

Supplemental Pension Plans

Newsletter express

14 April 2005

Amendments to the Regulation respecting supplemental pension plans

Two amendments to the *Regulation respecting supplemental pension plans* came into force on 14 April 2005. The first concerns payment methods for the additional pension benefit and the second, actuarial principles applicable to calculating the value of benefits.

Additional pension benefit

On 1 January 2001, the *Supplemental Pension Plans Act* was amended to adapt defined benefit pension plans to the increased mobility of workers. Thus, members' benefits are now subject to a value test that can give rise to an additional pension benefit. The test consists of ensuring that the value of the members' benefits is at least equal to a partially indexed deferred pension between the vesting date and 10 years under the normal retirement age.

However, where a member does not take advantage of his or her right to transfer, certain tax constraints may prevent the plan from granting the total of the additional benefit. Therefore, payment methods for that benefit were provided for in the *Regulation* as of 21 March 2002. The plan had to provide for converting the benefit into a life annuity up to a maximum of one of the following:

- Increasing the pension up to the tax limits (for example, for a plan in which a pension is equal to 1,5% of the salary, the pension will be increased up to 2%);
- Increasing the pension up to an amount that results in setting a past service pension adjustment (PSPA) for the member.

The *Regulation* also provided that based on the option provided for under the plan, the portion of the additional benefit that could not be used to increase the pension had to be refunded to the member in a lump-sum payment.

It turned out that those payment methods were very restrictive for pension plans because of tax rules. On 14 April 2005, the *Regulation* was amended so that the plan provides for payment of the additional pension benefit in a lump-sum, in the form of a life annuity, or by a combination of the two methods. Since no limit has been set regarding the amount of the life annuity that the plan can grant, it is up to the plan to set the limit taking into account tax rules.

No transitory measure has been provided for in this regard. Thus, the new provisions apply only to members whose active membership ends after 13 April 2005.

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Actuarial principles

Before the last amendments, the *Regulation* provided that the value of a member's benefits had to be set in conformity with the *Recommendations for the Calculation of Transfer Values for Registered Pension Plans*, approved by the board of directors of the Canadian Institute of Actuaries (CIA) on 13 July 1993.

Translator:

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On 15 June 2004, the board of the CIA confirmed the adoption of the *Standard of Practice for Determining Pension Commuted Values*, which replaced the 1993 recommendations. The CIA set 1 February 2005 as the effective date of the new standard of practice.

Since the *Regulation* referred specifically to the 1993 recommendations, they continued to apply even though new standards had been adopted by the CIA. However, because the Régie agrees with the new standards, the *Regulation* has now been amended so that they will be applied.

As set out in the transitory measures, the old recommendations will continue to apply for any valuation made for any date before the present *Regulation* came into effect. As a result, for any valuation made for a date between 1 February 2005 and 14 April 2005, the old recommendations apply even though the new CIA standards are in effect and could consequently apply in other circumstances.

**For more information,
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Note that the plan must apply the assumptions provided for by the *Regulation*. The plan can also apply more advantageous assumptions but only if the plan has been amended to that effect. Thus, a plan can be amended to provide that between 1 February 2005 and 14 April 2005, the values will be determined according to the more advantageous standards.

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