

**Maximum Commutable Amounts**

This bulletin is designed to summarize the small account balance commutation provisions of the *Employment Pension Plans Act* (the Act). This bulletin has no legal authority. The Act and Regulation should be used to determine specific legislative requirements.

**Legislation Proclaimed in Force on August 10, 2006**

The *Employment Pension Plans Amendment Act, 2005*, proclaimed in force on **August 10, 2006**, sets out revised provisions regarding the maximum amounts that may be commuted from a pension plan or out of a locked-in contract under Alberta’s jurisdiction.

The revised *Employment Pension Plans Regulation* (the Regulation) details the procedures required in order to be able to commute (cash out) locked-in pension funds either upon termination from a registered pension plan, or funds from a Locked-In Retirement Account (LIRA) and a Life Income Fund (LIF).

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Act s. 46

Regulation s. 45

A pension plan must provide for the commutation of the pension benefit at the earliest of termination of membership, termination of the plan, death or pension commencement, if the pension or its commuted value falls below a threshold amount. In addition, if a benefit is deferred and that benefit was above the threshold when the member terminated or died, and later falls below the threshold, the member or surviving pension partner may unlock it at that later date.

Similarly, LIRAs and LIFs, must provide for the commutation of the locked-in account when the balance in the account falls below a prescribed threshold.

In all instances, these amounts are considered to be too small to provide an adequate amount of retirement income, so the individual may apply to have his benefit commuted or "unlocked". This allows the individual to either receive the funds in cash, or to transfer them into an unrestricted RRSP or RRIF. Once the locked-in funds are commuted, they are no longer protected from creditors.

## Pension Plans

The prescribed thresholds are based on a percentage of the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan. For the year 2012, the YMPE is \$50,100. The limits are:

In the case of a **pension plan** containing a **defined benefit provision**, the threshold is:

- the annual pension payments that would be payable at or after pensionable age must not exceed 4% of the YMPE as of the date of termination, retirement, or on the date that the request for commutation is made. For the year 2012, the limit is \$2,004 (or a monthly pension of \$167.00),

OR

- the commuted value of the pension to which he is entitled must not exceed 20% of the YMPE for that year. For the year 2012, the limit is \$10,020.

In the case of a **pension plan** containing **only defined contribution provisions**, the total value of the accrued contributions with interest must not exceed 20% of the YMPE as of the date of termination, retirement, death, or on the date that the request for the commutation is made (in 2012, \$10,020.00).

### Consolidation of Accrued Benefits

Where a member:

- was a member of two or more pension plans both sponsored by the same employer (e.g. started in an hourly workers' plan and is transferred to a salaried employees plan), or
- has two or more accrued benefits within one pension plan as a result of a partial / full plan merger, or
- has benefits within one plan accruing from both defined benefit and defined contribution provisions, then

the benefits under both or all of those plan or kinds of provisions are to be viewed in aggregate for the purposes of determining whether or not a member's benefit is eligible for unlocking under the small amounts commutation provisions.

## LIRAs and LIFs

For **LIRA and LIF contracts**, the threshold is as follows:

- The value of an individual LIRA or LIF, must not exceed 20% of the YMPE. For the year 2012, the limit is \$10,020.
- For an individual who was at least 65 years old, the value of an individual LIRA or LIF contract, must not exceed 40% of the YMPE. For the year 2012, the limit is \$20,040.

**NOTE: a LIRA or LIF cannot be split into smaller portions in order to create an account or accounts that fall below the threshold.**

## How to Unlock Small Amounts

### PENSION PLAN

For funds held in the pension plan, and where the amount is under the threshold, the member must first terminate their membership in the pension plan.

Upon termination, the option statement provided by the plan administrator must include the option for a transfer of the benefit entitlement on a non-locked-in basis.

### LOCKED-IN ACCOUNT

For funds held in a locked-in account, and where the amount is under the threshold on the date the unlocking is requested, the account holder must simply direct the financial institution holding that account to unlock it.

## Penalty for Misleading Statements

Act s. 92 (2)

**Under the *Employment Pension Plans Act* a person who makes a false or misleading statement for the purpose of commuting a locked-in benefit is guilty of an offence and liable to a fine not exceeding \$15,000.**

**For further information, please contact**

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