320
Pension credit:	(9 × $320) – $600 = ***$2,280***

Example 22 shows the benefit earned and pension credit calculations in a career, final, or best average plan for the above three situations.

Example 22

PA year:	1997
Pension formula:	1% × average of final 3 years of earnings up to YMPE ***plus*** 1.7% × average of final 3 years of earnings above YMPE
YMPE:	$35,800
Service:	7 months (7 / 12 of a year)
Member's earnings:	$35,000
Annualized earnings:	$\frac{\$35{,}000}{7} \times 12 = \$60{,}000$
Benefit earned per full year:	(1% × $35,800) + [1.7% × ($60,000 – $35,800)] = $358 + $411.40 = $769.40
Benefit earned apportioned to service:	$769.40 × 7 / 12 = $448.82
Pension credit:	(9 × $448.82) – $600 = ***$3,439*** (rounded)

In Examples 17, 18, and 19, we outlined certain rules that apply to the calculation of the benefit earned when a member with high earnings works a full year. Those rules relate to a dollar limit on the benefit earned, the exclusion of benefits for a range of earnings, and an overriding plan provision limiting the maximum pension payable. Example 23 shows how those same rules apply in a career, final, or best average plan for the above three situations where a member with high earnings works only part of a year.

In this example, we assume:

- the most that a member can receive in annual lifetime retirement benefits is restricted to the maximum permitted by the legislation (see ***Benefit earned*** in the Glossary on page 4);
- the year is ***1993***; and
- YMPE is $33,400.

Example 23

Pension formula:	1.4% × average of best 3 years of earnings up to the YMPE
	plus
	2.0% × average of best 3 years earnings above YMPE
Service:	7 months (7 / 12 of a year)
Member's earnings:	$87,500
Annualized earnings:	$\frac{\$87{,}500}{7} \times 12 = \$150{,}000$

Benefit earned if member worked full year:

according to:

(i) plan formula:
[(1.4% × $33,400) + [2% × ($150,000 – $33,400)]=
$467.60 + $2,332 = $2,799.60

(ii) earnings exclusion rule:
(1.4% × $33,400) + [2% × ($150,000 – [$86,111 – $75,000] – $33,400)] =
$467.60 + [2% × ($150,000 – $11,111 – $33,400)] =
$467.60 + $2,109.78 = $2,577.38

(iii) dollar limit on benefit earned:
$1,500

(iv) overriding plan provision:
(2% × $150,000) = $3,000, or ***$1,722.22*** (whichever is lower)

Therefore, the benefit earned of $1,722.22 is based only on a portion of the member's annualized earnings, not the full $150,000. The portion of the member's annualized earnings that results in a benefit earned of $1,722.22 can be determined in the following way.

On earnings up to the YMPE, the benefit earned under the plan is $33,400 × 1.4% = $467.60. Since the total benefit earned is limited to $1,722.22, the benefit earned on earnings above the YMPE is $1,254.62 ($1,722.22 – $467.60). In this case, to determine the earnings necessary to get a benefit earned of $1,254.62 ($? × 2% = $1,254.62) divide the benefit earned by 0.02.

$1,254.62 / 0.02 = $62,732

Therefore, total earnings necessary to have a benefit earned under the plan of $1,722.22 are:

On the first	$33,400 × 1.4%	=	$ 467.60
On the next	$62,732 × 2%	=	$1,254.62
Total	$96,132		$1,722.22

Since the year is 1993 and the total earnings are $96,132, you have to repeat the earnings exclusion rule according to (ii) above:

(1.4% × $33,400) + [2% × ($96,132 – $11,111 – $33,400)] =
$467.60 + $1,032.40 = ***$1,500***

Benefit earned apportioned for service is the ***lowest*** of:

(i) plan formula:
$2,799.60 × 7 / 12 = $1,633.10

(ii) earnings exclusion rule:
$1,500.00 × 7 / 12 = ***$875***

(iii) dollar limit on benefit earned:
$1,500*

(iv) overriding plan provision:
$1,722.22 × 7 / 12 = $1,004.63

Pension credit: (9 × $875) – $1,000** = ***$6,875***

* Unlike the calculations in (i), (ii), and (iv), do not apportion the dollar limit on benefit earned for service.

** The PA offset for 1993 was $1,000 (see the Glossary).

Part-time employees

Calculate the benefit earned and the pension credit in the same way as for a member who works only part of a year.

In a flat benefit plan, you generally prorate the benefit earned to the portion of a full year of service credited to the employee. We show how to calculate the benefit earned and pension credit for a part-time employee in Example 21.

Under a career, final, or best average plan, base the benefit earned on the member's actual service and annualized earnings. We show how to calculate the benefit earned and pension credit for a part-time employee in Examples 22 and 23 (Example 23 relates to a member with high earnings).

Disability and other leaves of absence

Note
Connected persons (defined in the Glossary on page 5) cannot earn benefits under a defined benefit provision of a single-employer plan for periods of leave, reduced services, or disability. Therefore, there are no pension credits related to such periods for connected persons.

Benefits earned or contributions made during a period of absence

All plans – You have to calculate a pension credit if contributions are made by or for a member, or if a member continues to earn benefits, while absent because of disability or other leave of absence. This applies even though the member may not be receiving pay, or is receiving a reduced rate of pay during the absence. Treat the period of absence as a period worked by the employee. If the formula for contributions or lifetime retirement benefits includes earnings, use a reasonable estimate of the annual rate of pay that the member would have received if he or she worked full-time throughout the year.

Defined benefit provision of a MEP that is not a SMEP – A participating employer usually has to calculate and report the member's pension credit based on benefits earned by the member. However, if the member deals directly with the plan administrator instead of the employer during periods of absence, reduced earnings, or disability, the plan administrator can apply to us for written permission to report a part of the member's pension credit. The administrator should send that request to our Registered Plans Division.

If permission is given, the employer calculates and reports the pension credit that applies to benefits for services actually rendered, and the administrator calculates and reports the rest.

SMEP – As noted in the section called “Calculating Pension Credits for Specified Multi-Employer Plans (SMEPs)” on page 15, an administrator has to calculate and report the PA that results from contributions that a member makes directly to the administrator.

Benefits granted, or contributions made, retroactively for a period of absence

For this special situation:

- ***Year X*** means the year in which a member’s period of absence ended.
- ***Year Y*** means the year immediately after year X.
- ***Retroactive contributions*** means contributions made to a money purchase provision no later than April 30 of year Y for an uninterrupted period of absence during one or more earlier (post-1989) years. The plan’s terms should not permit retroactive contributions later than April 30 of year Y.

  However, retroactive contributions do not include contributions made in year X for year X, nor do they include employer contributions made in January or February of year Y for year X. Treat such contributions as though they were made during (not after) the period of absence.
- ***Retroactive benefits*** means benefits that become provided under a defined benefit provision by no later than April 30 of year Y for an uninterrupted period of absence during one or more earlier (post-1989) years. If the retroactive benefits are provided later than April 30 of year Y, you have to calculate a past service pension adjustment(s). For more information, see our publication called ***Past Service Pension Adjustment Guide*** [T4104(E)].

Money purchase provision of all RPPs – Redetermine the PA for each (post-1989) year of the uninterrupted period of absence for which retroactive contributions are made. The redetermined PA is the total of:

- the PA as originally reported for the year; and
- the additional PA resulting from retroactive contributions by the member and the employer.

However, if a retroactive contribution for year X is made in year Y before you have calculated and reported the PA for year X, treat the retroactive contribution as if it were made in year X. You then calculate the PA in the usual way and avoid having to calculate a redetermined PA for year X.

Also, we consider a redetermined PA to be an amended PA. As such, if the difference between the previously-reported PA and the redetermined PA is less than $50, you may not have to report the redetermined PA. Please see the exceptions to this administrative rule in the section called “Reporting the pension adjustment (PA)” on page 25.

In Example 24, we assume that the plan requires the employer to make retroactive contributions when a member elects to do so. Also, the retroactive contributions are in the amount that would have been made if there were no period of absence.

Example 24
Contributions while working:

5% × member’s earnings by employer and member, for a total of 10%

Period of absence:

August 1, 1997, to March 31, 1998

Actual earnings:

- 1997: $28,000
- 1998: $37,500

Contributions to plan:

- 1997: 10% × $28,000 = $2,800 (original PA)
- 1998: 10% × $37,500 = $3,750 (original PA)

Rate of earnings for full-time employment:

- 1997: $48,000
- 1998: $50,000

Retroactive contributions made in April 1999 for:

- 1997: 10% × ($48,000 – $28,000) = $2,000
- 1998: 10% × ($50,000 – $37,500) = $1,250

Redetermined PA:

- 1997: $2,800 + $2,000 = ***$4,800***
- 1998: $3,750 + $1,250 = ***$5,000***

If the retroactive contributions for the period of absence in 1998 were made before the employer had reported the 1998 PA (for example in January 1999), the 1998 PA would be calculated simply as: 10% × $50,000 = $5,000.

You also have to redetermine the PA under a money purchase provision if, on or before April 30 of year Y, a plan member makes a written commitment with the employer or plan administrator to make retroactive contributions for all or any portion of the period of absence that ended before year Y. In this case, the PA for each year in which the absence occurred is the total of:

- the PA as originally reported for the year;
- the additional PA resulting from the retroactive contributions the member agrees to pay for the year; and
- the additional PA resulting from any retroactive contributions required by the employer that depend on whether the member makes retroactive contributions for the year.

  Note
  If, after having redetermined the PA, the terms of the written commitment cannot be fulfilled, the PA cannot be readjusted downwards.

Defined benefit provision – Redetermine the PA for each (post-1989) year of the member’s uninterrupted period of absence that retroactive benefits are being provided. The redetermined PA for a year under a defined benefit provision of a plan (other than a SMEP, which we deal with next) is the PA for that year recalculated to include the retroactive benefits. In other words, it is the total of the PA as originally reported for the year and the additional PA resulting from the retroactive benefits.

However, if retroactive benefits for year X are provided in year Y before you have calculated and reported the PA for year X, treat the retroactive benefits as if they were provided in year X. You then calculate the PA in the normal way and avoid having to calculate a redetermined PA for year X.

Also, we consider a redetermined PA to be an amended PA. If the difference between the previously-reported PA and the redetermined PA is less than $50, you may not have to report the redetermined PA. For exceptions to this administrative rule, please see the section called "Reporting the Pension Adjustment (PA)" on page 25.

In the next example, we assume that retroactive benefits are being provided under a single-employer plan for the full period of a member's absence.

Example 25
Pension formula:

1.5% × average of final 3 years earnings

Period of absence:

August 1, 1997, to March 31, 1998

Service for:

- 1997: 7 months
- 1998: 9 months

1997 earnings:

- actual: $28,000
- annualized: $48,000

1998 earnings:

- actual: $37,500
- annualized: $50,000

PA originally reported for:

- 1997: [9 × (1.5% × $48,000 × 7 / 12)] – $600 = $3,180
- 1998: [9 × (1.5% × $50,000 × 9 / 12)] – $600 = $4,463

Retroactive benefits provided: April 1999

Redetermined PA for:

- 1997: [9 × (1.5% × $48,000)] – $600 = ***$5,880***
- 1998: [9 × (1.5% × $50,000)] – $600 = ***$6,150***

In some cases, the amount of the redetermined PA can be reduced by amounts transferred from another RPP or RRSP. If your situation includes transferred amounts, contact the Registered Plans Division for help.

Defined benefit provision of a SMEP – There is no redetermination of PAs. Include employer contributions to fund a period of absence in the same or an earlier year in the PA reported annually.

The only employee contributions for a period of absence that you should include in the PA reported annually are:

- those made in the year for the year or for a plan year ending in the year; and
- those made in January of the year for the immediately preceding year.

Do not include any other employee contributions for retroactive benefits in the PA reported annually or in a redetermined PA. Instead, include them in a past service pension adjustment (PSPA). See our publication called ***Past Service Pension Adjustment Guide*** [T4104(E)] for more information.

Reporting – The employer or plan administrator who reported the PA as it was originally calculated has to file an amended T4 or T4A Supplementary for each year that the redetermined PA is calculated by the following deadlines:

- within 60 days of the date of the retroactive contribution;
- within 60 days of the date on which the member agrees in writing to make a retroactive contribution; or
- within 60 days of the date that the retroactive benefits become provided.

Please mark the amended T4 or T4A Supplementary form with the word "amended." The amended form should contain all the data that appeared on the original form, except for the redetermined PA which should go in box 52. See the section called "Reporting the Pension Adjustment (PA)" on page 25. Also, if necessary, change the year already appearing on the form to the year for which you are making the redetermination.

Optional form pays higher benefit than normal form

A plan may permit members to choose alternative forms of benefits on retirement. For example, retiring members may be able to give up a guarantee associated with the normal form of benefit in exchange for receiving a higher pension without a guarantee. If this occurs, you have to calculate every member's benefit earned by assuming that each member has or will choose the form of benefit that results in the highest pension, excluding bridging benefits (highest pension rule).

There are two exceptions to this highest pension rule. They are in the case where:

- a member may elect a ***single life benefit*** instead of a ***joint and last survivor benefit***, on an actuarially equivalent basis, provided that the member can show that his or her spouse's life expectancy is substantially shorter than normal; or
- a member can choose a higher pension in exchange for pension payments that are guaranteed for ***10 years or less***, provided that the value of the guaranteed pension and the higher pension are reasonably equal.

  (If the guarantee is ***more than 10 years***, you have to calculate every member's benefit earned using the value of the ***full*** guarantee period, not just the value of the part that exceeds 10 years.)

In applying this highest pension rule, you don't have to calculate the exact amount of the highest pension. You can use any reasonable method for estimating the highest pension. For example, it may be appropriate to calculate the benefit earned by using a higher benefit rate. Whatever the method, you have to use it to calculate the benefit earned for ***all*** members of the plan.

In Examples 26 and 27, we assume the optional form of payment results in the normal form of payment being increased by a factor of 1.1667. As can be seen, the pension credit is the same whether you apply the factor to the benefit rate or to the benefit earned.

Example 26

Pension formula:	1.5% × average of the best 3 years of earnings
Normal payment form:	Pension guaranteed 15 years
Optional payment form:	Actuarially increased pension, no guarantee (on average, 1.1667 times higher than normal pension)
Member's earnings:	$50,000
Increased benefit rate:	1.5% × 1.1667 = 1.75%
Benefit earned:	1.75% × $50,000 = $875
Pension credit:	(9 × $875) – $600 = ***$7,275***

Example 27

Pension formula:	1.5% × average of the best 3 years of earnings
Normal payment form:	Pension guaranteed 15 years
Optional payment form:	Actuarially increased pension, no guarantee (on average, 1.1667 times higher than normal pension)
Member's earnings:	$50,000
Benefit earned:	1.5% × $50,000 = $750
Increased benefit due to optional form:	$750 × 1.1667 = $875
Pension credit:	(9 × $875) – $600 = ***$7,275***

This rule applies, regardless of the form of benefits the member may choose, even if the member has retired in the year. It applies in particular when the benefits depend on the level of survivor benefits, inflation adjustments, or benefit guarantees.

Payment of bonuses or back pay

To calculate the benefit earned, you generally have to include bonuses or back pay in earnings ***for the calendar year in which they are received***. This applies if bonuses or back pay are considered pensionable earnings according to the plan. This is the case even if the plan treats bonuses or back pay as earnings for a different (usually earlier) year under the plan. Therefore, if a member receives a bonus or back pay and accrues lifetime pension benefits in the year for which you are calculating the pension credit, you should calculate it according to the rules set out in this guide.

If a member receives a bonus or back pay in a year (the current year) that relates to services provided in an earlier year but does ***not*** accrue lifetime pension benefits in the current year (for example, the member retired in the earlier year), you still have to determine a pension credit for the current year. Calculate it by subtracting the actual pension credit determined for the earlier year from a redetermined pension credit using actual earnings in the earlier year plus the bonus or back pay. In the next example, we assume the current year is 1999.

Example 28

Pension formula:	1.5% × average of final 3 years of earnings
Member's earnings in 1998:	$50,000
Date of retirement:	December 31, 1998
Bonus paid in 1999:	$4,000
1998 pension credit:	[9 × (1.5% × $50,000)] – $600 = $6,150
Redetermined pension credit including bonus:	[9 × (1.5% × $54,000)] – $600 = $6,690
1999 pension credit:	$6,690 – $6,150 = ***$540***

There may not be any difference between the redetermined and originally determined pension credits. For example, this could happen if the member had already reached the maximum pension payable in the earlier year because of sufficiently high earnings before taking the bonus or back pay into account. It could also happen if the member had reached a maximum period of service under the terms of the plan before the earlier year. If this is the case, a nil PA would be the result.

If your situation is different from those described, contact our Registered Plans Division for help.

Benefit formula amended during the year

If the benefit formula is amended during the year, and the amendment applies back to the beginning of the year, you should use the new benefit formula to determine the benefit earned. However, you should use the previous formula for members to whom the new formula does not apply, such as members who have ended employment.

If the amended formula applies only to benefits earned after a given date in the year, you have to calculate the benefit earned by applying the appropriate formula to each of the affected periods of service in the year.

Example 29

Pension formula before amendment, affecting first two-thirds of the year:	1.4% × final average earnings
Pension formula after amendment, affecting last one-third of the year:	1.75% × final average earnings
Member's earnings:	$50,000
Benefit earned before amendment:	(1.4% × $50,000) × 2 / 3 = $466.67
Benefit earned after amendment:	(1.75% × $50,000) × 1 / 3 = $291.67
Total benefit earned:	$466.67 + $291.67 = $758.34
Pension credit:	(9 × $758.34) – $600 = ***$6,225*** (rounded)

Salary deferral leave plans

A salary deferral leave plan is a written arrangement between an employer and employee. Its terms permit the employee's annual salary or wages to be reduced over a specified period (deferral period) in order to self-fund a leave of absence at a later time. Section 6801 of the Regulations provides greater detail on the conditions that apply to such arrangements.

Generally, the following rules apply for determining pension credits:

- ***Benefits earned during the deferral period*** – You determine the pension credit the usual way, except under a defined benefit provision where the calculation requires the determination of earnings. In this case, base the calculation on the earnings that the member would have received if there was no salary deferral arrangement.

Example 30

Pension formula:	1.5% × final average earnings
Member's actual earnings:	$32,000
Member's earnings if there was no arrangement:	Per year = $40,000
Benefit earned:	1.5% × $40,000 = $600
Pension credit:	(9 × $600) – $600 = ***$4,800***

- ***Benefits earned during the absence*** – Calculate the pension credit in the same way you did during the deferral period.
- ***Benefits granted retroactively for the period of absence*** – Calculate the pension credit in the same way as described under "Disability and other leaves of absence" under the heading "Benefits granted, or contributions made, retroactively for a period of absence" in the section called "Special Situations" on page 21.

There may be exceptions to these general rules. If you think your plan is an exception to the rules, contact our Registered Plans Division for help.

Employee on loan to or from another employer

When an employer who participates in an RPP loans an employee to a non-participating employer, the borrowing employer has to calculate pension credits and report a PA for the employee if, during the period of the loan:

- the borrowing employer pays the employee's earnings; and
- the lending employer continues to make contributions to its RPP for the employee or the employee continues to earn pension benefits under the RPP.

The lending employer has to give the borrowing employer all relevant information to do the calculation.

If you are the borrowing employer, under a money purchase provision the pension credit is the amount of contributions that the employee and the lending employer made based on earnings you paid. Under a defined benefit provision, the pension credit is based on the benefit earned according to the plan formula using the period worked for you as service.

If the employee receives earnings from both the lending and borrowing employers during the year, the two employers calculate pension credits and report a PA for the period that the employee worked for them. Under a money purchase provision, contributions are split between the two employers in proportion to the earnings paid by them. Under a defined benefit provision, the benefit earned can be prorated between employers in proportion to the pensionable earnings. The $600 PA offset can also be prorated or otherwise split between the employers. Another possibility is for one of the employers to calculate the pension credit without reference to the $600, letting the other employer use the full $600 offset in the calculation.

In Example 31, we show how employers calculate pension credits for a money purchase provision. In Example 32, we show how to calculate a defined benefit provision, assuming that the $600 is prorated in proportion to the pensionable earnings with each employer.

Example 31

Money purchase contributions:

5% of earnings by employer and employee, for a total of 10%

Earnings from:

- Lending employer: $10,000
- Borrowing employer: $40,000

Pension credits for:

- Lending employer: 10% × $10,000 = ***$1,000***
- Borrowing employer: 10% × $40,000 = ***$4,000***

Example 32
Pension formula:

$40 per month per year of service

Earnings from

- Lending employer: $10,000
- Borrowing employer: $40,000

Benefit earned for the year: 12 months × $40 = $480

Proration of benefit earned:

- Lending employer: $480 × ($10,000 / $50,000) = $ 96
- Borrowing employer: $480 × ($40,000 / $50,000) = $384

Proration of $600 offset:

- Lending employer: $600 × ($10,000 / $50,000) = $120
- Borrowing employer: $600 × ($40,000 / $50,000) = $480

Pension credit:

- Lending employer: (9 × $96) – $120 = ***$744***
- Borrowing employer: (9 × $384) – $480 = ***$2,976***

Reporting the Pension Adjustment (PA)

If you need help regarding T4 or T4A reporting requirements, see our publication called ***Employers' Guide to Payroll Deductions*** [T4001(E)], or contact the Payroll Deductions section of your tax services office.

Report the PA on the T4 Supplementary that you have to file on or before February 28 of each year. However, the reporting deadline is different if benefits are granted, or contributions are made, retroactively for a period of absence by April 30 of the year after the period of absence ended. For more information, see the section called "Disability and other leaves of absence" on page 20.

The PA amount must appear in box 52 of the T4 slip. If the PA is zero, write "nil" in this box, a PA cannot be less than zero. Also, the registration number of the RPP or DPSP must appear in box 50, unless the member's PA is nil and the member made no contributions to the plan.

Round all pension credits to the nearest dollar. If the amount is the same distance between two dollar amounts, round it to the next highest dollar.

The employer is also responsible for reporting the pension adjustment when a member earns benefits:

- while on a leave of absence; or
- while absent from work because of a disability.

The plan administrator of a MEP may choose to report on a T4A Supplementary the PAs related to the above periods of absence. However, the plan administrator must first apply for and receive written permission from the Registered Plans Division.

On the T4A, record the PA amount in box 34 and the plan registration number in box 36.

Do not report a PA for a person who died during the year.

If an employer's business operations end during a calendar year before the T4s for that year become available, you should use a previous year T4 Supplementary form to report the PA amount, changing all references to the previous year on the form to the calendar year that business operations ended.

There may be a situation that requires you to recalculate a previously-reported PA. You do not have to report the amended PA if the difference between the previously-reported PA and the amended PA is less than $50. However, this administrative rule doesn't apply if an employee wants his or her PA to be accurately reported or if Revenue Canada asks you to report the amended PA.

If you have to report an amended PA, please mark the amended T4 form or the amended T4A Supplementary form with the word "amended." The amended form should contain all the data that appeared on the original form, with the exception of Box 52 which should contain the amended PA. Also, please ensure that the amended form reflects the tax year for which you are making the amendment.

Connected Persons Joining a Registered Pension Plan

If an individual is, or was at any time after 1989, a connected person as defined in the Glossary on page 5, the employer has to file Form T1007(E), ***Connected Person Information Return***, within 60 days of the date that the individual joins the plan. Similarly, the employer has to file Form T1007(E) within 60 days of the date that such an individual starts to accrue benefits under the plan following a period in which no benefits accrued.

The connected person identified on Form T1007(E) may see the RRSP deduction limit for the year in which they join an RPP (or start to accrue benefits under an RPP following a period in which no benefits accrued) reduced by a prescribed amount. The prescribed amount will be equal to one of the following amounts, whichever is less:

- 18% of the connected person's ***1990 earned income for RRSP purposes***; and
- $11,500.

The prescribed amount will be zero if the connected person's 1990 PA is more than zero, or if the connected person's 1991 RRSP deduction limit was reduced by a prescribed amount. Please see our guide called ***RRSPs and Other Registered Plans for Retirement*** [T4040(E)] for more information.