

EPPA Update **08-02**

Issued July, 2008

Application of Phased Retirement Provisions Under the *Income Tax Act*

Changes to the *Income Tax Act*, announced in the 2007 Federal Budget now permit defined benefit pension plan members to simultaneously receive pension benefits and accrue further benefits from their pension plan, subject to certain conditions. These phased retirement provisions are different than those currently contemplated under section 47 of the *Employment Pension Plans Act* and *Regulation* (the Act and Regulation).

This Update is published to clarify the Superintendent's position on the applicability of these changes to pension plans registered under the Act and Regulation

As the new phased retirement provisions deal with monthly pension payments, rather than the payment of a lump sum amount, it is the Superintendent's view that section 47(3) of the Act is not applicable. Therefore, in accordance with section 27(1) of the Act, these new phased retirement provisions are permissible because the entitlements granted to plan members are more favourable when compared with the intent of the Act.

Phased retirement is an optional plan provision; however, any plan sponsor that wishes to offer it must amend their plan text accordingly. Further, the new phased retirement provisions are subject to the following conditions:

1. To qualify for phased retirement benefits, the member must be:
 - a. at least 60 years of age; or
 - b. at least 55 years of age and eligible for an unreduced pension.

Under the *Income Tax Act*, phased retirement benefits are not permitted for a designated plan, or for an employee who was at any time considered to be a connected person with a participating employer.

2. Qualifying members are able to receive up to 60% of their accrued pension while they continue to accrue additional benefits under the plan. The 60% limit is based on the amount of pension entitlement (including bridge benefits) that are payable from the plan if the member retired on the date that phased retirement payments commence.

3. There is no requirement that the partial pension be based on a reduction in work time, or that there be a corresponding reduction in salary. As a result, qualifying employees will be able to receive up to 60% of their accrued pension benefits while continuing to work, part-time or full-time, as well as continuing to accrue benefits for that work.
4. As a final condition under section 28(2) of the Act, and consistent with the existing requirement of section 47(7) of the Regulation, the remuneration paid during the period in respect of which the member receives a phased retirement pension is not to be taken into account when computing the member's benefit entitlement under the Plan, unless it is to the advantage of the member.

Any pension plan sponsor who wishes to amend their pension plan and has questions concerning the application of the new phased retirement provisions should contact the Superintendent's office for more information as required.

For further information please contact:

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