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?

This guide has general information about how to calculate a pension adjustment reversal (PAR). It is designed to help administrators of registered pension plans (RPPs) and trustees or employers of deferred profit sharing plans (DPSPs) calculate a PAR for plan members who quit their membership.

This guide describes:

- what a PAR is and its components
- how to calculate PARs for RPPs and DPSPs

This guide also has general information on the overall limit that applies to tax-assisted retirement savings for individuals and the effect that a PAR has on this limit.

The guide also provides sample PAR calculations.

There could be changes to the laws before this guide is next revised, which could affect the information in this version. If you are not sure that you have the most recent information, contact the Registered Plans Directorate. The address is at the end of this guide.

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

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1. What is a pension adjustment reversal?

A pension adjustment reversal (PAR) is an amount that is added to an individual's registered retirement savings plan (RRSP) and pooled registered pension plan (PRPP) contribution room when they stop being members of a DPSP or of an RPP.

In a DPSP or money purchase RPP, the PAR is the amount of the employer contributions that the individual is not entitled to (forfeited amount) when membership ends. In a defined benefit provision of an RPP, the PAR is generally the amount of a member's combined pension adjustments and past-service pension adjustments that are in excess of the member's lump-sum payment of benefits from the provision.

Specified multi-employer plans (SMEPs) do not qualify for PARs. So, when a member of a SMEP receives a benefit that is less than the contributions made to the plan, no PAR is reported and no RRSP contribution room is restored.

1.1 Tax-assisted retirement savings

To encourage Canadians to save for retirement, the Income Tax Act allows individuals to take part in tax-assisted retirement savings. The system is based on an overall limit of 18% of an individual's earned income, to a specified dollar limit. The overall limit applies to total retirement savings under RPPs, DPSPs, RRSPs and PRPPs.

Individuals who are members of RPPs and DPSPs have a pension credit reported each year. The pension credit is the benefit the member earned under the plan during the calendar year. The method used to calculate the pension credit depends on the type of plan. With RPPs, the method also depends on the type of provision (defined benefit or money purchase). A member's pension adjustment (PA) is the total of their pension credits from all RPPs and DPSPs of the employer that the member participates in during the year. The PA reduces the member's contribution limit to RRSPs and PRPPs in the following year.

Pension adjustments make sure that all employees at similar income levels will have access to comparable tax-assisted retirement savings, regardless of what type of retirement savings plan they belong to.

In addition to the benefit a member earned in a current year, defined benefit RPPs can provide or improve member benefits for previous years.

If a member of a defined benefit RPP is credited with new or improved benefits for previous years, that are after 1989, the increase in the member's lifetime retirement benefits means that a past service pension adjustment (PSPA) has to be calculated. 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 service had actually been provided at that time. Similar to a PA, a PSPA reduces the member's contribution limit to RRSPs and PRPPs.

By restoring RRSP contribution room, PARs make the tax-assisted retirement savings system fair and more effective for people who change jobs or move in and out of the workforce.

As of 1997, administrators of RPPs and trustees or employers of DPSPs must calculate PARs for individuals who quit a plan or provision. An individual is considered to have quit a plan or provision when they are no longer entitled to benefits. An individual's employment does **not** have to end to qualify for a PAR. The date the individual's membership in the plan ends, also called the date of termination, is generally the date on which the provision or plan pays the termination benefit. This can be a cash payment to the individual or a transfer to the individual's RRSP or PRPP. For example, if an individual left employment in 2016 but receives their termination benefit in 2017, a PAR must be calculated for the individual in 2017.

Plan administrators of RPPs and trustees or employers of DPSPs must report PARs quarterly. A PAR will be added to an individual's RRSP contribution room for the year the membership ended.

Pension adjustment reversals are calculated only for RPPs (other than SMEPs) and DPSPs as defined under the Act. They are not calculated for RRSPs and PRPPs or for foreign pension plans.

2. Glossary

In this section, we define terms or expressions used in this guide. References to the Act mean the Income Tax Act and references to the Regulations mean the Income Tax Regulations.

We have tried to use plain language to explain the laws and terms you need to know to calculate a pension adjustment reversal for RPPs and DPSPs. Since this guide is not a legal text, see the Act and the related Regulations for the exact wording of the rules it describes or contact us at the Canada Revenue Agency's (CRA) Registered Plans Directorate. See « Where to get help » near the end of this guide.

Additional voluntary contribution
A contribution a member makes to buy more retirement benefits under a money purchase provision of an RPP.

Deferred profit sharing plan (DPSP)
An arrangement where an employer or related employers may share profits from their business with all or a designated group of employees to provide benefits. Also see section 3.2.

Forfeited amount
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 stops working before employer contributions have vested. If forfeited amounts are reallocated to other members' accounts in the plan or provision, they must be included in their pension credit in the year they are allocated.

Grossed-up PSPA amount
When an individual gets 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 to the RPP from a money purchase RPP, DPSP, RRSP, SMEP or PRPP. A qualifying transfer can also include a lump-sum amount received from another RPP that was paid from the other RPP as a death benefit or because of marriage breakdown. 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
An individual who has a right to receive benefits under the plan or provision of an RPP or DPSP. This does not include an individual who has such a right only because another individual is participating in the plan (for example, a member's beneficiary is not a member of the plan).

Money purchase limit

The money purchase limit is:

- $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

For years after 2009, the limit is whichever of the following two amounts is **greater**:

a. $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

b. 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 2017 average wage by adding up all of the wage measures from July 1, 2015, to June 30, 2016, and then divide the total by 12. You can get information on the average wage from Statistics Canada by calling **1-800-263-1136**. You can also call the Labour Statistics Division at **1-866-873-8788**.

Past service pension adjustment
A past service pension adjustment (PSPA) only occurs under a defined benefit provision of an RPP. It occurs when a member is credited with additional pensionable service for prior years or when the benefits a member earned previously under the provision are upgraded. Do not include in a PSPA calculation the additional prior service before 1990 or benefit upgrades for periods before 1990. For more information on PSPAs, see Guide T4104, Past Service Pension Adjustment Guide.

Pension adjustment
An individual's total pension credits for the year under a specific 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 or DPSPs. An individual's PA in a year reduces the amount that they can contribute to an RRSP and PRPP in the following year. For more information on PAs, see Guide T4084, Pension Adjustment Guide. **A PA can be zero, but it is never a negative amount**.

PA transfer amount
If an individual's pension benefits are transferred between defined benefit provisions, the PA transfer amount may apply to the pension adjustment reversal calculation. 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 provision must 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 accumulation of benefits or level of savings in a year by or on behalf of a member in a DPSP or under a provision of an RPP.

Provision
The terms of an RPP that describe how benefits are calculated for a member. There may be more than one provision in an RPP. A provision can be either defined benefit or money purchase.

Registered pension plan
An arrangement by an employer to provide periodic payments to individuals after retirement and until death for their service as employees. Also see section 3.2.

RRSP dollar limit
An amount that applies to a particular year, other than 1996 and 2003, 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
The number of full and partial years of service for which the provision 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.

Specified multi-employer plan
An RPP, offered by a group of employers or by a union acting together with such employers, that meets the conditions of subsection 8510(2) of the Regulations.

Specified distribution
An amount paid to a member from a defined benefit provision of an RPP for periods after 1989. Specified distributions are included in the PAR calculation and reduce the amount of a member's PAR.

Surplus
A surplus occurs in a defined benefit provision of an RPP when the assets exceed the liabilities necessary to fund benefits under the provision.

A surplus in a money purchase provision exists if a money purchase provision replaces a defined benefit provision and there was an actuarial surplus under the defined benefit provision.

Vesting, vested
This is the period of time that a member must be in the plan before being entitled to receive benefits from the plan. If a member leaves before this time, no benefits are payable (other than a return of member contributions).

3. Calculating a PAR – Basic concepts

3.1 PAR

The purpose of a PAR is to restore RRSP and PRPP contribution room when an employee's membership in a provision of an RPP or DPSP stops and their termination benefit is less than the total PAs and PSPAs that have been reported to the Canada Revenue Agency. 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 a provision of an RPP as long as they have rights to a benefit.

An individual who has rights to a benefit from the provision or plan only because of another individual's participation in it is not considered a member. For example, consider the surviving spouse of a deceased member in the same RPP or DPSP: the survivor could get 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 a member of the same RPP or DPSP.

If an individual is entitled to benefits under an annuity contract to satisfy their entitlement under a provision or plan, for purposes of the PAR determination, they are 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 (exchanging a series of future payments for a lump sum) and transferred to an RRSP, registered retirement income fund (RRIF) or PRPP before the annuity is purchased, the individual is considered terminated from the provision or plan and you have to calculate a PAR.

You have to calculate a PAR for each provision from which an individual stops being a member. However, an individual who is a member of a supplemental provision must stop being a member from **all** provisions before you can calculate 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 stops being a member in all ways except for any future surplus allocations or distributions, we treat the individual as though they have no entitlement to the surplus until it is actually allocated. This allows you to determine a PAR if surplus ownership is in dispute or payment of the surplus is delayed. If you calculate a PAR for an individual at termination, any future surplus can only be used to provide ancillary benefits for periods before 1990.

When an individual quits a DPSP or RPP and later rejoins the plan, the next time the individual quits the plan the PAR calculation will not include any amounts used in the previous PAR.

Round all PARs to the nearest dollar.

3.2 Types of plans

DPSP

A DPSP is an arrangement under which an employer may share profits from their business with all or a specified group of employees to provide benefits. Contributions are generally stated as a percentage of the employer's profits or employee's earnings. Members cannot contribute to a DPSP. These plans are governed by the Act and Regulations and are not subject to provincial pension legislation.

RPP

An RPP is an arrangement by an employer to provide periodic payments to individuals after retirement and until death for their service as employees. An RPP is subject to the Act and Regulations, and may also be regulated by provincial and federal pension legislation (for example, the Pension Benefits Standards Act).

There are two basic types of benefit provisions for RPPs:

1. Money purchase provision – A money purchase pension plan is one in which contributions made by the employer (and by employees, if the plan requires or allows them to contribute) are credited to each member. The pension benefits are based on the total of the accumulated contributions and investment earnings. Forfeited amounts may also be credited to the member. These plans are also known as defined contribution plans. The member's account includes the following amounts:
   - the total of all required contributions the employer and employee made, as well as any additional voluntary contributions the employee made and any related investment earnings
   - allocated forfeited amounts and related earnings that have accumulated in the member's account
2. Defined benefit provision – In a defined benefit pension plan, retirement benefits are not based on accumulated contributions. The terms of a defined benefit plan or provision guarantee a specified level of pension income to a plan member when they retire. The level is set by a benefit formula in the plan.

Defined benefit provisions come in various forms:

- 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 (for example, 2% of the average of the final three years of pensionable earnings × years of pensionable service)
- Career average: Benefits are based on the member's earnings in each year of service under the plan (for example, 2% of pensionable earnings for each year of service)
- Flat benefit: Generally, benefits are expressed as a dollar amount for each month or year of service (for example, $55 per month per year of service)

Some 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.

4. Calculating a PAR for deferred profit sharing plans

4.1 Termination conditions for deferred profit sharing plans

You have to calculate a PAR for an individual who meets the following conditions:

- their membership ended after 1996, for a reason other than death
- they received no instalment payments under the plan

If an individual meets these conditions, the PAR is:

- the total of all amounts that were included in their pension credits (PAs) up to the date of termination but that they were not entitled to at the time of termination

Earnings on allocations or on contributions are not included in the PAR because they 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 calculate both the individual's pension credit for the year and the PAR.

Example 1 – Non-vested termination from a DPSP
Paul, a member of a DPSP, ends his employment on June 12, 2016, after working for 18 months. His pension adjustment was $1,000 in 2015 and $500 in 2016. Under his employer's plan, he has to work 24 months in a row before he is vested (entitled to benefits). Paul forfeits his rights to employer contributions made to the plan on his behalf, and any earnings on the employer contributions, because he only worked for 18 months. Expressed in numbers, this means he forfeits his right to the employer's contribution of $1,500, as well as $215 of interest on this contribution. The employer's contributions were included in Paul's PA.

PAR = $1,000 + $500

PAR = $1,500

Paul's 2016 PAR is $1,500, the amount of the employer's contributions that were included in his PA but that he did not receive because he was not vested at termination. The $215 was never included in Paul's pension credits for the PA calculation, so it is not included in his PAR. The employer still has to report the 2016 PA of $500.

5. Calculating a PAR for registered pension plans

5.1 Termination conditions for registered pension plans

You must calculate a PAR for an individual who meets the following conditions:

- their membership ended after 1996, for a reason other than death
- they received no retirement benefits under the plan

5.2 Money purchase provision

If an individual meets the termination conditions in section 5.1, the PAR is the total of:

- all amounts that were included in their pension credits (PAs) up to the date of termination but that they were not entitled to at the time of termination

Earnings on allocations or on contributions are not included in the PAR because they were never included in the pension credit for the PA calculation.

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 calculate both the individual's pension credit for the year and the PAR.

Any amounts allocated after the person has quit the plan 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 ends her employment on June 15, 2016, and is entitled to a lump-sum payment of $7,500 for her employee contributions, plus interest. The lump-sum payment, which Kate receives on February 1, 2017, satisfies her rights to benefits under the plan. She forfeits her right to an 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 in Kate's pension credits in calculating her PA. These amounts are included in calculating her PAR.

PAR = $8,000 + $1,200

PAR = $9,200

Kate's 2017 PAR is $9,200, the amount of the employer contribution and forfeited amounts that she isn't entitled to, but that were included in her PA calculation. The $1,400 of interest was not included in her pension credits and is therefore not included in her PAR.

5.3 Defined benefit provision

If an individual meets the termination conditions in section 5.1, the PAR is calculated using the following formula:

A + B – C – D

Amount **A** is the total of the individual's pension credits earned under the provision when their membership ended. 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 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 is $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 specified multi-employer plan (SMEP) is zero.

Amount **B** is the total of the grossed-up amounts of PSPAs associated with any past service benefits the individual received under the provision before their membership ended. The additional pension credits that are associated with the past service benefits are added to the member's PAR. 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 2013 and the plan allows 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 their 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 gave up $9,000 worth of contribution room available for future RRSP contributions to buy past service benefits and gave up $3,000 worth of existing tax sheltered RRSP funds. For more details on how to calculate PSPAs, see Guide T4104, Past Service Pension Adjustment Guide.

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

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

- a payment for pre-1990 benefits
- a transfer to another defined benefit provision of an RPP (other than a SMEP)
- a payment of actuarial surplus
- a return of contributions, including interest, made as a result of an amendment under the plan that also reduces or eliminates future member contributions
- an amount that may reasonably be considered to be a payment of benefits for a period when the plan was a SMEP
- a payment related to past foreign service that did not generate a PSPA

If a lump-sum payment relates partly 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 individual's service, prorating the payment, based on the post-1989 proportion of the total period of pensionable service, is normally 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 by applying 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. Section 6.1 describes how to calculate the PAR if there was a breakdown of marriage or common-law partnership.

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 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 calculated based on the modified PSPA rules. Under those rules, the sum of all PAs previously provided to the individual under the terminating provision is applied to offset the PSPA, resulting in a PSPA that is either zero or greatly reduced. The PA transfer amount reduces the member's PAR by the sum of all PAs previously provided to the individual. This 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 tell 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 60 days from the date of the transfer to tell 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 Canada Revenue Agency by the later of the following two dates:

- 60 days after the calendar quarter in which the member terminated from the exporting provision
- 60 days after the exporting plan administrator receives notification of the actual PA transfer amount

Example 3 – Defined benefits transferred to an RRSP
In 2012, Julie joins a defined benefit RPP with benefits of 1.6% of earnings per year of service. Julie gets past service benefits for a two-year period of eligible past service beginning in 2010 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 2016, Julie changes jobs and is entitled to a termination benefit of $35,000. Her total pension credits for 2012 to 2016 are $40,000. On February 25, 2017, Julie transfers her termination benefit to a locked-in RRSP.

Julie's 2017 PAR is calculated 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
PAR = $15,000

Example 4 – Defined benefits transferred to an RRSP with pre-1990 benefits
Nick terminates from a defined benefit RPP on June 27, 2015, after 31 years of membership. On July 23, 2015, he transfers a termination benefit of $152,450 to an RRSP that satisfies his rights to benefits under the plan. The plan benefit rate was 1.5% for all years of service. Nick's pension credits for the 25 ½ year period from 1990 to 2015 total $190,650.

Nick's 2015 PAR is calculated using the formula A + B – C – D, where:

A = Total pension credits = $190,650
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = 125,400 ($152,450 × 25.5/31)
D = PA transfer amount = 0

PAR = $190,650 + 0 – $125,400 – 0
PAR = $65,250

In this situation, 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 the benefit accrual rate is not uniform
On January 1, 2015, Jack terminates from his defined benefit provision at the age of 60. He had three different benefit accrual rates under the provision during his 35 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 × 21) = $22,475

The total benefit accrued for all years of service is:

(0.008 × $50,000 × 10) + $22,475 = $26,475

Because the benefit accrual rate has not been uniform for all years of service, it would not be acceptable to prorate the service to calculate the portion of the payment that may reasonably be considered to relate to service after 1989. It would therefore not be acceptable to use $18,910 (that is, $26,475 × 25/35) as the post-1989 benefit to calculate the specified distribution, since this would artificially increase the member's PAR.

Example 6 – Defined benefits transferred to an RRSP when applying the 50% employer funding rule
Beth terminates from a defined benefit RPP on December 31, 2014, after 35 years of service. She transfers her termination benefit of $170,820 to her RRSP. By applying the 50% employer funding rule, her actuary figures out 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, 2014, are $165,625, and the plan formula stayed the same for all years of service.

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

A = Total pension credits = $165,625
B = Total grossed-up amount of PSPA = $0
C = Amount of specified distributions = $130,050 [($170,820 × 25/35) + ($9,000 × 25/28)]
D = PA transfer amount = $0
PAR = $165,625 + 0 – $130,050 – 0
PAR = $35,575

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.

The Registered Plans Directorate can help you resolve all reasonable situations where lump-sum payments that relate to post-1989 service cannot be calculated using proration, as in the examples above. The contact information is at the end of this guide.

Example 7 – Defined benefits transferred to an RRSP with RRSP dollar limit
On December 31, 2015, Nina terminates from a defined benefit RPP with benefits of 2% of final average earnings per year of service. A termination benefit of $287,050, calculated as the commuted value of Nina's accrued pension based on 16 years of service under the plan, is transferred to an RRSP on her behalf. For the 16 years of service, Nina's pension credits total $312,690 ($14,900 for each of the years 2000 to 2003 and $15,900 for 2004, $17,400 for 2005, $18,400 for 2006, $19,400 for 2007, $20,400 for 2008, $21,400 for 2009, $21,850 for 2010, $22,370 for 2011, $23,200 for 2012, $23,670 for 2013, $24,330 for 2014, and $24,770 for 2015).

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

A = Total pension credits* = $309,490 ($13,500 + $13,500 + $14,500 + $14,900 + $15,900 + $17,400 + $18,400 + $19,400 + $20,400 + $21,400 + $21,850 + $22,370 + $23,200 + $23,670 + $24,330 + $24,770)
B = Total grossed-up amount of PSPA = 0
C = Amount of specified distributions = $287,050
D = PA transfer amount = 0

PAR = $309,490 + 0 – $287,050 – 0
PAR = $22,440

*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 to $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 because of the PAs reported for these years.

Example 8 – Defined benefit RPP to a defined benefit RPP (identical benefit formula)
At the end of 2016, Mark changes jobs and wants to have defined benefit credits for his seven years of service (2010 to 2016) 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 2010 to 2016, based on Mark's earnings in those years, total $56,200. The new plan reports a PSPA of zero because the benefits are identical under the two plans (for details on how to calculate a PSPA, see Guide T4104, Past Service Pension Adjustment Guide). Early in 2017, 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 calculated 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
PAR = 0 or nil

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 in section 5.3 under "amount C"). In addition, the new plan recognized Mark's previous service under his former plan. The administrator of the new plan has to tell the 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 within 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 tell 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 forgo any benefits – they are simply being replaced under a new plan.

Example 9 – Defined benefit RPP to a defined benefit RPP (lower benefit formula)
At the end of 2016, Anne changes jobs and transfers defined benefits between plans for six years of service (2011 to 2016). 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 2011 to 2016, the total pension credits for Anne's past service benefits under the new plan are $47,100. The new plan administrator reports a zero PSPA (for details on how to calculate a PSPA see Guide T4104, Past Service Pension Adjustment Guide). The commuted value of Anne's benefits is $53,900. In 2017, 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 remainder of $5,000 transferred to an RRSP.

Anne's PAR under the former plan is calculated 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
PAR = $4,000

In this situation, Anne's specified distributions are $7,500 because part of her termination benefit was paid in cash and the rest was 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 administrator of the new plan gives the PA transfer amount to the 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 benefit RPP to defined benefit RPP (higher benefit formula)
At the end of 2016, Robert changes jobs and transfers defined benefits for 2007 to 2016 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 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 zero (for details on how to calculate a PSPA, see Guide T4104, Past Service Pension Adjustment Guide). In 2017, in accordance with the reciprocal transfer agreement, $71,400 is transferred from the former plan to the new plan to fund the defined benefits.

Robert's PAR under the former plan is calculated 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
PAR = 0 or nil

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 administrator of the new plan provides the PA transfer amount to the 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 zero. Again, the fact that Robert does not get a PAR reported is consistent with the fact that Robert did not forgo any benefits – they are simply being replaced under a new plan.

Example 11 – Transfer between defined benefit provisions of the same RPP
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 2017, and is entitled to exchange benefits under provision X for benefits that are more generous under provision Y. David has four years of pensionable service under provision X with pension credits totaling $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 calculate a PSPA, see Guide T4104, Past Service Pension Adjustment Guide).

David's 2017 PAR under provision X is calculated 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
PAR = 0 or nil

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 credited to David under provision Y ($26,500), or the PA value of the benefit previously credited 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 forgo any benefits – they are simply being replaced under a new provision.

6. Special situations

This section describes how to calculate PARs for defined benefit provisions in special situations. If you cannot find an adequate description of your specific situation in this section, contact the Registered Plans Directorate. The contact information is at the end 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 their membership ended and, as a result of the breakdown, the member no longer has rights to all or a part of their benefits, the following rules apply:

- The member is not eligible for a PAR only because of the breakdown. A member is eligible for a PAR only when their membership ends.
- If a single amount has been paid from the provision upon the breakdown and the member then ends membership, and the payment satisfies the spouse's or common-law partner's rights to benefits, include the amount when you calculate the member's PAR to the extent it would otherwise qualify as a specified distribution (see 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 of the benefits (calculated at the time the member terminates) which the member forfeited because of the breakdown as a specified distribution when you calculate the member's PAR.

Example 12 – Lump-sum payment to a former spouse or common-law partner before termination
Philip separates from his spouse, Denise. Denise gets 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 quits working after six years of membership in the plan. He receives 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 – which 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 PAR is calculated 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

PAR = $50,100 + 0 – $42,300 – 0
PAR = $7,800

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 Philip's defined benefit provision.

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 in addition to or otherwise depend on benefits that the individual receives under one or more other defined benefit provisions, that individual is not considered to have ended their membership until they have 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 benefits provided or amounts paid from each of the other provisions. 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 calculate the specified distributions for a particular individual. You can ask permission for an alternative to the PAR calculation by writing to the Registered Plans Directorate. The address is listed at the end of this guide.

7. Reporting PARs

7.1 General

If an individual has ended their membership in a provision of an RPP or a DPSP, a PAR that is greater than zero must be reported to both the Canada Revenue Agency and to the employee. As the plan administrator in the case of RPPs, or the plan trustee or employer in the case of DPSPs, you have to report the PAR on the T10 return. The T10 return includes the T10 Summary, Summary of Pension Adjustment Reversals (PARs); T10 slips, Pension Adjustment Reversal (PAR); and in some cases, T10 Segment forms. Employees do not have to make any tax filings for their PAR. Once the Canada Revenue Agency has processed the T10 slip, the individual's RRSP contribution room will be increased by the amount of the PAR.

7.2 Filing deadlines

You have to report PARs quarterly. A PAR return has to be filed by 60 days after the end of the first three calendar quarters. The PAR return for the last quarter has to be filed before February. The calendar quarters are:

1) January 1 to March 31
2) April 1 to June 30
3) July 1 to September 30
4) October 1 to December 31

Only file a PAR return if one or more employees has ended their membership in a DPSP or a provision of an RPP in a quarter and have a PAR that is greater than zero.

7.3 Penalties for late filing and for providing inaccurate information on a PAR return

If you file a PAR return after the filing deadlines mentioned above, you might have to pay a late-filing penalty. Each slip is an information return and we base the penalty on the number of slips filed late. The penalty is the greater of $100 or a penalty calculated as follows:

Number of information returns	Penalty (per day)	Maximum penalty
1 – 50	$10	$1,000
51 – 500	$15	$1,500
501 – 2,500	$25	$2,500
2,501 – 10,000	$50	$5,000
10,001 or more	$75	$7,500

Also, if you leave out any information that is required on a PAR return, you might have to pay the following penalty:

- $100 per slip that has information missing

Note that intentionally reporting incorrect information on a PAR return can be viewed as leaving out required information.

7.4 Zero PARs

A zero PAR may result if a plan member ends 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 zero or negative PAR amount, do not report the PAR.

For example, if an individual quits either a money purchase RPP or a DPSP and is fully vested, the calculation will result in a zero PAR.

7.5 Amounts to report

You must report a PAR if one of these conditions applies:

- the original PAR is at least $50
- the difference between the original and amended PAR is more than $250

This does not apply if the employee asks that the PAR be reported accurately or if the Canada Revenue Agency asks you to report the PAR accurately.

7.6 T10 Return

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

- a T10 Summary, Pension Adjustment Reversal (PAR)
- T10 slips, Pension Adjustment Reversal (PAR)
- in some cases, T10 Segment forms

You can find these forms through the links listed at the end of this guide.

Important filing information

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

Find more information on situations where a member is eligible for more than one PAR in the same year with the same employer from the Registered Plans Directorate.

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

- Fill out one T10 slip for each plan member who has terminated from the plan and has a PAR greater than zero.

Distributing T10 slips

- The plan administrator, trustee or employer should send copy 1 to the Winnipeg Tax Centre, T1 Electronic Processing, Post Office Box 14000, Station Main, Winnipeg, MB R3C 3M2, with any T10 Summary and T10 Segment forms (if applicable)
- The plan administrator, trustee or employer should give copy 2 to the plan member
- Keep copy 3 for your records
- See section 7.2 for filing deadlines

T10 Summary

- On the T10 Summary, report the totals of certain amounts from all the T10 slips.
- Make sure you fill in the Year of PAR and check off the quarter the PAR return relates to. Also include the name and phone number of a person we can contact if we have questions about the return.

Distributing the T10 Summary

- Send the T10 Summary to the Winnipeg Tax Centre, T1 Electronic Processing, Post Office Box 14000, Station Main, Winnipeg, MB R3C 3M2, with any T10 slips and T10 Segment forms
- Keep a copy for your records

T10 Segment

If your T10 return has 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 form 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 Amended PARs

If you have to report an amended PAR, file another T10 slip and enter "A" in box 5, Report Code, of the form.

Make sure the amended T10 slip contains 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 forms (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.

Where to get help

Registered Plans Directorate

If you need more information and you are in the Ottawa area, call: **613-954-0419**.

If you are elsewhere in Canada,
call toll free: **1-800-267-3100**.

You can find more information at: **canada.ca/registered-plans-administrators**.

By mail:

Registered Plans Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

By courier:

Information Holdings Operation Section – Registered Plans
Registered Plans Directorate
Canada Revenue Agency
875 Heron Road, A-200
Ottawa ON K1A 1A2

Forms and publications

Find all of the forms and publications at **canada.ca/cra-forms**.

Forms

- T10, Pension Adjustment Reversal (PAR)
- T10 Summary
- T10 Segment

Guides

- T4104, Past Service Pension Adjustments
- T4084, Pension Adjustments