Canada Revenue Agency
Agence du revenu du Canada

Pension Adjustment Reversal Guide

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Canada

Before You Start

Is this guide for you?

Use this guide if you want information about how to calculate a pension adjustment reversal (PAR) amount. If you are a registered pension plan administrator or the trustee of a deferred profit sharing plan, you may have to calculate a PAR for plan members who terminate their membership.

This guide describes:

- what a PAR is and what its components are; and
- how to calculate PARs for various types of plans and provisions.

This guide also contains some general information on the overall limit that applies to tax assistance for an individual's retirement savings and the effect that a PAR has on this limit.

Following these introductory chapters, the guide presents examples of how PARs are calculated.

Glossary – We have included definitions of some of the terms used in this guide in a glossary. You may want to read the glossary before you start.

Forms and publications – In this guide, we refer to certain forms and publications. You can get any of these forms or publications from your tax services office or tax centre. For the addresses and telephone numbers, see the listing in the government section of your telephone book.

Internet – Many of our publications and forms are available on the Internet at: **www.cra.gc.ca/rpd**.

What if you need more help?

We use plain language in this guide to explain the laws and terms you need to know to calculate the PAR amount. If you need more information to help you calculate PAR amounts under your plan, 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)
613-954-0930 (French)

More information on calculating PARs is available on the Registered Plans Directorate's Web page at **www.cra.gc.ca/rpd**.

We review this guide regularly; however, it is possible that there will be legislative changes before the next revision that affect the information in this version of the guide. If you are not sure whether you have the most recent information, contact your tax services office or tax centre.

If you have a visual impairment, you can get our publications in braille, large print, or etext (CD or diskette), or MP3. For more information, visit our Web site at **www.cra.gc.ca/alternate** or call **1-800-959-2221**.

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

Table of Contents

1. What is a pension adjustment reversal (PAR)?

A PAR is an amount that will restore registered retirement savings plan (RRSP) contribution room to an individual when the individual terminates membership in a registered pension plan (RPP) or deferred profit sharing plan (DPSP). Under a defined benefit provision of an RPP, this normally applies when the individual receives a termination benefit that is less than the individual's total pension adjustments (PAs) and past service pension adjustments (PSPAs). An exception to this rule would be if the individual terminated membership in a plan that is a SMEP as defined in section 2. There is no PAR for an individual who terminates membership under a SMEP. Under a DPSP or a money purchase provision, an individual's PAR is the amount included in his or her pension credits but to which the individual ceases to have any rights at termination (normally employer contributions). An individual will only have a PAR under a DPSP or a money purchase provision of an RPP if he or she is not fully vested at termination.

Canada's system for tax-assisted saving for retirement provides tax assistance to individuals to build their retirement savings. The system limits total retirement savings under RRSPs, RPPs, and DPSPs to 18% of an individual's earned income to a dollar maximum for the year.

Individuals who are members of RPPs or DPSPs have a PA reported each year. This reduces the amount that they can deduct for contributions to RRSPs in the following year.

Members of defined benefit RPPs can also have PSPAs reported that reduce the amounts they can save for retirement through RRSPs.

A PAR will restore an individual's RRSP contribution room in cases where the individual's PAs and PSPAs are more than the benefits they received from the RPP or DPSP on termination of membership. By restoring RRSP contribution room, PARs make the system for tax-assisted saving for retirement fair and more effective for those who change jobs or move in and out of the workforce.

Administrators of RPPs and trustees of DPSPs will have to determine PARs for individuals who terminate from a plan provision in 1997 and later years. An individual is considered to have terminated from a provision when he or she is no longer entitled to benefits under the provision. Note that an individual's employment does not have to be terminated. The date of termination is generally the date on which the termination benefit is paid from the provision. This can be a cash payment to the individual or a transfer to the individual's RRSP. For example, if an individual left employment in 2006 but does not receive his or her termination benefit until 2007, a PAR will have to be determined for the individual for 2007.

Plan administrators of RPPs or trustees of DPSPs will have to report PARs on a quarterly basis. A PAR will be added to an individual's RRSP contribution room for the year of termination of membership.

PARs are only calculated for registered plans as defined under the *Income Tax Act and Regulations*. Therefore, PARs are not available for members of foreign plans.

2. Glossary

This guide uses plain language to describe how to calculate a pension adjustment reversal. It is not a legal text.

In this section, we explain or define the expressions used in this guide. Any references to the "Act" mean the *Income Tax Act*, and references to the "*Regulations*" mean the *Income Tax Regulations*.

Additional voluntary contribution (AVC)
An AVC is a contribution to a money purchase provision that is not required as a general condition of membership in the plan.

Deferred profit sharing plan (DPSP)
A DPSP is an arrangement that provides benefits to employees of the employer, based on contributions made out of profits or in reference to the profits of participating or related employers.

Forfeited amount
A forfeited amount is an amount a member no longer has rights to under a DPSP or a money purchase provision of an RPP. Amounts are often forfeited when a member terminates employment before employer contributions have vested.

Grossed-up PSPA amount
Where an individual is provided with past service benefits under a defined benefit provision of an RPP, 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 a money purchase pension plan, an RRSP, or by benefits in a prior defined benefit provision. 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 or plan. 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 detail on the grossed-up PSPA amount, see Section 5.3 (you can find more information on PSPAs in Guide T4104, *Past Service Pension Adjustment Guide*).

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

Money purchase limit
The money purchase limit is as follows:

- $11,500 for 1990;
- $12,500 for 1991 and 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 subsequent year, 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, or, if the amount is the same distance between two multiples of $10, rounded to the higher number; and

(ii) the money purchase limit for the previous year.

For a calendar year, the average wage is the sum of wages over a 12-month period ending on June 30 of the previous calendar year, divided by 12. For example, you determine the 2006 average wage by adding up all of the wage measures from July 2004 to June 30, 2005, and then dividing the total by 12. You can get information on the average wage from Statistics Canada. The Government of Canada listings in your telephone book contain telephone numbers for your local Statistics Canada office. You can also contact the Labour Statistics Division in Ottawa at **613-951-4090**.

Past service pension adjustment (PSPA)
The PSPA is an individual's total new pension credits created when benefits are improved retroactively, or when past service is granted in a defined benefit provision of an RPP. For more information on PSPAs, see Guide T4104, *Past Service Pension Adjustment Guide*.

Pension adjustment (PA)
The PA is an individual's total pension credits for the year in respect of an employer. It reflects the accumulation of benefits or level of savings in a year by or on behalf of a member because of his or her participation in one or more RPPs and/or DPSPs. For more information on PAs, see Guide T4084, *Pension Adjustment Guide*.

An individual's PA in a year reduces the maximum amount that he or she can deduct for RRSP contributions for the next year.

A PA can be nil, but it is never a negative amount.

PA transfer amount
If an individual has pension benefits transferred between defined benefit provisions, the PA transfer amount may apply to the PAR determination. This amount represents the value of an individual's benefits provided under the new defined benefit provision, or, if less, the value of the PAs already reported for the same service. The administrator of the new defined benefit provision has to give the PA transfer amount to the administrator of the former provision (exporting provision or plan). For details, see Section 5.3.

Pension credit
A pension credit reflects the value of the benefit that a member earns under a DPSP, or under a money purchase or defined benefit provision of an RPP. A member's PA is the total of their pension credits in respect of an employer.

Pension credits are rounded to the nearest dollar. If the amount is the same distance between two dollar amounts, it is rounded to the next highest dollar.

Provision
Provision refers to the terms (either money purchase or defined benefit) of a pension plan that describe how benefits are determined for a member. There may be more than one provision in a pension plan.

Registered pension plan (RPP)
An RPP is an arrangement that is registered under section 147.1 of the Act, and is designed to provide periodic payments to individuals after retirement and until death for their service as employees.

RRSP dollar limit
The RRSP dollar limit for a particular year other than 1996 and 2003 is equal to the money purchase limit (see the definition above) for the previous year. The RRSP dollar limit for 1996 is $13,500 and for 2003 is $14,500.

Service
Service refers to the number of years and partial years of service for which the provision provides retirement benefits. Plans often refer to this as pensionable service or credited service. Use the service described in your particular pension plan text to determine the benefits payable. The definition of service in your plan may differ from the definition of eligible service in the *Regulations*. Express partial years as fractions of a year.

Specified multi-employer plan (SMEP)
A SMEP is an RPP that is sponsored by a group of employers, or by a union acting together with such employers, that qualifies to have PAs determined on a contribution basis. An RPP may be a SMEP by meeting the definition in subsection 8510(2) of the Regulations.

Specified distribution
A specified distribution is an amount paid for an individual from a defined benefit provision of an RPP for that individual's post-1989 benefits under the provision. Specified distributions reduce an individual's PAR. For more details on what constitutes a specified distribution, see Section 5.3.

Surplus
A surplus in a money purchase provision is an amount that has not, at a particular time, been allocated to plan members, and that does not include forfeited amounts and related or regular earnings of the plan that are allocated to members. A surplus can occur in a money purchase provision only when it is converted from a defined benefit provision. In a defined benefit provision, the surplus is the amount by which the assets exceed the liabilities.

3. Calculating a PAR – Basic concepts

3.1 Types of plans

DPSP

A DPSP is not subject to any provincial pension legislation. However, it is subject to the *Income Tax Act*. Under a DPSP, an employer's contributions are paid according to profits or out of profits. Contributions normally are a percentage of the employer's profits or a percentage of the member's earnings. Member contributions to a DPSP are not permitted.

RPP

An RPP is subject to the *Income Tax Act* and may also be regulated by provincial and federal pension legislation (e.g., the *Pension Benefits Standards Act*). An RPP may require or allow member contributions in addition to employer contributions, and it produces a retirement benefit that is generally paid out monthly.

There are two basic types of benefit provisions for RPPs:

1. Money purchase provision – This provides each member with whatever level of pension income the member's account in the plan will buy at retirement. The member's account will be the total of the following:
   - the total of all required contributions and/or additional voluntary contributions (AVCs) made by both the employer and the employee, and related investment earnings or losses; and
   - allocated forfeited amounts and related earnings or losses that have accumulated in the member's account at retirement.
2. Defined benefit provision – This promises plan members a specified level of pension income on retirement. The amount of income is calculated using the plan's benefit formula. Accumulated contributions and related investment earnings do not determine what the amount of pension income will be.

   Defined benefit provisions come in various forms:
   - Flat benefit: Generally, benefits are expressed as a dollar amount for each month or year of service (e.g., $35 per month per year of service).
   - Career average: Benefits are based on the member's earnings in each year of service under the plan (e.g., 2% of pensionable earnings for each year of service).
   - Final or best average: Benefits 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 (e.g., 2% of the average of the best or final three years of pensionable earnings times years of pensionable service).

Certain plans consist of more than one benefit provision or take into account the benefits payable under another plan or provision. For example, a plan may consist of a defined benefit provision and a money purchase provision, or the benefits under a defined benefit provision may be reduced by the benefits payable under a money purchase provision or under a DPSP.

3.2 Pension adjustments (PAs) and past service pension adjustments (PSPAs)

Tax-assisted retirement savings arrangements are designed and administered to provide income to individuals at retirement. Using these arrangements, Canadians can get tax assistance to build their retirement savings. The system is based on an overall limit of 18% of an individual's earned income, to a dollar maximum (money purchase limit). The overall limit applies to total retirement savings under employer-sponsored registered pension plans (RPPs), deferred profit sharing plans (DPSPs), and registered retirement savings plans (RRSPs).

DPSPs and RPPs both generate PAs. The designs of these plans usually vary to suit the nature and size of the employer's business, the philosophy of the employer, and legislative requirements. However, while some RPPs allow or require members to contribute, member contributions for DPSPs are prohibited under the *Income Tax Act*.

Each DPSP and each provision of an RPP produce a pension credit for the plan member. The pension credit is a measure of the value of the member's benefit earned or accrued during the calendar year. The method used to calculate pension credits depends on the type of plan and provision. A member's pension adjustment (PA) is the total of that member's pension credits from all RPPs and DPSPs of the employer in which the member participates in the tax year. The PA reduces the maximum amount that an individual can deduct for contributions to an RRSP for the next year. For more information on pension adjustments, see Guide T4084, *Pension Adjustment Guide*.

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

- 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 (normally the benefit rate is increased).

When either of these events occurs, the value of the pension accrued is increased and gives rise to a past service pension adjustment (PSPA). A PSPA is the additional pension credits that would have been included in the member's PA for those previous years if the upgraded benefits or additional service had actually been provided in those previous years. A PSPA is used to reduce the amount that a member can deduct for contributions to an RRSP. If the PSPA is certified, the reduction occurs for the year of the past service event, and if it is non-certified the reduction occurs the following year. For more information on past service pension adjustments, see Guide T4104, *Past Service Pension Adjustment Guide*.

3.3 Pension adjustment reversal (PAR)

The purpose of a PAR is to restore RRSP contribution room when an employee's membership in a provision of an RPP or DPSP stops and their termination benefit is less than the sum of PAs and PSPAs that have been reported to the Canada Revenue Agency (CRA). The PAR is reported to the CRA so that we can restore the employee's RRSP contribution room that was previously reduced by a PA or PSPA.

You have to calculate a PAR any time an individual stops being a member of a provision or plan after 1996. **An individual does not have to terminate employment, only terminate plan membership**. A person is a member of a DPSP or benefit provision of an RPP as long as he or she has any rights to a benefit from the DPSP or benefit provision of the RPP. An individual who has rights to a benefit from the provision or plan only because of another individual's participation in the provision or plan is not considered a member. An example of this would be a deceased member's surviving spouse—the survivor could obtain a PAR if his or her membership in the RPP or DPSP was terminated even though he or she continues to enjoy survivor benefits because their spouse was still a member of the same RPP or DPSP.

If an individual is entitled to benefits under an annuity contract to satisfy his or her entitlement to benefits under a provision or plan, he or she is still considered to be a member of the provision or plan. However, if the individual's entitlement to benefits is paid in cash, or is commuted and transferred to an RRSP or registered retirement income fund (RRIF) before the annuity is purchased, he or she is considered terminated from the provision or plan and you have to calculate a PAR.

You must determine a PAR for each benefit provision from which an individual terminates membership. However, an individual who is a member of a supplemental provision must terminate membership from all provisions before you can determine a PAR. For more information, see Section 6.2.

A special PAR rule applies to an individual's continuing rights to a surplus under a provision. If a person terminates membership in all ways except for any future surplus allocations or distributions, we treat the individual as though he or she has no entitlement to the surplus until it is actually allocated. This allows you to determine a PAR in cases where surplus ownership is in dispute, or payment of surplus is delayed. If you calculate a PAR for an individual at termination, future surplus if used to provide ancillary benefits can only provide these ancillary benefits for periods before 1990.

When an individual terminates from a DPSP or RPP, and later rejoins the plan, you have to disregard all amounts associated with the first termination when you determine the PAR for a subsequent termination. In other words, the second or subsequent PAR will not reflect the value of the benefits included in the prior PAR.

All PARs should be rounded to the nearest dollar.

4. Calculating a PAR for deferred profit sharing plans (DPSPs)

4.1 Termination conditions for DPSPs

Calculate a PAR for an individual if he or she meets these two termination conditions:

- the termination of membership occurs after 1996 and for a reason other than death; and
- instalment payments have not been made to the individual under the plan.

If an individual meets these termination conditions, the PAR is the total of all amounts that were included in his or her pension credits (PAs) up to the date of termination, but that he or she was not entitled to (not vested) at the time of termination. Earnings on allocations or on contributions are not to be included in the PAR as these were never included in the pension credit.

The total of an individual's pension credits includes the pension credit for the year of termination, even though this pension credit may not be reported until after the PAR is reported. Therefore, you have to consider unvested contributions and other unvested amounts, such as forfeitures allocated to an individual in the year of termination, when you determine both the individual's pension credit for the year and the PAR.

Example 1 – Non-vested termination from DPSP
Paul, a member of a DPSP, terminates his employment on June 12, 2007, after working for 18 months. Under his employer's plan he has to work 24 consecutive months before he is entitled to his benefits (vested). Paul forfeits his rights to benefits from the plan because he only worked for 18 months. He therefore forfeits his right to the employer's contribution of $1,500 ($1,000 in 2006 and $500 in 2007), as well as $215 of interest on this contribution.

The employer's contributions are included when Paul's pension credits under the DPSP are determined. Paul's 2007 PAR is $1,500, the amount of the employer's contribution that was not vested. The $215 was never included in Paul's pension credits, so it is not included in Paul's PAR. The employer would still be required to report the 2007 PA of $500.

5. Calculating a PAR for registered pension plans

5.1 Termination conditions for RPPs

Calculate a PAR for an individual if he or she meets these two termination conditions:

- the termination of membership occurs after 1996 and for a reason other than death; and
- no retirement benefits have been paid to the individual under the provision.

5.2 Money purchase provision

Under a money purchase provision, if an individual meets these termination conditions, the PAR is the total of all amounts that were or will be included in the pension credits of the individual, but to which he or she was not entitled (not vested) at the time of termination. Earnings on allocations or on contributions are not to be included in the PAR as these were never included in the PA.

The total of the individual's pension credits includes the pension credit for the year of termination, even though this pension credit may not be reported until after the PAR is reported. Therefore, you have to consider unvested contributions and other unvested amounts, such as forfeitures or a surplus allocated to an individual in the year of termination, when you determine both the individual's pension credit for the year and the PAR.

Any amounts allocated after the person has terminated will be included in a pension credit at that time, but will not affect the PAR that has already been calculated.

Example 2 – Non-vested termination from a money purchase provision
Kate, a member of a money purchase RPP terminates employment on June 15, 2006, and is entitled to a lump sum of $7,500 for her employee contributions, plus interest. The lump-sum payment, which Kate receives on February 1, 2007, satisfies her rights to benefits under the plan. She forfeits her right to employer contribution of $8,000, a $1,200 share of forfeited amounts that were reallocated to her, and $1,400 of interest.

The employer contributions and reallocated forfeitures were included when Kate's pension credits during her membership in the money purchase RPP were determined. These amounts are included when determining Kate's PAR. The $1,400 of interest was not included in her pension credits, and is therefore not included in her PAR. Kate's 2007 PAR is $9,200 ($8,000 + $1,200).

5.3 Defined benefit provision

If an individual meets the termination conditions (see Section 5.1), determine the PAR according to the following formula:

A + B – C – D

Amount **A** is the total of the individual's pension credits earned under the provision at termination of membership. In the case of high-income earners, the maximum amount of a pension credit for a particular year included in amount A is the RRSP dollar limit (see Section 2) for the following year. For example, an individual may have had a pension credit of $14,900 for 2001, but the RRSP dollar limit for 2002 was $13,500. The amount included in A for 2001 would be $13,500, as that is the amount of RRSP room the member actually lost.

Amount A includes the individual's pension credits up to the date of termination, even though these pension credits may not be reported until after the PAR is reported (see Section 7 for more information).

Amount A for a plan that is a SMEP is nil.

Amount **B** is the total of the grossed-up amounts of PSPAs associated with any past service benefits provided to the individual under the provision before termination of membership. It adds to the member's PAR the additional pension credits that are associated with the past service benefits. More specifically, the grossed-up amount is what the PSPA for the individual would have been if there had been no qualifying transfers to fund the past service benefits, and if any previous pension credits and PSPAs that may have applied to offset the PSPA amount were ignored. For example, a member joins a defined benefit provision in 2006, and the plan terms permit the member to buy back two years of past service that was not previously pensionable service under a registered pension plan. The pension credits for these past service benefits total $12,000. The member partially funds these past service benefits with a qualifying transfer of $3,000 from his RRSP. The member's PSPA is $9,000 ($12,000 – $3,000), but the grossed-up PSPA is $12,000, which is the value of the past service benefits, ignoring any qualifying transfers. Using the grossed-up PSPA amount, rather than the actual PSPA amount, reflects the fact that the member not only gave up $9,000 worth of contribution room available for future RRSP contributions to acquire past service benefits, but also gave up $3,000 worth of existing tax-sheltered RRSP funds. For more details on how to determine PSPAs, see Guide T4104, *Past Service Pension Adjustment Guide*.

Amount B for a plan that is a SMEP is nil.

Amount **C** is the total specified distributions made for the individual under the provision on or before termination of membership. A specified distribution is the part of an amount paid from the plan for the individual's post-1989 benefits. Certain amounts are not considered specified distributions. Amount C does not include any part of an amount:

- that is a payment for pre-1990 benefits;
- that is transferred to another defined benefit provision of an RPP (other than a SMEP);

- that is a payment of actuarial surplus;
- that is a return of contributions, including interest, made as a result of an amendment under the plan that also reduces or eliminates future member contributions;
- that may reasonably be considered to be a payment of benefits provided for a period when the plan was a SMEP; or
- that is related to past foreign service that did not generate a PSPA.

If a lump-sum payment partly relates to pensionable service before 1990 and partly to service after 1989, only the part of the payment that can reasonably be considered to relate to service after 1989 is included in amount C. If the benefit formula has not been amended during the period of the individual's service, prorating the payment, based on the post-1989 proportion of the total period of pensionable service, will normally be acceptable. However, if the rate of benefit accrual under the defined benefit provision has not been the same for all years of service, you have to consider this when you determine the post-1989 part of the payment. There are two examples later in this guide that show you how to calculate a PAR where there are specified distributions that relate to post 1989 and pre-1990 service. There is another example that shows you how to calculate a PAR when the member is entitled to excess contributions through the application of the 50% employer funding rule. Again, only the part of the excess contribution that relates to service after 1989 is included as a specified distribution.

Amount **D** is the individual's PA transfer amount (see Section 2). This amount arises when the individual is credited with past service benefits under another defined benefit provision of an RPP for a period that was pensionable service under the former defined benefit provision. The PA transfer amount occurs, for example, where past service benefits are transferred directly between plans under a reciprocal or portability arrangement when an individual changes jobs. A PA transfer amount will also arise when an individual's benefits under the terminating provision are being replaced with benefits under another defined benefit provision of an RPP maintained by the same employer. In these two situations, the provisional PSPA associated with the past service benefits is determined in accordance with the modified PSPA rules. Under those rules, the PA value of benefits previously provided to the individual under the terminating provision is applied to offset the PSPA, resulting in either a nil PSPA or a substantially reduced PSPA. The PA transfer amount reduces the member's PAR by the PA value of those benefits, which is consistent with the fact that those benefits have not been lost—they have simply been replaced.

The administrator of the new plan gives this amount to the exporting plan administrator. The new plan administrator must advise the exporting plan administrator within 30 days of the transfer that there will be a PA transfer amount as a result of the past service benefits being recognized under the new plan. The new plan administrator has a total of 60 days from the date of the transfer to advise the exporting plan administrator of the actual PA transfer amount, so that the administrator of the exporting plan can calculate the PAR.

The exporting plan administrator must report the individual's PAR to the member and to the CRA by the later of:

- 60 days after the calendar year quarter in which the member terminated from the exporting provision; and
- 60 days after the exporting plan administrator receives notification as to the actual PA transfer amount.

Example 3 – Defined benefits transferred to an RRSP
In 2002, Julie joins a defined benefit RPP with benefits of 1.6% of earnings per year of service. Julie obtains past service benefits for a two-year period of eligible past service beginning in 2000 that was not previously service under an RPP. The pension credits for the past service benefits, as reflected in her PSPA, total $10,000 (there is no qualifying transfer).

At the end of 2006, Julie changes jobs and is entitled to a termination benefit of $35,000. Her total pension credits for 2002 to 2006 are $40,000. On February 25, 2007, Julie transfers her termination benefit to a locked-in RRSP.

Julie's 2007 PAR is determined using the formula A + B – C – D, where:

A = Total pension credits = $40,000
B = Total grossed-up amount of PSPA = $10,000
C = Amount of specified distributions = $35,000
D = PA transfer amount = 0

PAR = $40,000 + $10,000 – $35,000 – 0
= $15,000

Example 4 – Defined benefits transferred to an RRSP with pre-1990 benefits
Nick terminates from a defined benefit RPP on June 27, 2006, after 22 years of membership. On July 23, 2006, he transfers a termination benefit of $108,200 to an RRSP that satisfies his rights to benefits under the plan. The plan benefit rate was the same for all years of service (i.e., 1.5%). Nick's pension credits for the 16½-year period from 1990 to 2006 total $126,200.

Nick's 2006 PAR is determined using the formula A + B – C – D, where:

A = Total pension credits = $126,200
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = 81,150 ($108,200 × 16.5/22)
D = PA transfer amount = 0

PAR = $126,200 + 0 – $81,150 – 0
= $45,050.

In this situation, a part of the termination benefit relates to pre-1990 service, which cannot be included as a specified distribution.

Example 5 – Calculating the specified distribution (variable C) where benefit accrual rate is not uniform
On January 1, 2007, Jack terminates from his defined benefit provision at the age of 50. He had 3 different benefit accrual rates under the provision during his 27 years of service. The benefit accrual rate for service before January 1, 1990, was 0.8% of the average of his final five years of earnings. His benefit accrual rate for service from January 1, 1990, to January 1, 1994, was 1.0% of the average of his final five years of earnings. Jack's benefit accrual rate for service from January 1, 1994, until his termination date was 1.5% of the average of his final three years of earnings.

Under the terms of the plan, he will receive a non-indexed pension payable at age 65 for life with a 10-year guarantee.

At his date of termination, Jack's final five-year average earnings is $50,000, while his final three-year average earnings is $65,000.

For the post-1989 years, the benefit accrued is:

(0.01 × $50,000 × 4) + (0.015 × $65,000 × 13) = $14,675

The total benefit accrued for all years of service is:

(0.008 × $50,000 × 10) + $14,675 = $18,675

Because the benefit accrual rate has not been uniform for all years of service, it would not be acceptable to prorate the service to determine the portion of the payment that may reasonably be considered to relate to service after 1989. It would therefore not be acceptable to use $11,758 (i.e., $18,675 × 17/27) as the post-1989 benefit in the calculation of the specified distribution, since this would artificially increase the member's PAR.

Example 6 – Defined benefits transferred to an RRSP applying the 50% employer funding rule
Beth terminates from a defined benefit RPP on December 31, 2006, after 27 years of membership. She transfers her termination benefit of $136,000 to her RRSP. By applying the 50% employer funding rule, her actuary determines that she is entitled to excess member contributions of $9,000. Beth's plan is registered with the Province of Ontario, where the effective date of the 50% funding rule is January 1, 1987. Beth's pension credits for January 1, 1990, to December 31, 2006, are $128,000, and the plan formula remained the same for all years of service.

Beth's PAR is determined using the formula A + B – C – D, where:

A =Total pension credits = $128,000
B =Total grossed-up amount of PSPA = $0
C =Amount of specified distributions = $93,280
[($136,000 × 17/27) + ($9,000 × 17/20)]
D =PA transfer amount = $0
PAR = $128,000 + 0 – $93,280 – 0
= $34,720

In this situation, the post-1989 part of her excess contributions are prorated against the period of service since January 1, 1987—the year the 50% employer funding rule came into effect in Ontario. This amount is included as a specified distribution in her PAR.

Our Registered Plans Directorate can help you resolve all reasonable situations where lump-sum payments that relate to post-1989 service cannot be determined using proration, as in the examples above. The telephone number, Web page, and address are at the beginning of this guide.

Example 7 – Defined benefits transferred to an RRSP with RRSP dollar limit
On December 31, 2006, Nina terminates from a defined benefit RPP with benefits of 2% of final average earnings per year of service. A termination benefit of $82,800, determined as the commuted value of Nina's accrued pension based on seven years of service under the plan, is transferred to an RRSP on Nina's behalf. For the seven years of service, Nina's pension credits total $111,300 ($14,900 for each of the years 2000 to 2003, and $15,900 for 2004, $17,400 for 2005, and $18,400 for 2006).

Nina's PAR is determined using the formula A + B – C – D, where:

A = Total pension credits = $108,100 ($13,500 + $13,500 + $14,500 + $14,900 + $15,900 + $17,400 + $18,400
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = $82,800
D = PA transfer amount = 0

PAR = $108,100 + 0 – $82,800 – 0
= $25,300

In this situation, Nina's pension credits for 2000, 2001 and 2002 were more than the RRSP dollar limit (see Section 2) for the following years. The plan administrator limits the amounts used for these years at $13,500 for 2000 and 2001, and $14,500 for 2002 (the RRSP dollar limit for the following year) when calculating the total pension credits (amount A), as this is the amount of RRSP room that was lost in respect of the PAs reported for these years.

Example 8 – Defined benefits to a defined benefit RPP (identical benefit formula)
At the end of 2007, Mark changes jobs and seeks to have defined benefit credits for his seven years of service (2001 to 2007) transferred to his new employer's RPP. Benefits under Mark's former RPP and 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 2001 to 2007, based on Mark's earnings in those years, total $56,200. The new plan reports a PSPA of nil because the benefits are identical under the two plans (for details on how to determine a PSPA, see Guide T4104, *Past Service Pension Adjustment Guide*). Early in 2008, 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.

Mark's PAR under the former plan is determined using the formula A + B – C – D, where:

A = Total pension credits = $56,200
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = 0
D = PA transfer amount = $56,200

PAR = $56,200 + 0 – 0 – $56,200
= 0

In this situation, Mark has no specified distributions because his termination benefit was transferred to another defined benefit RPP (this is one of the exceptions listed above). In addition, the new plan recognized Mark's previous service under his former plan. The plan administrator of the new plan has to advise the plan administrator of the former plan that the past service benefits being provided to Mark will give rise to a PA transfer amount. This has to be done no later than 30 days from the date of the termination benefit transfer.
In addition, the new plan administrator has 60 days from the date of the transfer to advise the exporting plan administrator of the actual PA transfer amount. The PA transfer amount is equal to the pension credit value under the new plan. In this case, both plans had identical benefit formulas, so the PA transfer amount is identical to the total pension credits. The fact that Mark does not get a PAR reported is consistent with the fact that Mark did not forego any benefits—they are simply being replaced under a new plan.

Example 9 – Defined benefits to a defined benefit RPP (lower benefit formula)
At the end of 2007, Anne changes jobs and transfers defined benefits between plans for six years of service (2002 to 2007). The benefits under the former provision are 2% of earnings per year of service minus an offset for public pension benefits. The benefits under the new plan are 1.7% of earnings per year of service minus an offset for public pension benefits. The total pension credits under the former plan are $58,600. Based on Anne's earnings for 2002 to 2007, the total pension credits for Anne's past service benefits under the new plan are $47,100. The new plan administrator reports a nil PSPA (for details on how to determine a PSPA, see Guide T4104, *Past Service Pension Adjustment Guide*). The commuted value of Anne's benefits is $53,900. In 2008, in accordance with the reciprocal transfer agreement, $46,400 is transferred from the exporting plan to the new plan to fund the defined benefits. Anne has a remaining termination benefit payable from the exporting plan of $7,500 (commuted value of benefits of $53,900 minus the $46,400 transferred to the new plan). Anne chooses to receive a $2,500 cash payment and have the balance of $5,000 transferred to an RRSP.

Anne's PAR under the former plan is determined using the formula A + B – C – D, where:

A = Total pension credits = $58,600
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = $7,500
D = PA transfer amount = $47,100

PAR = $58,600 + 0 – $7,500 – $47,100
= $4,000

In this situation, Anne's specified distributions are $7,500 because part of her termination benefit was paid in cash and transferred to an RRSP. The part of her termination benefit that was transferred to another defined benefit RPP is excluded as a specified distribution but is taken into consideration in the PA transfer amount (amount D). In addition, the new plan recognized Anne's previous service under her former plan. The plan administrator of the new plan gives the PA transfer amount to the plan administrator of the former plan. The PA transfer amount is equal to the pension credit value under the new plan. In this case, the new plan's benefit formula is less generous than the former plan's benefit formula, so the PA transfer amount is less than the total pension credits under the former plan.

Example 10 – Defined benefits to defined benefit RPP (higher benefit formula)
At the end of 2007, Robert changes jobs and transfers defined benefits for 1998 to 2007 between plans. The benefits under the former plan are 1.4% of earnings per year of service. The benefits under the new plan are 2% of earnings per year of service, minus an offset for public pension benefits. The total pension credits under the exporting plan total are $69,800. The total pension credits for Robert's past service benefits under the new plan are $81,400. Robert makes a qualifying transfer from his RRSP to reduce his PSPA to nil (for details on how to determine a PSPA, see Guide T4104, *Past Service Pension Adjustment Guide*). In 2008, in accordance with the reciprocal transfer agreement, $69,300 is transferred from the former plan to the new plan to fund the defined benefits.

Robert's PAR under the former plan is determined using the formula A + B – C – D, where:

A = Total pension credits = $69,800
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = 0
D = PA transfer amount = $69,800

PAR = $69,800 + 0 – 0 – $69,800
= 0

In this situation, Robert has no specified distributions because his termination benefit was transferred to another defined benefit RPP. In addition, the new plan recognized Robert's previous service under his former plan. The plan administrator of the new plan provides the PA transfer amount to the plan administrator of the former plan. The PA transfer amount is equal to the lesser of the value of the PAs already reported from the former plan and the pension credit value under the new plan. In this case, the PA transfer amount is the total pension credits under the former plan, so the PAR is nil. Again, the fact that Robert does not get a PAR reported is consistent with the fact that Robert did not forego any benefits—they are simply being replaced under a new plan.

Example 11 – Transfer between defined benefit provisions of the same plan
An employer maintains two defined benefit provisions within the same RPP for different groups of employees. As a result of a promotion, David moves from provision X to provision Y in January 2008, and is entitled to exchange benefits under provision A for benefits that are more generous under provision Y. David has four years of pensionable service under provision X with pension credits totalling $21,400. The funds associated with David's benefits under provision X are made available to provide benefits under provision Y. The pension credits under provision Y are $26,500, resulting in a PSPA of $5,100 (for details on how to determine a PSPA, see Guide T4104, *Past Service Pension Adjustment Guide*).

David's 2008 PAR under provision X is determined using the formula A + B – C – D, where:

A = Total pension credits = $21,400
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = 0
D = PA transfer amount = $21,400

PAR = $21,400 + 0 – 0 – $21,400
= 0

In this situation, David has no specified distributions because the funds from provision X were made available to fund benefits under the other defined benefit provision (provision Y). In addition, provision Y recognized David's previous service under provision X. The plan administrator uses the total pension credits of David's past service benefits under provision Y as the PA transfer amount when determining the PAR under provision X. In this case, the PA transfer amount is the PA value of the past service benefits provided to David under provision Y ($26,500), or the PA value of the benefit previously provided to him under provision X ($21,400), whichever is less. The fact that David does not get a PAR reported is consistent with the fact that David did not forego any benefits—they are simply being replaced under a new provision.

6. Special situations

This section primarily describes how to calculate PARs for defined benefit provisions in special situations. If your situation is not adequately covered in this section, contact the Registered Plans Directorate. You can find the address, Web page, and telephone numbers at the beginning of this guide.

6.1 Breakdown of marriage or common-law partnership

If there has been a breakdown of a member's marriage or common-law partnership before his or her termination of membership and, as a consequence of the breakdown, the member has ceased to have rights to all or a part of his or her benefits, the following rules apply:

- The member is not eligible for a PAR solely because of the breakdown. A member is only eligible for a PAR upon termination of membership.
- If a single amount has been paid from the provision upon the breakdown and the member subsequently terminates membership, and the payment satisfies the spouse's or common-law partner's rights to benefits, include the amount when you determine the member's PAR, to the extent it would otherwise qualify as a specified distribution (see the glossary in Section 2).
- If an amount is payable from the provision after the member terminates, and the payment satisfies the spouse's or common law partner's rights to benefits, include the present value (determined at the time of the member's termination) of the benefits which the member forfeited because of breakdown as a specified distribution when you determine the member's PAR.

Example 12 – Lump-sum payment to a former spouse or common-law partner before termination
At the end of 2004, Philip separates from his spouse, Denise. Denise acquires rights to one half of Philip's accrued pension benefits under his employer's defined benefit RPP. She chooses an immediate transfer of the commuted value of her benefits of $11,000 to her RRSP.

Two and a half years later, Philip terminates employment after six years of membership in the plan. In August of 2007, a lump-sum payment of $31,300—the commuted value of his accrued pension reduced to reflect the benefits forfeited to Denise on marriage breakdown—is transferred to his RRSP, satisfying his entitlement to benefits under the plan. His pension credits for the six years of service totalled $50,100.

Philip's 2007 PAR of $7,800 is determined using the formula A + B – C – D, where:

A = Total pension credits = $50,100
B = Total grossed-up PSPA amount = 0
C = Amount of specified distributions = $42,300
($11,000 paid to spouse + $31,300)
D = PA transfer amount = 0

The lump-sum transferred to Denise's RRSP is included in amount C because it is considered to be an amount paid (and therefore a specified distribution) under the defined benefit provision with respect to Philip.

6.2 Defined benefits supplemental to or dependent on other defined benefits

As explained in Section 3, if benefits provided to an individual under a defined benefit provision are supplemental or otherwise depend on benefits that he or she receives under one or more other defined benefit provisions, that individual is not considered to have terminated membership until he or she has terminated from all related defined benefit provisions.

In addition, any benefits provided or amounts paid to the individual under one of the provisions are also considered to be a benefit provided or an amount paid from each other provision. This means that specified distributions from one provision are also deemed to be specified distributions from each of the other provisions.

In certain circumstances, it may be more appropriate for you to use another method to determine the specified distributions for a particular individual. You can request permission for an alternate determination of the PAR calculation by writing to the Registered Plans Directorate. The address is listed at the beginning of this guide.

7. Reporting pension adjustment reversals (PARs)

7.1 General

If an individual has terminated their membership from a pension plan provision or DPSP, a PAR that is greater than nil must be reported to both the CRA and to the employee. As the plan administrator, in the case of RPPs, or the plan trustee, in the case of DPSPs, you have to report the PAR on the T10 return, which is composed of different documents described at the end of this section. The following sections contain details on filing dates, penalties for late filing, completing the T10 return, and reporting amended PARs.

7.2 Filing deadlines

You have to report PARs on a quarterly basis. A PAR return has to be filed no later than 60 days after the end of the first three calendar quarters. The PAR return for the last quarter has to be filed no later than the end of January. The calendar quarters end on March 31, June 30, September 30, and December 31 each year.

Only file a PAR return if one or more employees have terminated their membership in a quarter and have a PAR that is greater than nil.

7.3 Penalties for late filing of a PAR return

If you file a PAR return after the dates shown above, you are liable for a late-filing penalty calculated as the greater of:

- $100; and
- $25 for each day late, up to a maximum of 100 days ($2,500).

7.4 Nil PARs

A nil PAR may result if a plan member terminates their membership and receives a distribution amount from the benefit provision of the RPP or from the DPSP that is equal to or greater than the total of pension adjustments and past service pension adjustments that were previously reported for that provision. If the calculation results in a nil or negative PAR amount, do not report the PAR.

For example, if an individual terminates from either a money purchase RPP or a DPSP, and is fully vested, the calculation would result in a nil PAR.

7.5 Less-than-$50 PARs

If the calculated PAR is less than $50, you do not have to report the PAR. This administrative rule applies if:

- the original calculation of a PAR is less than $50; or
- the difference between an original PAR and an amended PAR is less than $50.

This rule does not apply if an employee wants his or her PAR to be accurately reported or if we ask you to report the PAR accurately.

7.6 T10 Return

You have to calculate all PARs and report them to the CRA by completing a T10 return. The return consists of:

- A T10 Summary, *Pension Adjustment Reversal (PAR)*;
- T10 slips, *Pension Adjustment Reversal (PAR)*; and
- in some cases, T10 Segment forms.

You can find these forms on the Registered Plans Directorate's Web page at **www.cra.gc.ca/rpd**.

Important filing information

A PAR return is reported for a calendar quarter for each DPSP or provision of an RPP. **If a person terminates their membership from more than one DPSP and/or RPP provision, file a separate PAR return for each DPSP or RPP provision.** You may have situations where a member terminates from a pension plan that has two different benefit provisions and therefore, technically, two PARs. If there is only one plan, the two PARs should be added together and reported as if there is only one PAR.

More information on situations where a member is eligible for more than one PAR in the same year with the same employer is available on the Registered Plans Directorate's Web page at **www.cra.gc.ca/rpd**.

Completing the T10 return

Each part of the T10 return is explained below. Most lines and parts on the different forms that make up a T10 return are self-explanatory.

T10 Slip

- Complete one T10 slip for each plan member who has terminated from the plan and has a PAR greater than nil.
- Only complete box 5, "Amendment," if you are correcting a PAR that was previously reported for an individual under this plan. If it is an amendment, write "*yes*" in box 5. See the section called "PAR amendments" on next page.

Distributing T10 slips:

- The plan administrator or trustee should send copy 1 to the Ottawa Technology Centre, 875 Heron Road, Ottawa, ON K1A 1A2, with any T10 *Summary* and T10 *Segment* (if applicable) no later than 60 days after the end of the calendar quarter in which the employee ceases to be a member, in the case of the first three calendar quarters.
- The plan administrator or trustee should give copy 2 to the plan member no later than 60 days after the end of the calendar quarter in which the employee ceases to be a member, in the case of the first three calendar quarters.
- The plan administrator or trustee has until the end of January to send copies 1 and 2 in the case of the last calendar quarter.
- Keep copy 3 for your records.

T10 *Summary*

- On the T10 *Summary*, report the totals of certain amounts from all the T10 slips.
- Ensure that you complete the "Year of PAR" and check off the quarter to which the PAR return relates. Also, include the name and phone number of a person that we can contact if we have questions about the return.

Distributing the T10 *Summary*:

- Send copy 1 to the Ottawa Technology Centre, at the address listed above, with any T10 slips and T10 *Segment*.
- Keep copy 2 for your records.

T10 *Segment*

If your T10 return contains more than 100 sheets or 300 separate T10 slips, you have to file T10 *Segment* forms in the following way:

- Separate your T10 slips into groups of about 100 sheets or 300 separate T10 slips.
- Complete all required areas on each T10 *Segment* and attach one to the front of each group of T10 slips.
- Make sure that the totals from all T10 *Segment* forms equal the totals shown on the T10 *Summary*.
- Keep copies for your records.

7.7 PAR Amendments

If you have to report an amended PAR, file another T10 slip and indicate *yes* in the amendment box (box 5) of the form.

The amended T10 slip should contain the revised total PAR amount for the year from the plan, not an additional or negative amount.

Your totals on the T10 *Summary* and T10 *Segment* (if applicable) will reflect the number of amended T10 slips included with the PAR return.

You can file amended forms with original PAR slips as long as they are for the same year and plan number.