Newsletter

On supplemental pension plans

Régie des rentes du Québec

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Phased retirement and early retirement

On 5 June 1997, the Supplemental Pension Plans Act *was amended to facilitate phased retirement and early retirement. This issue of the* **Newsletter** *provides information about the changes and their effects on the administration of pension plans. The measures apply to all Québec workers who are members of pension plans subject to the* Act*, even if the plan is registered in another province.*

Phased retirement

A plan member between the ages of 55[1] and 69[2] **who makes an agreement with his or her employer** to reduce work hours can request financial compensation from his or her supplemental pension plan. The amount of the compensation cannot exceed the smallest of the following amounts:

- 70% of the pay reduction;
- 40% of the Maximum Pensionable Earnings (MPE)[3] for the each year for which the agreement is made (pro rata to the number of covered months in the year);
- the value of the member's benefits under the plan.

For example, a member who earns 30 000 $ a year and the value of whose benefits under the plan is 100 000 $ makes an agreement with his or her employer to reduce work time by 20% as of 1 January 1998. In this case, 70% of the pay reduction is 4 200 $ (30 000 $ - 24 000 $ = 6 000 $ X 70 %), which is less than 40% of the MPE for 1998 (14 760 $) and less than the value of his or her benefits (100 000 $). Thus, the member is entitled to a **financial compensation of 4 200 $**. The member's total income for 1998 will be 28 200 $, that is, a reduced salary of 24 000 $ and a financial compensation of 4 200 $ from the pension plan.

1. The member must be less than 10 years from the normal retirement age under the pension plan to exercise this new right. Since that age is usually 65, the age of 55 is used here to explain the application of the new rules. If, for example, the normal retirement age is 60 under the plan, a member who is age 50 is eligible for the new measure.
2. A member who is over 65 is eligible for this measure until age 69 if he or she is considered to be an active member of the supplemental pension plan.
3. The MPE is the maximum salary on which Québec workers can contribute to the Québec Pension Plan for a given year. The MPE for 1998 was 36 900 $, and 40% of that amount is 14 760 $. The MPE for 1999 is 37 400 $. The required test must be made by taking 40% of 37 400 $, which gives 14 960 $.

A member who wishes to receive a benefit from his or her supplemental pension plan for a particular year must file an application with the pension committee during that year. The financial compensation must be recalculated for each year covered by the agreement and must be paid in an annual lump sum. The member can file an application at any time during the year.

The financial compensation is paid directly from the member's accumulated benefits. In a defined contribution plan, the amounts accumulated to the member's credit must be reduced by the amount of the financial compensation. In a defined benefits plan, the pension payable at retirement must be reduced by an amount that corresponds to the financial compensation paid to the member. In the 60 days following the payment, the pension committee must send the member a statement that shows the amount of the compensation paid by the plan and the effect of the payment on his or her benefits.

If the employer wishes to offer the right to phased retirement to the plan's members, the plan text will have to be amended. The documents provided by the pension committee to members and to workers eligible must also refer to phased retirement. However, if the employer has no intention of making agreements on reduced work time, no amendment to the plan text is necessary since the plan's members will not be able to take advantage of the measure.

Temporary pension

A plan member who is between the ages of 55 and 65[4] and who retires can ask for the replacement of all or part of his or her life pension[5] with a temporary pension. If the temporary pension is equal to the benefits to be received under a public plan at age 65, the retiree will have a level retirement income.

The temporary pension cannot exceed 40% of the MPE for the year in which the application is made (14 760 $ in 1998) less the amount of any other temporary benefit provided under the supplemental pension plan.[6]

> For example, a member whose age is 58 is entitled to a life pension of 25 000 $ a year under his or her pension plan. Since a retirement pension of 8 700 $ will be received from the Québec Pension Plan at age 65 as well as an Old Age Security pension of 4 800 $, the member applies for payment of a temporary pension of 13 500 $ a year until age 65. Because of the temporary pension, the life pension paid by the member's pension plan will be reduced to 18 200 $ as of age 58. Until age 65, the member will receive a retirement income of 31 700 $ from his or her supplemental pension plan (a life pension of 18 200 $ plus a temporary pension of 13 500 $). As of age 65, the pension plan will continue to pay 18 200 $ and the member will receive benefits from the public plans.

A member must apply to the pension committee **before payment of his or her pension begins**. A temporary pension can continue being paid even if the member applies for an early pension plan under the Québec Pension Plan. A member can also request that the amount of the temporary pension be higher or lower at a given age. For example, if the member intends to begin receiving a retirement under the Québec Pension Plan at age 60, he or she can opt to receive a temporary pension whose amount will decrease at age 60.

4. The member must be less than 10 years from the normal retirement age under the plan and be under age 65.

5. A pension payable to the member or to the member's spouse for life.

6. The amount of any other temporary benefit includes an amount in the form of a bridge benefit or an indirect integration of the retirement pension. For example, where a plan provides for a pension equal to 2% of the salary before age 65 and 1,3% of the salary up to the MPE (and 2% of the salary exceeding the MPE) after age 65, the additional 0,7% paid before age 65 is considered to be a temporary benefit.

A member or his or her spouse can receive only one temporary pension that comes from either a supplemental pension plan or an annuity contract purchased from an insurer with funds from a supplemental pension plan. Therefore, the pension committee must be sure to obtain a declaration in conformity with the one in schedule 0.1 of the *Regulation respecting supplemental pension plans*. For that purpose, the committee must have administrative forms that contain the prescribed information.

When a member dies, if the spouse has not renounced the right to a pension at least equal to 60% of the pension paid to the member and if the member's pension had a temporary component, the spouse is entitled to 60% of the temporary pension that the member was receiving. The temporary pension will be paid until the date on which it would have ceased if the member had not died.

A spouse who is age 55[7] and who is entitled to a pension[8] can ask for a temporary pension even if the pension that was being paid to the member did not have a temporary component. Furthermore, where a temporary pension was being paid at the time of a member's death, and the spouse has not renounced the joint and survivor's pension, the spouse can also ask that the pension be recalculated on the basis of the spouse's age. In all cases, the spouse's application must be made **before the beginning of payment of the pension** to which he or she is entitled.

The conditions for exercising this right must be included in the statement sent to the member at the end of his or her active membership in the plan. The amount of the temporary pension and the date on which its payment will end must also be shown on the statement sent at the end of active membership to a member who applies for the pension. The same information must be included in the member's annual statement.

Since the plan text must state the nature of the benefits payable to members, it must be amended as early as possible to provide for temporary pensions, which are a minimum right. Members who meet the age requirements and who apply for the pension or who qualify to apply for it must be informed of the new right even if the plan text has not yet been amended. Documents provided by the pension committee to members and qualified workers must also provide information about this new right.

A plan's provisions cannot be more generous than those provided for in the *Act*. However, a plan in effect on 4 June 1997, which already had provisions for a level pension option based on government benefits, can in addition to the temporary pension, continue to offer the level pension to those who were plan members at that time and to their spouses.

Other rules eased

Refunds of benefits

A member who is age 65 or over (or the member's spouse) and who has a vested pension in a defined contribution pension plan (or in a plan with provisions similar to those of a defined contribution plan) can request a refund of the balance of his account if the aggregate benefits in all of his or her pension plans[9] does not exceed 40% of the MPE. The pension committee must first obtain a declaration in

7. The spouse must be less than 10 years from the normal retirement age under the plan. Since that age is usually 65, the explanations of the application of the rules is based on a spouse whose age is 55. If, for example, the normal retirement age is 60, a spouse who is age 50 has the right to ask that his or her age be taken into account for determining the date on which payment of the temporary pension will end.

8. In this case, the form of the pension paid has no effect on the spouse's entitlement.

9. This includes defined contribution pension plans, defined benefit pension plans, defined benefit-defined contribution pension plans (insofar as benefits accumulated under provisions similar to those of a defined contribution plan are concerned), life income funds, locked-in retirement accounts and locked-in RRSPs (registered retirement savings plans whose balance must be converted into a life annuity).

conformity with the one in schedule 0.2 of the *Regulation* before making the refund.

Partial replacement of a retirement pension

This new right is primarily intended to allow a worker who loses his or her job and who expects to return to work eventually to receive an ad hoc income without being forced to apply for a pension. A plan member between the ages of 55 and 65 (or his or her spouse), who has ceased to be a member of a supplemental pension plan and to whom no pension is being paid can receive an annual benefit from his or her supplemental plan that can reach 40% of the MPE for the year in payment of which the ad hoc income begins. However, the member cannot have a life income fund (LIF), a locked-in retirement account (LIRA) or a locked-in registered retirement savings plan (locked-in RRSP). The application must be accompanied with a declaration in conformity with the one in schedule 0.3 of the *Regulation*.

Transferring a topping-off amount

A member whose age is less than 54 and who has the right to a vested pension under his supplemental pension plan can make an annual transfer to his or her life income fund of a topping-off amount that will enable him or her to receive a temporary pension of up to 40% of the MPE.

The *Act* and the *Regulation* do not contain any particular rules concerning the information to be given to members for exercising these options. The pension committee should, nevertheless, ensure that members are informed about these new, less stringent options.

Compatibility with tax rules

With respect to the temporary pension, the Canadian Minister of Finance has informed the Régie that he is inclined to recommend that amendments be made to the *Income Tax Regulation* that would, for example, raise the ceiling for bridge benefits.

Furthermore, Revenue Canada has confirmed to the Régie that the early benefit provided for in section 69.1 of the *Supplemental Pension Plans Act* is a partial benefits buy-back. Therefore, a plan member can accumulate benefits in a supplemental pension plan while receiving an early benefit. The Canadian Minister of Finance has also indicated that where a member's benefits are recalculated according to the method provided for in the *Regulation respecting supplemental pension plans*, the early benefit presents no problems in terms of taxation policy.

Writer: Carole d'Amours

Translator: K.-Benoît Evans, C.Tr.

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For more information,
contact our

Information officer

Direction des régimes
de retraite

Régie des rentes du Québec
Case postale 5200
Québec (Québec)
G1K 7S9
Telephone: (418) 643-8282
Fax: (418) 643-7421

Régie des rentes du Québec

http://www.rrq.gouv.qc.ca