



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE 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 and/or forfeited benefits, 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) contribution room. 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?

The PAR is designed to restore your RRSP contribution room in certain circumstances. A PAR may arise when you stop being a member of an RPP or a DPSP.

The PAR will increase your RRSP contribution room for the year of termination from an RPP or DPSP. Note that this new room can't be utilized if you're now age 72 or over or are turning age 72 in the current year. However, if you have a younger spouse (who's not yet age 71 or who just turned 71 in the current year), you can use the room generated by the PAR to make a spousal RRSP contribution.

To receive a PAR, you don't have to terminate employment, only terminate pension plan membership. Further, a PAR is available only if you leave an RPP or a DPSP after 1996. The year of termination from the plan is used in determining the year the PAR should

be granted. For clarity, termination generally occurs in the year your funds are removed from the plan.

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 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're leaving. Details on how a PAR is calculated for different plans are described in the following sections.



PAR when terminating membership in a defined benefit (DB) plan

The amount of your PAR is calculated as follows:

- Sum all pension adjustments (PAs) and past service pension adjustments (PSPAs) reported on your T4 slips for all years of employment, beginning with 1990.
- From this sum, deduct the amount of the commuted value you received from the pension plan, related to years of service starting in 1990. If you had years of service before January 1, 1990, 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 defined contribution (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'll 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.

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.

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, speak with your employer or plan administrator to verify whether you're entitled to a PAR.

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