Canada Revenue Agency Agence du revenu du Canada

Past Service Pension Adjustment Guide

T4104(E) Rev.08

Canada

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

Before You Start

Is this guide for you

This guide contains general information and instructions to help you calculate a past service pension adjustment (PSPA). If you are a defined benefit (DB) plan administrator, you may be required to calculate a PSPA for employees who are provided with new lifetime retirement benefits on a retroactive basis or for members whose existing benefits are improved.

If you are a sponsor of a specified retirement arrangement or an unregistered foreign pension plan with Canadian resident members, you may also have to report a PSPA.

In this guide, you will find information on:

- what a PSPA is;
- how a PSPA can arise;
- how to calculate a PSPA; and
- how to report a PSPA.

First, we give you some general information on the overall limit that applies to an individual's tax-assisted savings for retirement, and the effect a PSPA has on the overall limit. Following that, you will find a glossary of important terms we use throughout this guide.

Next you will find common situations (past service events) that give rise to a PSPA and some that do not. We then go on to describe how to calculate a PSPA. In the chapter on calculation, you will find:

- certain figures you may need to compute the PSPA;
- details of a number of benefit increases that may be excluded in recalculating pension credits to determine the PSPA;
- the two methods for calculating PSPAs; and
- special rules for specified multi-employer plans.

Near the end of the guide, we tell you about the requirements for reporting and certifying PSPAs.

Note
The PSPA rules only apply to past service benefits provided under a defined benefit provision of a registered pension plan (RPP). They do not apply to a money purchase (MP) provision of an RPP or to a deferred profit sharing plan, since these plans or provisions cannot provide past service benefits. In addition, the PSPA rules apply only to past service benefits provided in respect of service after 1989. Therefore, no PSPA is to be calculated for new or improved benefits that are provided in respect of service before 1990.

Forms and publications – Any forms or publications mentioned in the guide may be obtained at your local tax services office or tax centre. For our addresses and telephone numbers, see the listings in the government section of your telephone book.

Internet access – Many of our publications and forms are available on our Web site at **www.cra.gc.ca**.

What if you need more help?

If this guide does not contain enough information to help you calculate or report a PSPA amount under your plan, you may write to:

Registered Plans Directorate
Canada Revenue Agency
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.

613-954-0419 (English)
613-954-0390 (French)

or visit the Registered Plans area of our Web site at **www.cra.gc.ca/rpd**.

If you have any questions on the rules governing the registration of your plan, write or call the Registered Plans Directorate.

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1. What's New?

The last time we published a guide explaining how to calculate past service pension adjustments (PSPAs) was in 1999. This year we have published a revised guide, which you can use to calculate PSPAs for any year until we next revise the guide. Please note that legislative changes that occur before the next revision will take precedence over information in this guide.

1.1 Money Purchase (MP) and Defined Benefit (DB) limits

The MP limits and DB limits have been amended as follows:

	MP Limit	DB Limit
2003	$15,500	$1,722.22
2004	$16,500	$1,833.33
2005	$18,000	$2,000.00
2006	$19,000	$2,111.11
2007	$20,000	$2,222.22
2008	$21,000	$2,333.33
2009	$22,000	$2,444.44

For years after 2009 the MP limit will be increased annually by the increase in the average wage (defined below in section 3). The DB limit for years after 2009 will be 1/9 of the MP limit.

It is expected that these increases in the DB limit for years 2004 to 2009 will be greater than the increase in the average wage from year to year. Therefore, a new law was passed to ensure that when the plan is amended each year after 2003 to increase the DB limit from the prior year's DB limit to the DB limit for the current year that a nil PSPA will result for members at the DB limit. See section 5.7 for more details.

1.2 Reporting time frames

The time frame for reporting non-certified PSPAs has gone from 60 days to 120 days. For more information on reporting PSPAs, see section 6.

2. General Information

This guide uses plain language to explain the laws and terms you need to know to calculate the PSPA. For the exact legal wording of the rules discussed in this guide, please see the *Income Tax Act* and the *Income Tax Regulations*, or contact the Canada Revenue Agency.

2.1 Tax assistance for retirement savings

Canadians can get tax assistance to build their retirement savings. The system is based on an annual limit equal to 18% of an individual's earned income for the preceding calendar year, to a maximum dollar amount. This limit applies to **total** retirement savings under employer-sponsored registered pension plans (RPPs), deferred profit sharing plans (DPSPs), registered retirement savings plans (RRSPs), and certain unregistered plans or arrangements as described in section 2.3 below.

Each DPSP and each separate provision of an RPP under which an individual is a member result in a **pension credit** for the individual. **RRSPs do not generate pension credits.** The pension credit is a measure of the value of the benefit the member earned or accrued during the calendar year. The method an employer uses to calculate pension credits depends on the type of plan and provision. A member's **pension adjustment** (PA) is normally the total of that member's pension credits from all plans in which the member participates in the year. The PA reduces the amount that a member can contribute to an RRSP in the following year. The first year employers had to calculate a PA was 1990—there are no PAs for earlier years. The first year RRSP deduction room was reduced by PAs was 1991.

2.2 Past service pension adjustment (PSPA)

In addition to the benefit earned by a member for the current year (reflected in the member's PA), pension benefits may improve as a result of events related to past service. These "past service events" occur when, for periods of past service **after 1989**:

- benefits are increased retroactively;
- an additional period of past service is credited to the member; or
- there is a retroactive change to the way a member's benefits are determined.

When any of these events occur, the value of the pension accrued is increased and gives rise to a past service event and possibly a PSPA. A PSPA is basically the difference between the new DB pension credit(s) and the old DB pension credit(s) under the provision. Reporting the PSPA ensures that the overall limit on tax-assisted retirement savings is maintained. A PSPA is used to reduce the amount that a member can contribute to an RRSP. In the case of a certified PSPA the RRSP room will be reduced the year the T1004 return is processed by the Canada Revenue Agency and in the case of a non-certified PSPA the RRSP room will be reduced the year after the past service event date. For further details see section 6.

The plan administrator of a defined benefit RPP is responsible for calculating and reporting PSPAs when necessary. In all cases, if the calculation yields zero or a negative number, the plan administrator does not have to report a PSPA.

2.3 Unregistered retirement plans or arrangements

Effective January 1, 1992, the overall limit on tax-deferred retirement savings includes savings under certain types of **unregistered** retirement plans or arrangements. Under this legislation, it is possible that PSPAs may arise under three types of unregistered plans:

- foreign pension plans that have employees who are Canadian residents as members;
- government-sponsored retirement arrangements (GSRAs) (see below for definition); and
- specified retirement arrangements (SRAs) (see below for definition) maintained by tax-exempt employers.

A GSRA is a type of 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 services rendered.

An SRA is an unfunded or partially-funded retirement compensation arrangement, or would be if the employer contributed to it, that is not registered for income tax purposes. Under the arrangement, payments are to be, or may be, made after an individual ends employment. An SRA excludes an arrangement where payments are to end by the individual's 71st 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.

If you administer a **foreign pension plan** under which new or improved benefits for post-1991 past service are provided, you may have to determine and report a PSPA for employees who are Canadian residents. In similar circumstances under a GSRA or SRA, as an administrator you may have to determine and report a PSPA, or a prescribed amount corresponding to a PSPA, for employees for post-1993 past service.

If you have any questions about PSPAs for unregistered plans, please contact the Registered Plans Directorate. Their address, telephone number, and Web address can be found at the beginning of this guide.

3. Glossary

Accumulated past service pension adjustment (accumulated PSPA) – For a member, at any time, an accumulated PSPA is the total PSPAs associated with past service events that occurred earlier in the year. It includes PSPAs that were exempt from certification and those already certified. It excludes the PSPA for the event in question.

(The accumulated PSPA may include amounts associated with changes to benefits under foreign pension plans, specified retirement arrangements, and government-sponsored retirement arrangements. See section 2.3 for details.)

Ancillary benefits – Ancillary benefits are benefits that are in addition to a regular lifetime pension, such as survivor benefits, bridging benefits, and indexation.

Annualized earnings – Most defined benefit pension plans base benefits on full or partial years of pensionable service. Where the pension credit is dependant on pensionable earnings, you must calculate the earnings received by part-time employees, or employees who worked only part of a year, on an annualized basis. This can be calculated by dividing the earnings received by the period actually worked, and 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 1,500 hours per year.

Example (this plan provides that a full year of service is 12 months)

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

John worked 5 months and earned $30,000. His annualized earnings would be: $\frac{\$30{,}000 \times 12}{5} = \$72{,}000$

Average wage – For a calendar year, average wage is the sum of wage measures (described later in this section) over a period of 12 months ending on June 30 of the immediately preceding calendar year, divided by 12. For example, to determine the 2007 average wage, you would add up all of the wage measures from July 2005 to June 2006 inclusive, and then divide the total by 12.

We provide the average wage for each year from 1984 to 1998 and the corresponding cumulative increase in the average wage in section 5.2. For details on how to obtain wage measures to determine the average wage for years after 1998, see the description of "wage measure" later in this section.

Benefit earned – The benefit earned is the portion of a member's pension that is considered to have accrued during the year in a defined benefit plan. It is the basis for determining PAs and PSPAs of plan members. You generally calculate the benefit earned by multiplying the plan's formula for the lifetime retirement benefit by the member's pensionable earnings for the particular year. In the case of a flat benefit plan, the benefit earned would be the year's flat amount. Please see the *Pension Adjustment Guide* (T4084) for more information on how to calculate the benefit earned.

There is a dollar limit on the benefit earned for each year from 1990 to 1994. For these interim years the limit on the benefit earned supersedes the DB limit (described below). The dollar limit applies when the above calculation produces a higher figure. It also applies if retroactive benefits are provided for any of these years for which you have to calculate a PSPA. The dollar limits on the benefit earned are:

- $1,277.78 for 1990;
- $1,388.89 for 1991;
- $1,388.89 for 1992;

- $1,500.00 for 1993; and
- $1,611.11 for 1994.

For years after 1994 the benefit earned is capped by the DB limit (described below).

Example
The formula for lifetime retirement benefits is 2% of final average earnings for each year of service. In 1993, the member earned $150,000. As explained in the description of "earnings" later in this section, you do not take into account benefits for a range of earnings between $75,000 and $86,111 (or $11,111) when you calculate the benefit earned. Therefore, if there was no dollar limit, the benefit earned would be:

(2% × $75,000) + [2% × ($150,000 – $86,111)] = $2,777.78
or, more simply,
2% × $138,889 ($150,000 – $11,111) = $2,777.78

However, because of the 1993 dollar limit, the benefit earned is capped at $1,500 for PA and PSPA purposes. The $1,500 limit would have to be prorated if there was less than a full year of accrual.

Connected person – Generally, a connected person is one who:

- owns directly or indirectly 10% or more of the issued shares of any class of the capital stock of the employer or of 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 *Income Tax Act*.

Also, a person shall be deemed to be a connected person if shares of the employer or of a related corporation 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.

Consumer Price Index (CPI) – CPI means the national Consumer Price Index for the month published by Statistics Canada. To obtain this information, write to:

Prices Division of Statistics Canada
R.H. Coats Building
Tunney's Pasture
Ottawa ON K1A 0T6

You can also call 613-951-9606. Your local telephone directory contains telephone numbers of Statistics Canada offices outside of Ottawa.

> **Note**
> The *Income Tax Regulations* distinguish between CPI and average CPI. When determining the amount that may be excluded from a PSPA, use CPI.

Defined benefit limit (DB limit) – The defined benefit limit for a calendar year is the greater of:

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

(You may find also find the DB limits in section 1.1 above.)

Defined benefit provision – A provision refers to the terms of a plan that describe how to determine benefits for a member. A defined benefit provision guarantees a specified level of pension income to a plan member on retirement. The level is set by a benefit formula in the plan. Accumulated contributions and related investment earnings do not determine the amount of pension income. Defined benefit provisions come in various forms:

- Benefits under a **flat benefit provision** are usually expressed as a dollar amount for each month or year of service, but can be expressed as a monetary amount for each unit of production.
- Benefits under a **career average provision** are based on the member's average earnings over the entire period of service under the plan.
- Benefits under a **final or best average provision** 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.

Earnings – The amount of pensionable earnings, as defined in your plan text used to calculate pension benefits a member has earned.

From 1990 to 1994, benefits for a certain range of earnings are not to be taken into account when calculating a member's pension adjustment. The range of exclusion must also be taken into account if retroactive benefits are provided for any of these years for which you have to calculate a PSPA. The ranges of earnings are:

- from $63,889 to $86,111 for 1990, an exclusion of $22,222;
- from $69,444 to $86,111 for 1991, an exclusion of $16,667;
- from $69,444 to $86,111 for 1992, an exclusion of $16,667;
- from $75,000 to $86,111 for 1993, an exclusion of $11,111; and
- from $80,556 to $86,111 for 1994, an exclusion of $5,555.

Example
Lifetime retirement benefits are 1.5% of final average earnings for each year of service. In 1993, a member earned $100,000. The benefit earned is:

(1.5% × $75,000) + [1.5% × ($100,000 – $86,111)] = $1,333.33,
or more simply,
1.5% × $88,889 ($100,000 – $11,111*) = $1,333.33

> **Note**
> * $11,111 is the amount of the excluded range of earnings (i.e., $86,111 – $75,000 = $11,111)

Note
See the description of "benefit earned" earlier in this section for a dollar limit that may also apply during the years 1990 to 1994.

Excess money purchase transfer – An excess money purchase transfer is an amount by which transfers in respect of post-1989 benefits to an RRSP, a RRIF, a MP plan, or a DB SMEP **exceeds** the pension credits and grossed-up PSPAs attributed to this service. In other words, it is a value that is created when a member transfers a benefit greater than the amount reflected by his or her accumulated pension credits. Excess money purchase transfers can only arise in respect of post-1996 terminations.

This amount becomes the D variable of the basic PSPA formula, if this period becomes credited service again. An excess money purchase transfer is added to the member's provisional PSPA when:

- the past service benefits become provided after 1997;
- the period in respect of which the benefits are being provided was previously pensionable service of the individual under a defined benefit provision;
- the period had ceased to be pensionable service under the former provision and had not subsequently been pensionable service of the individual under any defined benefit provision; and
- the modified PSPA rules are not applicable.

Example
A member terminates from an RPP January 1, 2008, after 5 years of service. The sum of the member's pension credits and grossed-up PSPAs under the plan total $20,000. At termination, the member transfers the termination benefit of $25,000 to their RRSP. The excess money purchase transfer amount is $5,000. Remember, this amount will only be accounted for if the individual is recredited with the same service.

Grossed-up PSPA – When an individual is provided with past service benefits under a defined benefit provision, the value of the new pension credits associated with the past service benefits is the individual's grossed-up PSPA. A provisional PSPA can be reduced by qualifying transfers made from other registered plans. The grossed-up amount is the provisional PSPA amount without qualifying transfers and redetermined pension credits attributable to defined benefits under an RPP of a previous employer. In other words, it is the A – B value when the basic PSPA method is used in calculating the PSPA, and the A + B value when the modified method is used, assuming the individual's former benefits had ceased to be provided immediately before the past service event. For more details on grossed-up amounts see the *Pension Adjustment Reversal Guide* (RC4137).

Member – A member of a DPSP or an RPP is an individual who has a right to receive, or is receiving, benefits under the plan or provision, other than an individual who has such a right only by reason of the participation of another individual in the plan.

Money purchase limit – The money purchase limit is used to determine if a PSPA is exempt from certification, when a new provision is established. (We describe such PSPAs in section 6.3.) It is also part of the definition of defined benefit limit.

The money purchase limit is as follows:

- $11,500 for 1990;
- $12,500 for 1991;
- $12,500 for 1992;
- $13,500 for 1993;
- $14,500 for 1994;
- $15,500 for 1995;
- $13,500 for 1996 through 2002;
- $15,500 for 2003;
- $16,500 for 2004;
- $18,000 for 2005;
- $19,000 for 2006;
- $20,000 for 2007;
- $21,000 for 2008;
- $22,000 for 2009; and
- for each year after 2009 the greater of:
    - (i) $22,000 × (average wage for the year divided by the average wage for 2009), rounded to the nearest multiple of $10 (if the amount is the same distance between two multiples of $10, round to the higher number);
    - (ii) the money purchase limit for the preceding year.

Multi-employer plan (MEP) – Generally, a MEP is an RPP that a group of employers sponsors. 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 reasonable to expect 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.

Old Age Security (OAS) – The amount to use for OAS is the annual total of the maximum monthly OAS pension paid in a particular year. You will find the totals for 1990-2007 in section 5.2. To obtain the maximum monthly OAS pension for later years, contact:

Human Resources and Social Development Canada
Ottawa ON K1A 0K9
Tel: 1-800-277-9914

or visit our website at
www.hrsdc.gc.ca/en/isp/statistics/rates.

Past service event – For PSPA purposes, a past service event is any transaction, event, or circumstance that causes a plan member's lifetime retirement benefits for post-1989 years of service to be retroactively improved under a defined benefit provision of an RPP. This can happen when a benefit for a previous period of post-1989 service of the member is increased or when a new period of post-1989

past service is credited to the member. It can also happen if there is a change in the way you determine such past service benefits or if there is a change in the value of an automatic indexing factor. See section 4 for examples of when we consider a past service event to have occurred.

Past service pension adjustment (PSPA) – A PSPA arises when a past service event (see above) occurs. It represents the sum of the additional pension credits (see below) that would have been included in the member's pension credit if the upgraded benefits had actually been provided, or the additional service actually credited, in the years covered by the past service event.

Pension adjustment (PA) – The PA consists of the total of the member's pension credits for a year for an employer. It reflects the accumulation of benefits or level of saving in a year by or on behalf of a member in an employer's registered pension plans and deferred profit sharing plans.

Pension adjustment (PA) offset – The PA offset is $1,000 for 1990 to 1996 and $600 for 1997 and future years. The PA offset was reduced to $600 starting in 2007 due to the introduction of the pension adjustment reversal.

Pension credit – A pension credit reflects the value of the benefit that a member earns under a DPSP, or a money purchase or a defined benefit provision of an RPP in a calendar year. Pension credits are totalled to determine an employee's PA with the employer (more details are provided in the *Pension Adjustment Guide* (T4084)).

Pension credit formula – The pension credit formula is used to arrive at the pension credit in a defined benefit provision. You multiply the member's benefit earned by the factor of 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 considered to be zero. You round pension credits to the nearest dollar. If the amount is the same distance between two dollar amounts, you round it to the higher amount.

Provisional past service pension adjustment – This is the PSPA that is determined before any limitations related to certification are imposed by the Canada Revenue Agency.

Qualifying transfer – A qualifying transfer reduces the amount of the PSPA related to a past service event. It is an amount that the member transfers to a defined benefit plan directly from an RRSP, a DPSP, a money purchase provision of an RPP, or a SMEP to fund post-1989 past service benefits. The transfer represents a shift of existing tax-sheltered amounts from one registered plan to another.

The member can arrange in advance to transfer an amount from one of the above plans or provisions to the defined benefit plan, provided the transfer actually occurs, no later than 90 days after the later of 1) the day the administrator receives the PSPA certification and 2) the day the administrator receives notification that the plan is registered. This arrangement is also considered a qualifying transfer, but only if the arrangement is irreversible. In a spousal RRSP it is only the annuitant (i.e., the person in whose name the plan was established) and not the contributor who can make a qualifying transfer.

> **Note**
> No transfer of funds may be made to a plan that has not been accepted for registration. We further recommend that no arrangement be made for a qualifying transfer to an unregistered plan.

Qualifying withdrawal – A qualifying withdrawal represents an amount a member has withdrawn from an RRSP, in order to have a PSPA certified, that meets the following conditions:

- the member has designated the amount on Form T1006, *Designating an RRSP Withdrawal as a Qualifying Withdrawal*;
- the member has withdrawn the amount from the RRSP during the year before the date on which the T1006 is filed, or in either of the two immediately preceding calendar years;
- the amount is not an RRSP commutation payment directly transferred to a registered retirement income fund, a permitted annuity, or another RRSP;
- the member has not designated the amount for any other PSPA certification; and
- the member has not deducted the amount in connection with the withdrawal of an excess contribution made to an RRSP under subsection 146(8.2) of the *Income Tax Act*, or in connection with an undeducted past service additional voluntary contribution under section 60.2 of the *Income Tax Act*.

In a spousal RRSP it is only the annuitant (i.e., the person in whose name the plan was established) and not the contributor who can make a qualifying withdrawal.

Such a withdrawal is in fact an exchange of RRSP funds for additional or improved pension plan benefits.

The qualifying withdrawal will have the effect of increasing the member's RRSP room in order to have the PSPA certified.

The member must include the amount of the qualifying withdrawal in income for the year it is withdrawn.

Service – Service refers to the number of years and partial years of service for which the plan provides retirement benefits. Partial years are expressed as fractions of the year. The particular plan you administer defines what is included as service. Plans often refer to this as pensionable or credited service.

Single-employer plan – Generally, a single-employer plan is an RPP in which only one employer participates. It also includes a plan in which more than one employer participates if, at the beginning of the year, it is expected that 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 multi-employer plan.

Specified individual – A connected person is automatically a specified individual. A member who, at the time of the past service event, is expected to earn in the year from all participating employers more than 2.5 times the Year's Maximum Pensionable Earnings (YMPE) is also a specified individual. (YMPE is described later in this section.)

For example, in 2008, the YMPE is $ 44,900. If a member's annual earnings are expected to be at least $112,250 (2.5 × $44,900), the member is a specified individual.

Specified multi-employer plan (SMEP) – A SMEP is an RPP, offered by a group of employers, or by a union acting together with such employers, that satisfies all the following conditions:

- 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.
- Employers participate in the plan according to a negotiated formula under a collective bargaining agreement.
- 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 will work for more than one participating employer during the year (for these purposes, all related employers are viewed as a single employer).
- Employer contributions for the year are determined according to the hours worked by each employee for that employer, or on some other basis specific to that employee.
- The administrator has the authority to determine the benefits the plan will provide, subject to any collective bargaining agreements.
- All or at least 90% of the participating employers are taxable under Part I of the *Income Tax Act*.

We may also upon receiving a written request from the plan administrator designate an RPP as a SMEP if the plan meets certain conditions. For more information, contact our Registered Plans Directorate. Their address, telephone number, and Web address can be found at the beginning of this guide.

Unused RRSP deduction room – Unused RRSP deduction room is the portion (if any) of an individual's annual RRSP deduction limit that remains after the individual deducts his or her RRSP contributions for the year. (If the individual's contributions result in full use of the deduction limit, then no unused deduction room remains.) The individual can carry forward any unused RRSP deduction room to the following year, when it then forms part of the individual's deduction limit for that year.

Wage measure – Wage measure is a monthly measure of the average weekly wages and salaries of the industrial aggregate in Canada as published by Statistics Canada. Of all the aggregates that Statistics Canada compiles, the one that corresponds to wage measure is the monthly industrial aggregate in Canada representing the average weekly earnings for all employees, including overtime.

Statistics Canada publishes the monthly industrial aggregate in Catalogue 72-002XIB, *Employment, Earnings and Hours*. In addition, you can access the information electronically at **www.statcan.ca**. You can also contact the Employment and Earnings Statistics Division of Statistics Canada in Ottawa by calling 1-800-263-1136 or by writing to:

Labour Division of Statistics Canada
R.H. Coats Building
Tunney's Pasture
Ottawa ON K1A 0T6

Email: infostats@statcan.ca

Your local telephone directory contains telephone numbers of Statistics Canada offices outside of Ottawa.

Year's Maximum Pensionable Earnings (YMPE) – The YMPE is the amount of earnings, defined by the Canada Pension Plan, on which benefits from the Canada and Quebec Pension Plans are based. We provide YMPE amounts for 1990-2008 in section 5.2. You can get the YMPE for years after 2008 by contacting the Registered Plans Directorate at the address, telephone number, or Web address found at the beginning of this guide.

4. Past Service Events Generating a PSPA

You must calculate a PSPA when, in respect of post-1989 service,

- the plan is amended to:
  - retroactively increase the flat benefit or benefit rate;
  - credit additional years of past service to one or more members;
  - provide additional past service benefits for only certain members; or
  - retroactively change the way benefits are determined;[1]
- members purchase past service;
- additional past service benefits are provided to a member who meets conditions for a higher benefit (e.g., becoming a member of a senior executive plan);
- benefits increase automatically according to plan provisions;
- the value of an annual, automatic indexing adjustment to pensions in pay changes;
- a defined benefit provision that recognizes past service is established;
- a member is credited with benefits for pensionable service with a previous employer;
- the plan is a specified multi-employer plan (SMEP), and **members** make a past service contribution (employer past service contributions are reflected in the PA of an employee);
- benefits for a period of leave, reduced pay, or disability are **retroactively** provided **after** April 30 of the year immediately following the year in which a member returns to work;[2]

- the period of service during which the member was waiting to join the plan is automatically credited once the member joins;[3]
- past service benefits are being credited for time that the member worked outside Canada.[4]

4.1 Past service events that do not generate a PSPA or that generate a nil PSPA

Because of certain assumptions imposed by the Regulations to calculate PAs and PSPAs, the following past service events do **not** give rise to a PSPA:

- an improvement to ancillary benefits (described in section 3);
- adjustments required as a result of increases in earnings under an earnings-related plan;
- an increase in a pension credit resulting from the indexation automatically factored into the maximum permissible lifetime retirement benefit; or
- after 2003 the plan is amended on a yearly basis to increase the DB limit from the prior year's DB limit to the DB limit for the current year. This would result in a nil PSPA for members at the DB limit.

A past service event may result in a nil PSPA in certain situations, if the increase in benefits qualifies as an "excluded benefit." Depending on the situation, an excluded benefit is usually one that is equal to or less than increases in the Consumer Price Index, average wage, or wage measures. For more information on excluded benefits, see section 5.3.

Moreover, a past service event will result in a nil PSPA for a member if benefits under the plan are increased, but the member is not entitled to the increase retroactively because of the following:

- the member's past service benefits were capped by a legislative limit, or by an overriding limit in the plan; and
- the limit continues to apply despite the past service event.

In other words the member was already at the maximum permitted by either the plan or the *Income Tax Regulations* and therefore no increase in benefits is permitted.

Section 8504 of the *Income Tax Regulations* is an example of a legislative limit. It limits the amount of lifetime retirement benefits payable under a defined benefit provision in most plans. Under "benefit earned" and "earnings" defined in section 3, you will find the other most common legislative limits that may apply. Keep in mind that the terms of the plan may contain a different overriding limit that is even more restrictive than the legislative limits. Therefore, those members who were subject to such limits before the past service event will have a nil PSPA when benefits under the plan increase. On the other hand, members who were unaffected by the limit will have a PSPA greater than nil, unless the PSPA is nil for other reasons described earlier in this section.

4.2 Benefits that do not generate a PSPA

The following benefits do not generate a PSPA and, therefore, can be ignored:

- bridging benefits, even if paid;
- any indexation of earnings to reflect the increase in average wages and salaries between the year the earnings were paid and the year in which benefits are determined;
- a change in an early retirement reduction, even if it applies to a member who retired during the year;
- pension deferral past age 65, when the increased pension is **not** more than the actuarial equivalent of the pension payable at age 65 (we provide more information on the situation where an increased pension is more than the actuarial equivalent of the pension payable at age 65 in section 5.2);
- cost-of-living adjustment made before the end of the year for a member whose pension starts in a year, when the increase does not exceed the greater of (a) 4% per annum, and (b) the increase in the Consumer Price Index, between the date of retirement and the date of the increase;
- 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 under a plan because a 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.

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[1] Example: The guarantee period under the normal form is changed from 10 years to 15 years and members may receive a higher pension by choosing a now optional 10-year guarantee.

[2] Benefits for these periods that are provided on or **before** April 30 of the year immediately following the year in which a member returns to work are reflected in a member's PA or redetermined PA.

On a related issue, such retroactive defined benefits would not be reflected in either the PA or PSPA of a connected person. This is because periods of leave, reduced services, or disability may not be considered pensionable service for connected persons. (For the definition of a connected person, see section 3.)

[3] Since this crediting is automatic once a member joins the plan, a PA can be calculated each year during the waiting period or a PSPA can be calculated when service is actually credited. Either method is acceptable but the method chosen has to be applied consistently for all members.

[4] Contact the Registered Plans Directorate, Canada Revenue Agency.

5. Calculating the Past Service Pension Adjustment (PSPA)

As stated earlier, a PSPA applies only to past service benefits for post-1989 years of service under a **defined benefit** provision of an RPP. To calculate the PSPA, you have to recalculate the pension credit for each year involved in a past service event (defined in section 3).

5.1 How to calculate pension credits

We tell you generally how to calculate pension credits below. However, for specific details on calculating the benefit earned, pension credits and PAs for different types of plans and provisions and for special situations, see the *Pension Adjustment Guide* (T4084).

Single-employer plan – A pension credit reflects the benefit earned by a plan member during the year. Generally, you can use the plan's benefit formula to determine the benefit earned, to which you then apply the pension credit formula:

(9 × benefit earned) – PA offset = pension credit.

Multi-employer plan – You calculate the pension credit in the same way as for a single-employer RPP, except in the case of a member who:

- works for more than one participating employer in the year;
- works less than a full year (part-year or part-time); or
- terminates employment during the year and is not entitled to any benefits.

In these cases the pension credit is calculated the same way except that the PA offset is pro-rated based on service in the year.

Specified multi-employer plan – An **employee**'s pension credit for a calendar year is the total of the following amounts:

- **employee** contributions made in the year for that same year, or made in the year for a plan year that ends in the same year but started in the preceding year;
- **employee** contributions made in January of the year for the immediately preceding year;
- **employer** contributions made in the year, or made by the end of February of the following year, for the year or **any** prior year, and that are based on a measure that relates specifically to the employee (e.g., number of hours worked, number of units of output);
- 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 prior year; and
- indirect **employee** and **employer** contributions (made through a union or employer association), as long as they are sent on to the union or employer association before the end of the calendar year.

5.2 General information you need to calculate the PSPA

You may have to get information from another person (e.g., the member's previous employer or plan administrator) to calculate a PSPA. The *Income Tax Regulations* require that you request the information in writing and that the other party provide you with the information within 30 days of receiving your request. (Failure to comply causes the other party to become liable to a penalty between $100 and $2,500.)

To recalculate members' pension credits, apply the following rules **if they are relevant** to your provision or situation:

Average wage – Average wage is described in section 3. In certain situations (see section 5.3 for details), you can use average wage to determine the amount that you can exclude from a member's PSPA.

To calculate the cumulative increase in the average wage from one particular year to another particular year, divide the average wage for the later year by the average wage for the earlier year, and then subtract 1. For example, the cumulative increase in the average wage from 1984 to 1998 is:

$$\frac{\$594.67}{\$371.66} - 1 = .6000, \text{ or } 60\%$$

The cumulative increase in the average wage for each year from 1984 to 1998 is as follows:

Year	Average wage	Cumulative average wage increase to 1998
1984	$371.66	60.0%
1985	$391.82	51.8%
1986	$405.13	46.8%
1987	$419.39	41.8%
1988	$431.98	37.7%
1989	$451.43	31.7%
1990	$471.13	26.2%
1991	$494.93	20.2%
1992	$518.87	14.6%
1993	$538.60	10.4%
1994	$554.39	7.3%
1995	$562.70	5.7%
1996	$571.33	4.1%
1997	$577.81	2.9%
1998	$594.67	–

For years after 1998 contact Statistics Canada in Ottawa by calling 1-800-263-1136 or by writing to:

Labour Division of Statistics Canada
R.H. Coats Building
Tunney's Pasture
Ottawa ON K1A 0T6

Email: infostats@statcan.ca

Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) – If, to do the PSPA calculation, you need to use all or part of the actual CPP/QPP benefits, use 25% of the Year's Maximum Pensionable Earnings (YMPE) or the member's annualized earnings, whichever amount is less. See the related rule on YMPE below (also see the *Pension Adjustment Guide* (T4084) for further details).

Earnings – Often, to do the PSPA calculation, you need to use the member's pensionable earnings. If so, use the earnings the member actually received from the participating employer in each of the years affected by the past service event to recalculate the benefit earned in those years. Remember that a certain range of earnings must be excluded for years 1990 to 1994 (see the definition of earnings in section 3 for further details).

Effective date of the PSPA – The effective date of the PSPA is one of the following, as applicable:

- the plan's effective date of registration, when the plan is just being set up;
- when the plan is amended to increase benefits immediately, the date that the resolution of the employer's Board of Directors authorizing the plan amendment is passed;
- the future date specified for the benefit increase to become effective;
- the date any conditions for a benefit increase have been met;
- the date an increase takes effect, when benefits increase automatically; or
- the date a member irrevocably elects to purchase past service.

This is also referred to as the Past Service Event.

Most recent of prior past service events – In Step 2 of sections 5.14 and 5.15, use the most recent prior past service event in recalculating the benefit earned and pension credits. For example, if the benefit rate was originally 1%, was increased to 1.2%, and is now being increased to 1.5%, use the 1.2% rate in Step 2.

Old Age Security (OAS) – If the calculation requires use of OAS, use the maximum OAS benefits in each of the years affected by the past service event:

Year	Maximum OAS benefits
1990	$4,147.62
1991	$4,380.69
1992	$4,509.03
1993	$4,586.16
1994	$4,647.09
1995	$4,690.29
1996	$4,764.42
1997	$4,847.04
1998	$4,901.70
1999	$4,959.51
2000	$5,079.51
2001	$5,232.27
2002	$5,335.89
2003	$5,497.62
2004	$5,592.75
2005	$5,706.63
2006	$5,846.19
2007	$5,952.00

See section 3 for information on how to get the maximum for later years.

Postponed retirement – If an increased pension is provided to a member who postpones receiving his or her pension beyond age 65, and that increased pension is larger than the actuarial equivalent of a deferred pension, you have to include the excess in calculating the benefit earned for the year. This applies to members over age 65 earning such additional pension. You can use any reasonable method for estimating the amount of the excess.

Year's Maximum Pensionable Earnings (YMPE) – If you need to use YMPE to do the PSPA calculation, use the YMPE for each of the years affected by the past service event. At the time we wrote this guide, YMPE was:

Year	YMPE
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
1999	$37,400
2000	$37,600
2001	$38,300
2002	$39,100
2003	$39,900
2004	$40,500
2005	$41,100
2006	$42,100
2007	$43,700
2008	$44,900
2009	$46,300

(See section 3 for information on how to obtain figures for later years.)

5.3 Possible benefit exclusions from PSPAs for all plans, except SMEPs

A past service event may result in a nil PSPA in the situations specified below, if the increase in benefits qualifies as an "excluded benefit." Depending on the situation, an excluded benefit is usually one that is equal to or less than increases in the Consumer Price Index, average wage, or wage measures.

The situations in which you may be able to exclude, in whole or in part, a benefit increase are:

- cost-of-living increases to pensions in payment;
- cost-of-living increases before pension starts (in a deferral period);
- flat benefit rate increases;
- flat benefit plan increases;
- pre-1992 agreements scheduling flat benefit rate increases;
- job category or rate-of-pay change resulting in benefit increase; and
- other benefit increases (subject to advance approval by the Minister of National Revenue).

Note
These benefit exclusions do **not** apply to SMEPs. Section 5.16 describes the special PSPA rules that apply to SMEPs.

More details on all of the situations follow. In most of the situations, if the benefit increase is more than the amount you can exclude, you only need to include the excess amount when you recalculate the member's pension credits. There are, however, two **exceptions** to this general rule, as shown in Examples 1 and 2.

5.4 Cost-of-living increases to pensions in payment

Under the terms of a plan, retirees' pensions may be increased (automatically or on an ad hoc basis) because of increases in the cost of living. If the amount of the increase is **less than or equal to** the cumulative increase in the Consumer Price Index (CPI) between the time the pension starts and the time of the increase, reduced by all previous such adjustments, then you can exclude the entire increase. If a larger increase results, you have to calculate a PSPA for the entire increase, unless you can exclude it under "other benefit increases."

Example 1

Retirement date: January 1, 2004
Annual pension: $6,000
First increase –
Date: January 1, 2006
Percentage increase: 2%
Increased pension: $6,000 + (2% × $6,000) = $6,120
CPI for January 2004: 131.3
CPI for January 2006: 134.2
Cumulative increase in CPI: $\frac{134.2}{131.3} - 1 = 0.0221$ or 2.2%
Second increase –
Date: January 1, 2007
Percentage increase: 1%
Increased pension: $6,120 + (1% × $6,120) = $6,181.20
Cumulative percentage increase in pension since retirement: $\frac{\$181.20}{\$6,000} \times 100 = 3.02\%$
CPI for January 2004: 131.3
CPI for January 2007: 137.1
Cumulative increase in CPI: $\frac{137.1}{131.3} - 1 = .0442$ or 4.4%

Since the first increase in the annual pension of 2% was less than the 2.2% that you could exclude, a nil PSPA resulted. The second increase of 1% amounted to a cumulative percentage increase in the annual pension since retirement of 3.02%. Since this is less than the cumulative increase in CPI of 4.4%, once again the result is a nil PSPA.

If either of the two increases was more than the cumulative percentage increase in CPI between the time the pension started and the time of the increase, you would include the entire amount of the increase when calculating the retiree's PSPA.

Note
The exclusion can exceed the above-described increase in CPI if the plan provides automatic cost-of-living increases based on a form of indexation permitted by subparagraph 8503(2)(a)(ii) of the *Income Tax Regulations.*

5.5 Cost-of-living increases before pension starts (in a deferral period)

When the member has stopped accruing benefits under the plan and has deferred the start of the pension payments, cost-of-living or similar increases during the deferral period may result in a nil PSPA. You can exclude a cost-of-living increase (or the total of the most recent and all prior such increases) that is equal to or less than the cumulative increase in the **wage measure** or in the **CPI**, between the beginning of the deferral period and the **earlier** of (a) the time of the increase, and (b) when the pension starts.

The deferral period begins on the date that the **latest** of one of the following events occurs:

- when the member's pensionable service stops;
- if benefits depend on earnings, when the member's earnings stop being considered in determining benefits;
- if benefits depend on indexed earnings, when the member's earnings stop being automatically adjusted in determining benefits; or
- if the benefit formula has a flat benefit component (e.g., the defined benefit limit or the flat benefit rate), the date that the rate used to determine the member's pension was established.

In Example 2, we assume the member terminates employment after 35 years of service and defers receiving pension benefits until 2005. The plan's benefit formula is 1.5% × average earnings in the final five years of service × years of service, to a maximum of 30 years. Even though the member's last five years of service are not pensionable, the benefits are calculated using the member's earnings during those years. Therefore, the deferral period begins on the date employment terminates.

Example 2

Member terminated employment:	March 1, 2001
Date of benefit increase:	June 30, 2003
Benefit increase:	4%
CPI for March 2001:	125.5
CPI for June 2003:	130.2
Cumulative increase in CPI:	$\frac{130.2}{125.5} - 1 = 0.0375$ or 3.75%
Wage measure for March 2001:	$525.72
Wage measure for June 2003:	$561.19
Cumulative increase in wage measure:	$\frac{\$561.19}{\$525.72} - 1 = 0.0675$ or 6.75%

Although the 4% benefit increase is more than the cumulative increase in CPI, it is not more than the cumulative increase in the wage measure. Therefore, a nil PSPA results.

If the increase in the deferred pension was more than the cumulative increase in both the CPI and wage measure, or more than the amount you could exclude under one of the other categories, you would have to include the full amount of the increase when you calculate the PSPA.

5.6 Flat benefit rate increases

You can exclude the amount of the increase that is **less than or equal to** the benefit rate just before it was increased multiplied by the percentage increase in the average wage from the previous year to the current year:

- for the **first** flat benefit rate increase each year **before** the member retires; and
- for the **first** flat benefit rate increase **after** the member retires.

In a flat benefit plan, the benefit rate is the amount of the flat benefit. We show how to apply the benefit exclusion for this type of plan in Examples 3 and 4.

In an earnings-related plan, the benefit rate is the flat benefit component, if any, of the benefit formula. The flat benefit component is usually the defined benefit limit (defined in section 3) that is part of the overriding limit on lifetime retirement benefits imposed by section 8504 of the *Income Tax Regulations*. We discuss applying a benefit exclusion for this type of plan following Example 4.

Example 3

Annual benefits increased January 1, 2007:	from $1,500 to $1,525 per year of service
Average wage increase since preceding year:	2.9%
Increase in flat benefit rate:	$1,525 – $1,500 = $25
Amount of the increase that you can exclude:	($1,500 × 0.029) = $43.50

Since the actual increase of $25 is less than the $43.50 you can exclude, a nil PSPA results.

Example 4

Annual benefits increased January 1, 2007:	from $1,500 to $1,600 per year of service
Average wage increase since preceding year:	2.9%
Increase in flat benefit rate:	$1,600 – $1,500 = $100
Amount of the increase that you can exclude:	($1,500 × 0.029) = $43.50

In this case, the actual increase is more than the amount that you can exclude. Therefore, when you recalculate pension credits, in Step 1 you would use $1,556.50 as the new rate ($1,600 – $43.50) to determine the PSPA. We illustrate how to calculate the PSPA in this situation in Example 18.

For an earnings-related plan, assume that the benefit formula is 2% × final 3-year average earnings × years of service.

This benefit is also capped at the DB limit, which is the greater of:

- $1,722.22 × years of service; and
- 1/9 × the money purchase limit (defined in section 3) × years of service.

Also assume that a member has earnings high enough that, if the member were to retire, the DB limit would apply. In this case, the cap of $1,722.22 or 1/9 of the money purchase is equivalent to a flat benefit rate. At the beginning of every year starting on January 1, 2004, the DB limit increases annually. However, this automatic increase for years after 2009 equals the percentage increase in the average wage from the preceding year. Therefore, a nil PSPA will result for every year up to and including the first increase after retirement benefits have begun to be paid.

5.7 Increases in benefits because of the increase in the DB limit after 2003

It is anticipated that the increase to the DB limit for years 2004 to 2009 will exceed the increase in the average wage for each of those years. Therefore, a new exclusion has been introduced to ensure that the PSPA will be nil if the DB limit under the provision increases on a yearly basis and the increase is the first in the year.

Example 5
Provision is amended in 2007 to increase the DB limit from $2,111.11 to $2,222.22; the resulting PSPA is nil.

Provision is amended in 2008 to increase the DB limit from $2,222.22 to $2,333.33; the resulting PSPA is nil.

The same result would occur every year until 2009 if the DB limit under the provision increased each year. In plans that have generic wording like "the maximum under the *Income Tax Act* and *Income Tax Regulations*" the limit will increase automatically each January 1 without further plan amendment.

If the provision is amended only in 2008 to increase the DB limit from $2,111.11 to $2,333.33, the PSPA would be calculated as follows.

Example 6
In January 2006, Jessica joined a defined benefit RPP providing benefits of 2% of the best average earnings per year of service. The maximum pension limit in the plan was not generic and stated that the DB limit was $2,111.11. Jessica's annual salary was $200,000, therefore resulting in a pension credit of $18,400 for each of the years 2006 and 2007. On January 1, 2008, the plan sponsor amended the plan to replace the $2,111.11 limit with the 2008 DB limit of $2,333.33. The PSPA would be calculated as follows:

- The full amount of the increase ($222.22) may be excluded from the recalculated pension credit calculation for 2006, since the plan's benefit rate in that year reflected the DB limit for that year.
- Only $111.11 of the benefit increase can be excluded when recalculating the pension credit for 2007 since the remaining $111.11 was required to bring the existing rate of $2,111.11 up to the DB limit of $2.222.22.

Therefore, Jessica's PSPA would be 9 × $111.11 = $1,000 (rounded). As stated above, the intent of this exclusion is that the PSPA will be nil if the DB limit under the provision increases on a yearly basis and the increase is the first in the year.

This new exclusion does not apply to past service benefit purchases.

Example 7
Louise is a member of a defined benefit pension plan providing benefits of 2% of best average earnings per year of service. On January 1, 2008 Louise decided to buy back 2 years of past service (2004 and 2005). The DB limit under the plan terms used the current 2008 limit of $2,333.33. Louise's earnings in each of 2004 and 2005 were $150,000. The PSPA in respect of this purchase would be:

($2,333.33 × 9 – $600) × 2 = $40,800 (rounded)

Note that the current year's DB limit is used for all past years being purchased.

There is no exclusion in this case since it applies only when the increase results from an increase in the DB limit. In this case the increase was because new service was being purchased.

Another exclusion was introduced that deals with combination DB/money purchase arrangements (combo plan). It is applicable where the maximum under the DB provision is set as a fixed ratio of the current year's DB limit in order that contribution room under the money purchase provision is created. This exclusion provides that the full amount of the increase in the DB limit may be ignored if the ratio of the plan's benefit limit to the current year's DB limit remains constant from year to year.

Example 8
The DB portion of the combo plan restricts benefits to 60% of the DB limit. As the DB limit increases each year the PSPA will be nil if the ratio of the plan limit to the DB limit from year to year remains constant (i.e., 60%). This exclusion is not automatically applicable to designated plans and written approval of the Minister is required.

5.8 Flat benefit plan increases

A potentially larger exclusion than described in the preceding situation (flat benefit rate increases) may be available for increases up to and including the first increase after retirement benefits have begun to be paid. This exclusion is available when:

- the annual flat benefit is no more than 40% of the defined benefit limit in a year;
- the pension is determined using only one flat benefit rate; and
- the PSPA is exempt from certification (see section 6.3).

You can exclude the difference between the greater of (i) and (ii) below and the flat benefit rate just before the increase.

(i) Choose any value of the flat benefit rate effective on or after January 1, 1984.
Add
that rate **multiplied by** the percentage increase in the average wage from the year in which the rate you chose was first effective (or 1984 if later) to the year of the increase.

(ii) Take the value of the flat benefit rate just before the increase.
Add
$18 per year of service (or $1.50 per month per year of service) **multiplied by** the number of years and fractions of a year between the date on which that rate was first effective (or January 1, 1984, if later) and the date of the increase.

Example 9

Pension formula:	$400 per year of service
Amendment date:	January 1, 2007
Amendment:	Increase pension to $420 per year of service, an increase of $20
Last amendment:	January 1, 2005
Time since last increase:	2 years
Average wage increase 2005-2007:	4.1%
Calculation of excluded amount – Subtract $400 from amount (i) or (ii), whichever is more:	(i) $400 + (0.041 × $400) = $416.40 (ii) $400 + ($18 × 2 years) = $436
Maximum excluded amount:	$436 – $400 = $36

Since the actual increase of $20 is less than the $36 you can exclude, a nil PSPA results.

Example 10

Pension formula:	$25 per month of service
Amendment date:	March 15, 2007
Amendment:	Increase to $30 per month of service, an increase of $5
Last amendment:	January 1, 2005
Time since last increase:	26½ months or 2.2 years
Average wage increase 2005-2007:	4.1%
Calculation of excluded amount – Subtract $25 from amount (i) or (ii), whichever is more:	(i) $25 + (0.041 × $25) = $26.03 (ii) $25 + ($1.50 × 2.2) = $28.30
Maximum excluded amount:	$28.30 – $25 = $3.30

When recalculating pension credits to determine the members' PSPA, you can exclude $3.30 from the actual increase of $5 per month of service. In Example 10, we show how to calculate the PSPA in this circumstance.

This exclusion allows you to compare the increased benefit rate with **any** benefit rate effective on or after January 1, 1984. This means that you can use the most favourable rate, revalued according to the corresponding increase in the average wage. Calculation (i) in the formula gives you the revalued benefit. In Example 18, we assumed that $25 was the benefit rate that produced the highest revalued benefit rate of $26.03. As the following table shows, however, the benefit rate immediately before the increase may not always produce the highest revalued benefit rate.

Year	Benefit rate for the year	Cumulative average wage increase to 1998	Revalued benefit rate
	(A)	(B)	[A + (B × A)]
1997	$25.00	2.9%	$25.73
1996	$25.00	4.1%	$26.03
1995	$24.50	5.7%	$25.90
1994	$24.50	7.3%	$26.29
1993	$23.00	10.4%	$25.39
1992	$22.00	14.6%	$22.32
1991	$21.00	20.2%	$25.24
1990	$20.00	26.2%	$25.24
1989	$19.00	31.7%	$25.02
1988	$18.00	37.7%	$24.78
1987	$18.00	41.8%	$25.52
1986	$17.00	46.8%	$24.95
1985	$16.00	51.8%	$24.29
1984	$16.00	60.0%	$25.60

Example 11

Pension formula:	\$25 per month of service
Amendment date:	March 15, 1998
Amendment:	Increase to \$30 per month of service
Last amendment:	January 1, 1996
Time since last increase:	26½ months or 2.2 years
Highest revalued benefit rate:	\$26.29
Calculation of excluded amount – Subtract \$25 from amount (i) or (ii), whichever is more:	(i) \$26.29 (ii) \$25 + (\$1.50 × 2.2) = \$28.30
Maximum excluded amount:	\$28.30 – \$25 = \$3.30

In this particular example, the highest revalued benefit rate of \$26.29 is more favourable than the revalued benefit rate in Example 10 of \$26.03. However, it does not cause the excluded amount to be any higher. There will be other cases, though, when the exclusion will be higher if you use a benefit rate other than the one in effect immediately prior to the increase.

5.9 Pre-1992 agreements scheduling flat benefit rate increases

An additional exclusion may apply when an agreement was entered into before 1992 that provides for scheduled increases in the flat benefit rate after the date of the agreement. The PSPA for a scheduled increase will be nil if the increase in the rate is about the same as, or less than, what was reasonable to expect (at the time the agreement was entered into) would be the percentage increase in the average wage from:

- the year in which the rate was last increased to the year of this increase; or
- if this is the first increase, the year the rate initially took effect to the year of this increase.

5.10 Job category or rate-of-pay change resulting in benefit increase

Under some flat benefit plans, the benefit rate changes with a member's job category or with a member's rate of pay. When these change, the increase in benefits will result in a nil PSPA if, under the terms of the plan, the ratio of benefits to earnings does not increase significantly (less than 10%) as earnings increase.

Example 12

Pension formula	
– Category A:	\$40 per month of service
– Category B:	\$45 per month of service
Average 2007 earnings	
– Category A:	\$35,000
– Category B:	\$38,000
Ratio of pension to earnings	
– Category A:	\$40 × 12 ÷ \$35,000 = 1.37%
– Category B:	\$45 × 12 ÷ \$38,000 = 1.42%

Since the ratio for Category B is not significantly more than it is for Category A, a nil PSPA results for members who change categories. If the ratio of benefits to earnings is significantly higher when earnings increase, you cannot exclude any amount when you recalculate pension credits to determine the PSPA.

5.11 Other benefit increases

You can exclude other benefit increases from the PSPA if they are related to cost-of-living increases or made because of an increase in a general measure of salaries and wages that occurs before the member's pension payments start. However, you must get permission in writing from the Canada Revenue Agency to exclude such increases. You can send your written request to the Registered Plans Directorate at the address we give at the beginning of this guide.

Example 13

Pension formula:	1% of career average earnings
Member's earnings	
– 2004:	\$40,000
– 2005:	\$41,000
– 2006:	\$42,000
Benefit accrual	
– 2004:	0.01 × \$40,000 = \$400
– 2005:	0.01 × \$41,000 = \$410
– 2006:	0.01 × \$42,000 = \$420
Amendment date:	December 31, 2007
Amendment:	Increase the annual benefits for 2004, 2005, and 2006 by 2% each
Average wage increase	
– 2004-2007:	4.2%
– 2005-2007:	2.7%
– 2006-2007:	1.1%
Increase in benefit accrual:	(0.02 × \$400) + (0.02 × \$410) + (0.02 × \$420) = \$24.60
Amount of increase you can exclude:	(0.042 × \$400) + (0.027 × \$410) + (0.011 × \$420) = \$32.49

Since the actual increase of \$24.60 is less than an increase based on the average wage increases between 2004 and 2007 (\$32.49), the PSPA may be nil if you obtain permission in writing to exclude the increase.

5.12 Past service benefits for service in the current year

Including current-year benefits – When past service benefits are provided for a period of service in the current year, and the service was not pensionable service under the provision immediately before the past service event, you **may** have to include these current-year past service benefits in the PSPA calculations. For example, you will have to do this if you are crediting benefits for service from a previous employer.

We may waive this requirement, upon written request to the Registered Plans Directorate. If it is waived, you have to include the current year's past service benefits in the member's PA for the year, rather than determining a PSPA.

Ignoring current-year benefits – In the following three situations, you can ignore the benefits provided for the part of the past service period that is in the current year. You would then include the benefits for the full year of service in the member's PA for the year. This rule applies:

- when all benefits being provided to a member under a defined benefit plan, a money purchase plan, or a DPSP are replaced by benefits under a new defined benefit plan maintained by the same employer. This applies provided that, after the benefits are replaced, no further benefits are earned or contributions made under the previous pension plan or DPSP, **and** no amounts have been transferred from the previous plan either to a DPSP, an RRSP, or a money purchase provision of an RPP in the year;
- when the past service period was never pensionable service before under any defined benefit provision, nor was it a period for which contributions were made by or on behalf of the member to any money purchase provision or to any DPSP; or
- when benefits were previously earned under the provision for the past service period in the current year, and no amount was transferred from the plan to an RRSP or to a money purchase provision when those previous benefits stopped being provided (e.g., when benefits are reinstated in the same year).

Example 14

Pension formula:	1% of final average earnings
Member joined the plan:	January 1, 2007
Employment ended:	May 1, 2007
Rehired:	November 1, 2007
Service before employment ended:	4 months
Service after rehire:	2 months
2007 PA based on:	6 months of service

If the employer recredits the first four months of the year that the member lost when employment ended, the PA would be based on six months' service; therefore you would not need to calculate a PSPA.

5.13 Calculation methods

Unless the plan is a SMEP, you will use either the basic calculation method or the modified calculation method to calculate a PSPA. (If the plan is a SMEP, please see section 5.16.)

5.14 Basic calculation method

Use the basic method to calculate PSPAs for plan members when, under a defined benefit provision:

- benefits are upgraded; or
- additional post-1989 years of service are credited.

Effective January 1, 1998, the basic method is also used when a member terminates from a defined benefit provision after December 31, 1996, and later re-establishes the same service under the same provision or another defined benefit provision.

The basic method formula is: **A – B – C + D**

Each of these variables is described in the steps below.

Steps

1. Recalculate the member's benefit earned and pension credits under all defined benefit provisions of the employer's RPPs for all post-1989 years covered by the past service event. In other words, determine what the pension credits would have been if the additional benefits had been provided in each of those previous years. For the year of the past service event, you can usually ignore the benefits provided for the part of the past service period that is in the current year (see section 5.12). This is variable **A** in the formula. **Please note that for high wage earners the DB limit in the year of the past service event must be used for all years**.
2. Do the same calculation, based on the benefits provided immediately before the past service event. This generally represents PAs and PSPAs previously reported on behalf of the individual for prior years. This is variable **B** in the formula.
3. Subtract the total amount you calculated in Step 2 from the amount you determined in Step 1. The amount you get is the sum of the additional pension credits associated with the past service event.
4. Subtract from the result of Step 3 any qualifying transfers the member has made to the plan to fund the past service benefits. A qualifying transfer may include funds that will be transferred to the plan at a later date. The funds must be transferred within 90 days of the later of i) the plan administrator receiving certification of the PSPA from the CRA, or ii) the administrator receiving notification that the plan is registered. The arrangement to transfer the funds must also be irreversible. This is variable **C** in the formula.
5. Finally, add any excess money purchase transfers. Excess money purchase transfers are described in section 3. This is variable **D** in the formula.

The result is the PSPA. If the amount is less than zero, the PSPA is nil.

> **Note**
> If no benefit was ever earned and no pension credit was ever calculated for a member for years affected by the past service event (e.g., the years are being recognized for the first time under the provision), then the word "recalculate" in Step 1 should be "calculate" and there would not be a Step 2 (i.e., Step 2 would always be nil). In addition, if the years affected by the past service event were previously pensionable service and there was a money purchase transfer after 1996 for these benefits (i.e., a PAR was determinable), Step 2 would equal 0.

In Example 15, we show how to calculate a PSPA when there is an **increase in the benefit formula**.

Example 15

Pension formula: 1% of final average earnings

Amendment January 1, 2008: Increased to 1.5% of final average earnings

Member's earnings:

2005	$30,000
2006	$32,000
2007	$34,000

Step 1 **(A)** – Recalculate the member's benefit earned and pension credits, taking into account the past service event:

(a) 2005 1.5% × $30,000 = $450
(9 × $450) – $600 = $3,450

(b) 2006 1.5% × $32,000 = $480
(9 × $480) – $600 = $3,720

(c) 2007 1.5% × $34,000 = $510
(9 × $510) – $600 = $3,990

Step 2 **(B)** – Calculate the member's benefit earned and pension credits based on benefits provided immediately before the past service event:

a) 2005 1% × $30,000 = $300
(9 × $300) – $600 = $2,100

b) 2006 1% × $32,000 = $320
(9 × $320) – $600 = $2,280

c) 2007 1% × $34,000 = $340
(9 × $340) – $600 = $2,460

Step 3 **(A – B)** – Additional pension credits:

2005	$ 3,450	–	$2,100	=	$1,350
2006	$ 3,720	–	$2,280	=	$1,440
2007	$ 3,990	–	$2,460	=	$1,530
Total	$10,360	–	$6,040	=	$4,320

Step 4 **(C)** – Minus qualifying transfer:
There were no qualifying transfers.

Step 5 **(D)** – There is no excess money purchase transfer.

PSPA: A – B – C + D = $10,360 – $6,040 – 0 + 0 = $4,320.

In Example 16, we show how to calculate a PSPA when the plan is recognizing additional prior service with the employer.

Example 16

Pension formula: 1.3% of final average earnings

Member's date of hire: January 1, 2004

Member joined the plan: January 1, 2008

Member's earnings:

2004	$37,000
2005	$38,000
2006	$39,000
2007	$40,000

Amendment made July 1, 2008: credit past service from date of hire to date joined the plan

Member's transfer to the plan from RRSP to fund these post 1989 benefits: $2,000

Step 1 **(A)** – Calculate the benefit earned and pension credits for all years covered by the past service event:

(a) 2004 1.3% × $37,000 = $481
(9 × $481) – $600 = $3,729

(b) 2005 1.3% × $38,000 = $494
(9 × $494) – $600 = $3,846

(c) 2006 1.3% × $39,000 = $507
(9 × $507) – $600 = $3,963

(d) 2007 1.3% × $40,000 = $520
(9 × $520) – $600 = $4,080

Step 2 **(B)** – Calculate the benefit earned and pension credits based on benefits provided immediately before the past service event:
Nil – The member did not earn any benefits before the amendment as this is new service.

Step 3 **(A – B)** – Additional pension credits:
$3,729 + $3,846 + $3,963 + $4,080 = $15,618

Step 4 **(C)** – Minus qualifying transfer:
$15,618 – $2,000 = $13,618

Step 5 **(D)** – There is no excess money purchase transfer.

PSPA: A – B – C + D = $15,618 – 0 – $2,000 + 0 = $13,618

In Example 17, we show how to calculate the PSPA when the plan is recognizing additional past service with the employer, and the employee is a high income earner.

Example 17

Pension formula: 2% of final average earnings

Member's date of hire: January 1, 2007

Member joined the plan: January 1, 2008

Members earnings in 2007: $200,000

Amendment made May 1, 2008: credit past service from date of hire to date member joined the plan

Step 1 **(A)** – Calculate the benefit earned and pension credits for all years covered by the past service event:
2007 – 2% × $200,000 = $4,000, capped at $2,333.33 (2008 DB limit)
(9 × $2,333.33) – $600 = $20,400 (rounded)

Step 2 **(B)** – Calculate the benefit earned and pension credits based on benefits provided immediately before the past service event:
Nil – The member did not earn any benefits before the amendment (again this is new service).

Step 3 **(A – B)** Additional pension credits = $20,400 – 0 = $20,400

Step 4 **(C)** – Minus qualifying transfers:
There were no qualifying transfers.

Step 5 **(D)** – There is no excess money purchase transfer.

PSPA: A – B – C + D = $20,400 – 0 – 0 + 0 = $20,400

The PSPA for the member is $20,400.

In Example 18, we show how to calculate the PSPA when the **flat benefit rate is increased** by an amount that is more than the amount you can exclude. For more information on benefit exclusions, see section 5.3.

Example 18

Member joined plan January 1, 2003.

Pension formula:	$1,500 per year of service
Amendment date:	January 1, 2008
Amendment:	Increase to $1,600 per year of service
Average wage increase from the preceding year:	2.9%
Increase in flat benefit rate:	$1,600 – $1,500 = $100
Amount of the increase that you can exclude:	($1,500 × 0.029) = $43.50

Step 1 **(A)** – Recalculate the member's benefit earned and pension credits, taking into account the past service event and the amount you can exclude:
- (a) 2003 9 × ($1,600 – $43.50) – $600 = $13,409 (rounded)
- (b) 2004 9 × ($1,600 – $43.50) – $600 = $13,409 (rounded)
- (c) 2005 9 × ($1,600 – $43.50) – $600 = $13,409 (rounded)
- (d) 2006 9 × ($1,600 – $43.50) – $600 = $13,409 (rounded)
- (e) 2007 9 × ($1,600 – $43.50) – $600 = $13,409 (rounded)

Step 2 **(B)** – Recalculate the member's benefit earned and pension credits based on benefits provided immediately before the past service event:
- (a) 2003 (9 × $1,500) – $600 = $12,900
- (b) 2004 (9 × $1,500) – $600 = $12,900
- (c) 2005 (9 × $1,500) – $600 = $12,900
- (d) 2006 (9 × $1,500) – $600 = $12,900
- (e) 2007 (9 × $1,500) – $600 = $12,900

Step 3 **(A – B)** – Additional pension credits:

2003	$13,409 – $12,900 = $509
2004	$13,409 – $12,900 = $509
2005	$13,409 – $12,900 = $509
2006	$13,409 – $12,900 = $509
2007	$13,409 – $12,900 = $509
Total	$67,045 – $64,500 = $2,545

Step 4 **(C)** – Minus qualifying transfer: There were no qualifying transfers.

Step 5 **(D)** – There is no excess money purchase transfer.

PSPA: A – B – C + D = $67,045 – $64,500 – 0 + 0 = $2,545

In Example 19, we show how to calculate the PSPA when the flat benefit is increased by an amount that is more than the amount you can exclude. For more information on benefit exclusions, see section 5.3.

Example 19

Member joined plan January 1, 2004.

Pension formula:	$40 per month of service
Amendment date:	March 15, 2008
Amendment:	Increase to $47 per month of service
Last amendment:	January 1, 2006
Time since last increase:	26½ months or 2.2 years
Average wage increase 2006-2008:	4.1%
Calculation of excluded amount – Subtract $40 from amount (i) or (ii), whichever is more:	(i) $40 + (40 × 0.041) = $41.64 (ii) $40 + ($1.50 × 2.2) = $43.30
Maximum excluded amount:	$43.30 – $40.00 = $3.30

Step 1 **(A)** – Recalculate the member's benefit earned and pension credits, taking into account the past service event and the amount you can exclude:
- (a) 2004 ($47 – $3.30) × 12 months = 524.40 9 × $524.40) – $600 = 4,120 (rounded)
- (b) 2005 ($47 – $3.30) × 12 months = 524.40 (9 × $524.40) – $600 = 4,120 (rounded)
- (c) 2006 ($47 – $3.30) × 12 months = 524.40 (9 × $524.40) – $600 = 4,120 (rounded)
- (d) 2007 $47 – $3.30) × 12 months = 524.40 (9 x 524.40) – $600 = 4,120 (rounded)

Step 2 **(B)** – Recalculate the member's benefit earned and pension credits based on benefits provided immediately before the past service event:
- (a) 2004 $40 × 12 months = $480 (9 × $480) – $600 = $3,720
- (b) 2005 $40 × 12 months = $480 (9 × $480) – $600 = $3,720
- (c) 2006 $40 × 12 months = $480 (9 × $480) – $600 = $3,720
- (d) 2007 $40 × 12 months = $480 (9 × $480) – $600 = $3,720

Step 3 **(A – B)** – Additional pension credits:

(a) 2004	$ 4,120 – $ 3,720 = $ 400
(b) 2005	$ 4,120 – $ 3,720 = $ 400
(c) 2006	$ 4,120 – $ 3,720 = $ 400
(d) 2007	$ 4,120 – $ 3,720 = $ 400
Total	$16,480 – $14,880 = $1,600

Step 4 **(C)** – Minus qualifying transfer: There were no qualifying transfers.

Step 5 **(D)** – There is no excess money purchase transfer.

PSPA: A – B – C + D = $16,480 – $14,880 – 0 + 0 = $1,600

In Example 20, we show how to calculate the PSPA when a member terminates from a defined benefit provision after 1996 (eligible for a PAR) and later re-establishes the same service.

Example 20
In 2003, Julie joined a defined benefit RPP (Plan A) promising benefits of 1.6% of earnings per year of service. Julie obtained past service benefits, funded by a $6,000 qualifying transfer from her RRSP, for a 2-year period of eligible past service beginning in 2001 that was not previously pensionable service under an RPP. The pension credits for the past service benefits total $10,000.

The PSPA was determined using the formula A – B – C + D

A = value of new pension credits = $10,000
B = value of old pension credits = $0
C = qualifying transfers = $6,000
D = excess money purchase transfers = $0

The PSPA was $4,000.

At the end of 2007, Julie leaves her job and is entitled to a termination benefit of $35,000. Her total pension credits for years 2003 to 2007 are $40,000. In February 2008, Julie transfers her termination benefit to a locked-in RRSP. Julie's Pension Adjustment Reversal (PAR) is $15,000.[6]

Midway through 2008, Julie gets a new job and arranges to obtain credit under her new employer's defined benefit RPP (Plan B) for the 7 years of previous RPP service. Plan B's benefits are identical to those provided under Plan A. To fund the past service benefits, Julie transfers $36,000 from her RRSP to Plan B. The total pension credits for the past service benefits under Plan B is $50,000. Julie's PSPA under Plan B is determined under the basic PSPA method as follows:

PSPA = A – B – C + D

A = the value of the new pension credits = $50,000
B = the value of the pension credits immediately before the past service event = 0
C = qualifying transfers = $36,000
D = excess money purchase transfers = 0

$50,000 – 0 – $36,000 + 0 = $14,000

In Example 21 we show how to calculate a PSPA when a member terminates employment after 1996, the amount transferred to an RRSP exceeds the pension credits, and the service is credited again under another RPP. In other words there will be an excess money purchase transfer (variable D).

Example 21
In January 2002, Kim joins a defined benefit RPP promising benefits of 2% of best average earnings per year of service. At the end of 2007, Kim leaves employment and transfers her termination benefit of $90,200 to a locked-in RRSP. The total pension credits for years 2002 to 2007 is $64,900.

In April 2008, Kim arranges to obtain credit under her new employer's defined benefit RPP for the 6 years of previous RPP service. Benefits under both the new plan and the old plan are identical. Under the terms of her employment contract, Kim transfers $50,000 from her RRSP to the new plan to cover a portion of the cost of the past service benefits. The employer funds the balance of the cost. Kim's PSPA under the new plan is determined according to the basic PSPA method as follows:

PSPA = A – B – C + D

A = the value of the new pension credits = $64,900
B = the value of the pension credits immediately before the past service event = 0
C = qualifying transfers = $50,000
D = excess money purchase transfers = $25,300 ($90,200 – $64,900)

$64,900 – 0 – $50,000 + $25,300 = $40,200

Amount D, the adjustment for Kim's excess money purchase transfer, is obtained by subtracting the total pension credits associated with the former benefits from the amount of the RRSP transfer ($90,200 – $64,900 = $25,300) This amount is included in the PSPA because in her previous plan Kim received a termination benefit of $90,200 but only had an RRSP reduction of $64,900 because of her pension credits.

5.15 Modified calculation method

Use the modified calculation method to calculate PSPAs when:

- an individual transfers from one defined benefit provision of an RPP to a replacement provision of an RPP under a reciprocal or portability arrangement; or
- an individual terminated from a defined benefit provision of an RPP prior to 1997 and the service is being credited again.

The modified method formula for calculating PSPAs is: **A + B + C – D**.

Each of these variables is described in the steps below:

Steps

1. Recalculate the benefit earned and pension credits under all defined benefit provisions of all the employer's RPPs for all years covered by the past service event. In other words, determine what the pension credits would have been if the additional benefits had been provided in each of those previous years. As outlined earlier in section 5.12, you may have to include an amount for the benefits provided for the part of the past service period that is in the current year.

[6] For more information on how to calculate a PAR, please refer to our *Pension Adjustment Reversal Guide* (RC4137).

If so, but you need information that is not yet available to calculate the PSPA (e.g., amount of commissions to be included in earnings), you can make reasonable assumptions about this information. **Please note that for high wage earners the DB limit in the year of the past service event must be used for all years**.

2. Do the same calculation, based on the benefits provided immediately before the past service event.

3. Subtract the total amount you calculated in Step 2 from the amount you determined in Step 1. The amount you get is the sum of the additional pension credits associated with the past service event. (At this point the calculation may result in a negative amount. This would be the case if the benefits under the previous employer's plan were more generous than the past service benefits being provided under the successor employer's plan. If the amount is negative, it is deemed to be zero). This is variable **A** in the Modified formula. The calculations for variable A in the Modified formula are the same as the calculations used in determining A – B in the Basic formula.

4. In a year that employment terminates, if the member is not entitled to any benefits from the plan, the pension credit for that year equals either the member's required contributions for the year, or the pension credit otherwise calculated, whichever amount is **less**. This is called the "year of termination" rule. If the member's pension credit is or was calculated using this rule, you have to:

   - determine the pension credit for that year under the previous provision that the employer would have calculated (or will calculate) if the "year of termination" rule did **not** apply;
   - subtract the pension credit for that year that the employer calculated (or will calculate) using the "year of termination" rule; and
   - add this amount to the amount you determined in Step 3.

This is variable **B** in the Modified formula, referred to as the "non-vested PA amount." There will only be a B variable if service from a pre-1997 termination is being credited. Since PAR legislation has been introduced, variable B will become obsolete in the future.

5. Add the amount of any benefits related to service after 1989 that remain to be paid to or on behalf of the member from the previous plan or have been transferred to an RRSP, a money purchase provision of an RPP, or a defined benefit provision of a SMEP (excluding amounts that will be transferred to fund the benefits under the current plan). Subtract from this amount the amount by which B exceeds A in the Basic formula. This part of the formula would only be relevant when the PA value of the new benefits provided in respect of the qualifying past service period is less than the PA value of the benefits formerly provided in respect of this period. This is variable **C** in the Modified formula, which is referred to as the money purchase transfer.

6. Once you have added the amounts determined under Steps 3, 4, and 5, subtract any qualifying transfers (variable **D**) the member has made to the plan to fund the past service benefits. The result is the PSPA. If the amount is less than zero, the PSPA is nil.

Example 22 shows you how to calculate the PSPA when a member transfers directly from one defined benefit provision to another defined benefit provision.

Example 22
At the end of 2008, Mark changes jobs and seeks to have defined benefit credits in respect of 7 years of service (2002 to 2008) transferred to his new employer's RPP. Benefits under Mark's former RPP and the new RPP are 2% of earnings per year of service less an identical offset for public pension benefits. For both plans, the pension credits for years 2002 to 2008, based on Mark's earnings in those years, total $56,200. In accordance with the reciprocal transfer agreement, a termination benefit of $51,300 is transferred from the former plan to the new plan to fund the defined benefits provided under that plan. The transfer occurs in early 2009. In this situation, Mark's PSPA under the new plan is determined as follows:

PSPA = A + B + C – D

A = PA value of the new pension credits less the PA value of the pension credits prior to the past service event = $56,200 – $56,200 = 0
B = non vested PA amount = 0
C = money purchase transfers = 0
D = qualifying transfers = 0

The PSPA is nil.

The fact that the modified PSPA rules apply in this situation ensures that the PSPA will measure only the extent to which Mark's defined benefits are upgraded. Since the benefits under both plans are identical, the PSPA is nil. In this situation, where PSPA is being determined under one particular RPP and PAR is being determined under another, the administrator of Mark's new plan is required to notify the administrator of Mark's former plan of the occurrence of the past service event within 30 days of the event. The new plan administrator has a total of 60 days from the event to provide the previous plan administrator with the actual PA transfer amount.

Example 23 shows you how to calculate the PSPA when a member terminates in 1996, transfers his or her benefits to an RRSP, and buys the service back in 2008. Example 23 also shows you how to calculate the non-vested PA amount and the money purchase transfer when an individual joins a less generous plan.

Example 23
Halfway through 1996, Robert leaves employment with an employer and loses entitlement to pension benefits based on 2.5 years of service. A termination benefit of $8,500 is transferred to Robert's RRSP. Robert's pension credits for the 2.5 years of service total $16,300. The pension credit for 1996, using the "year of termination rule," is $1,700. This amount is the lesser of the $1,700 of employee contributions made in the year under the provision and the $5,200 pension credit that would otherwise have been determined.

On February 1, 2008, Robert joins the plan of a new employer and is provided with past service benefits in respect of the 2.5 years of previous pensionable service under the former plan. The benefit formula under the new plan is less generous than the benefit formula under the former plan. The pension credits under the new plan in respect of the past service benefits total $18,000 (as compared to $19,800 under the former plan determined without reference to the PA in year of termination). Robert does not transfer any amount from his RRSP to fund the past service benefits. Robert's PSPA is determined as follows:

PSPA = A + B + C – D

A = PA value of the new pension credits less the PA value of the pension credits prior to the past service event = $18,000 – $19,800 = 0
B = non-vested PA amount = $5,200 – $1,700 = $3,500
C = money purchase transfers = $8,500 – ($19,800 – $18,000) = $6,700
D = qualifying transfers = 0

PSPA = $10,200

Robert joined a less generous plan; therefore, the pension credits in respect of the former benefits fully offset the value of the new benefits. Amount A is therefore 0. Amount B is obtained by subtracting the special PA amount that was calculated using the year of termination rule ($1,700) from the pension credit if the year of termination was not applied ($5,200). Amount C is the amount by which the RRSP transfer of $8,500 exceeds the difference between the pension credits under the new plan and those under the more generous former plan.

Example 24 shows you how to calculate the PSPA when a member terminates from a defined benefit provision in 1997 and later in 1997 has this service recognized under another defined benefit provision. This situation is unique, because the new legislation affecting PSPAs did not become effective until January 1, 1998, while PARs are calculated effective January 1, 1997. You therefore use the modified method that was law prior to 1998 to calculate the PSPAs in these cases.

Example 24
The old modified method formula was A + B + C – D, where

A is the same as described in the modified method above, except that if the member's entitlement to the previous benefits stopped before the past service event, assume that it stopped immediately before the event.

B is as described above in the modified method.

C is the amount transferred from the former provision to an RRSP, RRIF, MPP, or SMEP.

D are any qualifying transfers, as described above in the modified method.

In February of 1997, Barb terminates from her DB plan (Plan A) after 3 years of service and transfers her termination benefit of $14,000 to her RRSP. The total pension credits over the period total $17,000. The benefits under Plan A were 2% of final average earnings per year of service. In October of 1997, Barb starts a new job, at the same salary, and joins the company pension plan (Plan B), which provides a benefit of 1.5% of final average earnings per year of service. The plan allows Barb to purchase the 3 years of past service under Plan A. The total pension credits under Plan B are $15,000. Barb transfers $10,000 from her RRSP to fund the past service benefits.

PSPA = A + B + C – D

($15,000 – $17,000) + 0 + $14,000 – $10,000 = $4,000
PSPA: $4,000

5.16 Special rules for specified multi-employer plans (SMEPs)

The usual rules for determining PSPAs for benefit upgrades do not apply to SMEPs, since SMEP pension credits are calculated on a contribution basis, similar to money purchase provisions. The member's annually reported PA reflects any past service benefit upgrades funded with contributions made by the **employer**. (We outline how to calculate pension credits for a defined benefit provision of a SMEP in section 5.1.)

When a **member** makes a contribution under a defined benefit provision of a SMEP for past service benefits, a past service event occurs. The PSPA will usually equal the member's past service contribution. This includes any contributions the member made that are conditional on certification of the PSPA. The PSPA must be certified by the Canada Revenue Agency before the related benefit can be paid to the member.

A past service contribution does **not** include:

- contributions included in the member's pension credit under the plan for the year; or
- tax-free transfers into the plan (tax-free transfers are qualifying transfers described in section 3).

All PSPAs from SMEPs must be certified, unless the less-than-$50 tolerance rule described in section 6 applies.

6. Reporting and Certification

6.1 General

You must report a PSPA that is greater than nil to both the Canada Revenue Agency and the employee, unless the PSPA is less than $50. (Refer to section 6.2 below.) You can pay the additional benefit to the member immediately. There are two methods of reporting PSPAs depending on whether the Canada Revenue Agency has to certify the PSPA. The basic difference in the two methods is that in the certified situation the amount of the PSPA cannot exceed the member's available RRSP room + $8,000.

> **Note**
> Information on amending, correcting, and deleting previously reported PSPAs can be found in section 6.5.

6.2 PSPAs less than $50

If the calculated PSPA is less than $50, you are not required to report the PSPA. This is an administrative rule that applies if:

- the original calculation of PSPA is less than $50, or
- the difference between an original PSPA and an amended PSPA is less than $50.

Please note that this limit is cumulative for all PSPAs calculated during a year. However, this rule does not apply if the employee asks that the PSPA be reported accurately or if the Canada Revenue Agency asks you to report the PSPA accurately.

6.3 PSPAs exempt from certification

As mentioned above, a PSPA for a particular member does not need certification when it is nil. Also, you generally do not have to request certification of a member's PSPA if the past service event **increases the benefits** of all or most (90%) of the members of the provision and when all of the following conditions are met in either of the following situations:

When a defined benefit provision is established (i.e., a new provision):

- there are at least 10 active members under the provision;
- no more than 25% of the active members under the provision are specified active individuals;
- the member's PSPA is not more than 3.5 times the money purchase limit for the year of the increase;*
- the member is not a specified active individual;* and
- if the member is not an active member, the member was neither a person connected with a participating employer nor a person who earned 2.5 times the YMPE from the employment with the participating employers in any of the five years just before the year of the past service event.*

*You need certification of the PSPA for only the particular member or members for whom the condition is not met. Example: The provision has 100 members and 1 of these members is a specified active individual. You would report a certified PSPA for the specified active individual and an exempt from certification PSPA for the remaining 99 members.

After a defined benefit provision is established:

- there are at least 10 active members under the provision;
- no more than 25% of the active members under the provision are specified active individuals;
- benefits of all, or substantially all (e.g., 90%), of the active members are increased as a result of the past service event (Note that it does not state here that it is a provision-wide amendment that applies to everyone under the provision. The actual benefits must increase as a result of the past service event.);
- the percentage increase in total benefits provided to any specified active individuals is not more than the percentage increase in the total benefits provided to other active members; and
- additional benefits provided to retired or terminated members are not more advantageous than additional benefits provided to active members.

However, if the above conditions are substantially, but not entirely, met, employers can request that certification be waived for a past service event by sending a letter to the Registered Plans Directorate at the address given at the beginning of this guide. The request must indicate what requirement(s) have not been met and an explanation as to why the administrator feels that the requirements have been substantially met.

PSPAs may also be exempt from certification when the new exclusion outlined in Examples 5, 6, and 7 above applies.

Reporting exempt PSPAs

You, a plan administrator, must calculate all PSPAs arising from a past service event and, if the PSPA is exempt from certification, complete a T215 return. The return consists of:

- T215 slips;
- a T215 Summary; and in some cases,
- T215 Segment forms.

You have to file the completed return and distribute the T215 slips to the members within 120 days of the past service event. Send the return to:

Ottawa Technology Centre
Ottawa ON K1A 1A2

If you do not comply with the deadline, you are liable to a penalty of a minimum of $100 and a maximum of $2,500 for **each return**.

Remember to:

- file original T215 slips with an original T215 Summary, and amended T215 slips with an amended T215 Summary;
- record only one past service event per T215 return;
- if you are filing additional T215 slips for a past service event for which you have already filed a T215 return, mark "original" on the copy of the T215 Summary that you file with the additional T215 slips.

Note
Only complete Box 5 if you are amending or deleting a PSPA that was previously reported for an individual in respect of this past service event. The proper entry in Box 5 is "Yes." The amount in Box 2 of the T215 should reflect the total PSPA and not the difference between the original amount and the correct amount.

T215 Slip – Complete one T215 Supplementary for each plan member affected by the past service event.

Distribution
Copy 1: Send to the Ottawa Technology Centre along with a T215 Summary and T215 Segment forms, if necessary, within 120 days of the past service event.

Copy 2: Give to the plan member within 120 days of the past service event.

Copy 3: Keep for your records.

T215 Summary – The T215 Summary reports the totals of certain information from the T215 slips.

Distribution
Copy 1: Send to the Ottawa Technology Centre along with a T215 Summary and T215 Segment forms, if necessary.

Copy 2: Keep for your records.

T215 Segment forms – If your T215 return contains more than 100 sheets or 300 separate T215 slips, you must file T215 Segment forms:

1. Separate your T215 slips into groups of about 100 sheets or 300 separate supplementary forms.
2. Complete all required areas on each T215 Segment and attach one to the front of each group of T215 slips.
3. Make sure that the totals from all the T215 Segment forms equal the totals shown on the T215 Summary.
4. Remember to keep copies for your records.

If you file more than 500 T215 slips you must file the return electronically in extensible mark-up language (XML) format on electronic media (diskette, CD, or DVD).

If you file more than 500 T215 slips and you do not file the information electronically as required under the *Income Tax Act* and the *Income Tax Regulations*, you are liable to a penalty of $2,500 for the first offence. For each subsequent occurrence the penalty will increase by increments of $2,500. For more information on electronic filing, visit **www.cra-arc.gc.ca/esrvc-srvce/mgmd/menu-eng.html**.

6.4 PSPAs requiring certification

All PSPAs that are greater than nil and that do not meet the conditions for exemption outlined in the section 6.3 must be certified by the Canada Revenue Agency. When a defined benefit provision is established, all PSPAs relating to specified active individuals must also be certified.

Generally, approval of this certification depends on whether the PSPA exceeds the member's unused RRSP deduction room at the end of the previous year by more than $8,000. We must certify the PSPA before benefits relating to the past service event can be paid to the member. You can generally begin to make contributions to fund the additional benefits as soon as you have applied for certification. However, if we deny certification, the contributions must cease immediately.

You have to complete Form T1004, *Applying for the Certification of a Provisional Past Service Pension Adjustment*, on behalf of the member, and send the form to:

Ottawa Technology Centre
Ottawa ON K1A 1A2

The Canada Revenue Agency applies the following certification formula to the member's PSPA for the event, and if the total of this calculation is equal to or more than this PSPA, we will certify it. This formula is outlined on the back of Form T1004 and set out, for your reference, below.

Formula
$8,000

plus
member's unused room at the end of the immediately preceding year (can be positive or negative)

plus
the amount of all qualifying withdrawals designated for the purposes of PSPA certifications previously issued in the year

plus
the amount of qualifying withdrawals relating to this past service event

minus
the member's accumulated PSPA for the year

plus
the member's pension adjustment reversal (PAR) reported for the year

Example 25

PSPA related to this past service event	$ 2,000
PSPAs for past service events earlier in 2007	$ 1,000
Member's unused RRSP deduction room at the end of 2006	$ 2,500
Member's qualifying withdrawals	$ 0
Member's PAR for 2007	$ 0

Certification formula:

$8,000	$ 8,000
plus	
unused RRSP deduction room at the end of 2006	$ 2,500
plus	
qualifying withdrawals	$ 0
	$10,500
minus	
2007 accumulated PSPAs	$ 1,000
plus	
PAR	$ 0
Formula total	$ 9,500

Since the formula total of $9,500 is greater than the $2,000 PSPA for the event, the PSPA would be certified.

Example 26

PSPA related to this past service event	$10,000
PSPAs for past service events earlier in 2007	$ 0
Member's unused RRSP deduction room at the end of 2006	$ 500
Member's qualifying withdrawals	$ 0
Member's PAR	$ 0

Certification formula:

$8,000	$ 8,000
plus	
unused RRSP deduction room at the end of 2006	$ 500
plus	
qualifying withdrawals	$ 0
	$ 8,500
minus	
2007 accumulated PSPAs	$ 0
plus	
PAR	$ 0
Formula total	$ 8,500

Since the formula total is less than the PSPA for the event, the PSPA cannot be certified. The Canada Revenue Agency would send a letter to the member advising that the PSPA cannot be certified along with a copy of Form T1006, *Designating an RRSP Withdrawal as a Qualifying Withdrawal*. The member would then have the following options:

1) Make a qualifying withdrawal, which will have the effect of increasing the member's RRSP room. In this example, the minimum qualifying withdrawal, that is, the amount required to allow certification of the PSPA, is $1,500. The maximum withdrawal is $9,500, determined according to the following formula:

A – (B + C – D + R)

Where:

A equals the PSPA relating to this past service event.
B is the member's unused RRSP deduction room at the end of 2006.
C is the amount of qualifying withdrawals designated for previous PSPA certifications in 2007.
D is the member's accumulated PSPA for 2007.
R is the member's PAR reported for 2007.

2) Make a qualifying transfer, which will have the effect of reducing the amount of the PSPA. In this example the member would have to make a minimum qualifying transfer of $1,500 in order to have the PSPA certified. He or she could make a maximum qualifying transfer of $10,000, which would have the effect of reducing the PSPA to nil.

3) Buy the amount of service that the RRSP room of $500 in this example plus the additional $8,000 could purchase. In other words, if in this example the PSPA of $10,000 was buying 2 years of service then the member could simply buy 1.5 years of service (these numbers are used for discussion purposes only and are not necessarily accurate).

4) Wait and buy back the service at a later date when they have sufficient RRSP room.

Please be reminded that both a qualifying withdrawal and a qualifying transfer from an RRSP can only be made by the annuitant of the plan and not the contributor if different.

As mentioned above, when the formula total is less than the member's PSPA for the event, we will notify the member directly that the past service benefits cannot be provided. We will include with the letter Form T1006, which the member can use to designate a qualifying withdrawal. If this is the option the member chooses the form should be completed and returned within 30 days. The form is also available from all tax services offices.

To speed up processing of certification applications, you should review the certification formula with the member before sending in Form T1004. If calculations confirm that we will not approve the application, the member should decide which of the above options he or she prefers. If the member chooses to do a qualifying withdrawal, Form T1006 should be completed and filed with Form T1004.

Form T1004 – Distribution

Copies 1, 2, and 3: Send these copies to the Ottawa Technology Centre.
Copy 4: Keep for your records during the certification process.

We will complete Part V of the form to indicate approval or denial of the application and return copies 1 and 2 to you.

Copy 1: Keep for your records.
Copy 2: Send to the member within 60 days of the date you receive approval or denial of certification.

If we deny certification, all contributions that were being made in anticipation of the certification must stop immediately, and no benefits can be provided to the member. However, a member may still receive an increased or upgraded benefit, just not as large a benefit as originally intended. This would be possible if a smaller PSPA resulting from a reduced increase or upgrade could be certified. Of course, you would have to submit a new Form T1004 for the reduced upgrade or increased benefit.

Form T1006 – Distribution

Copy 1: Send to the Ottawa Technology Centre.
Copy 2: The member should keep this copy.

6.5 Correcting, amending, or deleting a previously reported PSPA

Please note that only the plan administrator should be requesting changes to previously reported PSPAs.

T215 – Exempt PSPAs

In order to correct an exempt PSPA, you must determine the problem. The situations that follow explain common problems and also give the corrective action.

An exempt PSPA has been calculated in error or reported in error

In these cases a new T215 slip should be completed with the correct amount (an amount of zero should be reported if you are deleting a previously reported PSPA). You must also complete a T215 Summary. Both the T215 Summary and T215 slip should be marked as an amendment (check off amended return on the T215 Summary and fill in "Yes" in Box 5 of the T215 slip). The rest of the information (e.g., RPP Number, Past Service Event Date, Name, SIN) should be identical to the information on the original return.

An exempt PSPA return has been filed with an incorrect Past Service Event Date

In these cases it is not necessary to file an new T215 return. Write a letter to the Ottawa Tax Centre explaining the situation. In the letter make sure you include the T215 Summary information from the original filing. The letter should explain that the Past Service Event Date should have been reported as YYYY MM DD.

We will then delete the original T215 return and update a new original return with the new Past Service Event Date.

Amended T215 returns or letters in respect of T215 returns should be sent to:

Ottawa Technology Centre
Ottawa ON K1A 1A2

T1004 – Certified PSPAs – Correcting or deleting a certified PSPA

If you have filed a Form T1004 incorrectly (e.g., wrong amount or a deletion is required), please send a letter to:

Ottawa Technology Centre
Ottawa ON K1A 1A2

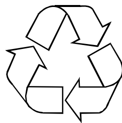
Explain the situation. Be sure to include information concerning the Form T1004 that was approved such as: the plan name; RPP registration number; member name and social insurance number; plan administrator name and address; the amount of the incorrect PSPA; and the approximate date that the Canada Revenue Agency approved the PSPA. Please explain why the PSPA has to be amended.

We will update our records with the correct figures and inform you, the plan administrator, of the correction.

Notes

Notes

Think recycling!



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