



Wealth  
Management

# the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



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## Pension adjustment reversal

If you stop being a member of a Registered Pension Plan (RPP) or a Deferred Profit Sharing Plan (DPSP) and receive the commuted (lump-sum) value from the plan, you may be entitled to a pension adjustment reversal (PAR). The value of the PAR is added to your current registered retirement savings plan (RRSP)/PRPP contribution limit. This article provides a more detailed explanation of what PAR is, how it's reported to you and how it's calculated.

### What's a pension adjustment reversal?

A PAR is an amount that's added to your registered retirement savings plan (RRSP) contribution room when you stop being a member of a deferred profit sharing plan (DPSP) or a registered pension plan (RPP). The PAR is designed to restore your RRSP contribution room in certain circumstances.

The PAR will increase your RRSP contribution room for the year of termination from an RPP or DPSP. Note that this new room cannot be utilized if you are now over age 71. However, if you have a younger spouse who's age 71 or under, you can use the room generated by the PAR to make a spousal RRSP contribution.

To receive a PAR, you do not have to terminate employment, only terminate pension plan membership. Further, a PAR is available only if you leave an RPP or DPSP after 1996. The

year of termination from the plan is used in determining the year the PAR should be granted.

### How is a PAR reported to you?

Your employer, pension plan administrator or plan trustee will be responsible for calculating a PAR. The PAR amount is reported to you on a T10 slip.

If you terminated from the plan in the first three quarters of the calendar year, the T10 slip should be mailed to you no later than 60 days after the end of the quarter that you terminated from the plan. If you terminated from the plan in the last quarter of the year, the T10 slip should be mailed to you no later than 31 days after the end of the year you terminated from the plan.

### How is PAR calculated?

The PAR is calculated differently depending on the type of plan you are leaving. Details on how a PAR

is calculated for different plans are described in the following sections.

### PAR when terminating membership in a DB plan

The amount of your PAR is calculated as follows:

- Sum all PAs and PSPAs reported on your T4 slips for all years of employment, beginning with 1990.
- From this sum, deduct the amount of the commuted value that you received from the pension plan, related to years of service starting in 1990. If you had years of service before January 1, 1990, then an actuary will need to determine this value.
- If the result is positive, this result is your PAR.

You may ask why the sum of the PAs can be so large compared to the commuted value you received. This occurs because the PA is calculated using a formula that attempts to represent the value of your pension benefits accruing for the year. The PA formula does not factor in your age or current interest rates. Thus, when you terminate your membership in a DB pension plan much earlier than the normal retirement date, the amount that's received as a commuted value is often smaller than the sum of the PAs, which leads to the PAR.

### PAR when terminating membership in a DC plan

If the employer contributions are not vested upon termination, only the contributions made by you, plus interest, will be paid to you in cash. Vesting refers to the period of time that a plan member must be in the plan before being entitled to receive benefits.

When you terminate membership in a DC plan, you will be entitled to a PAR equal to the PAs that represent employer contributions made since 1990 that have not vested.

If you're a member of a DC pension plan and employer contributions are fully vested at termination, you will not receive a PAR.

### PAR when terminating membership in a DPSP

If your membership in a DPSP terminates before employer contributions are vested, you forfeit the employer's contributions and earnings. Your PAR will be the value of all PAs that represent employer contributions since 1990 that have not vested.

If you were a member of a DPSP and the employer contributions were fully vested at termination, you will not receive a PAR.

### Conclusion

If you've terminated membership in an RPP or DPSP, you may be entitled to a PAR. The PAR reinstates regular RRSP room previously lost due to PAs. The reinstated RRSP room can be used in the same ways that any regular RRSP room can be used, including a contribution to a spousal RRSP.

If you're not sure whether you qualify for the PAR, consider whether you received an amount of money from your pension plan in 1997 or a later year that was at least partially transferred to a locked-in RRSP or LIRA. Speak with your employer to verify whether you're entitled to a PAR.

*This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.*



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