Designated Pension Plans
Increase in Maximum Pension for Retirement after age 65

The Income Tax Act and Regulations (ITA) currently state that a registered pension plan can provide a pension no greater than the maximum pension per year of credited service ($2,111.11 for a retirement during 2006).

However, this maximum pension applies only to retirement at or before age 65. If a plan member retires after age 65, the maximum pension is the actuarial equivalent of the maximum pension which would be payable at age 65 (in accordance with section 8504(10)(b)).

This newsletter provides the assumptions and method to calculate a reasonable actuarial equivalent maximum pension for each retirement age from 65 to 70. These assumptions and method are currently used by a number of actuaries who deal with designated plans (mostly Individual Pension Plans) whose member are more likely to retire after age 65.

Since the Canada Revenue Agency (CRA) does not yet have an official position on the interpretation of the ITA with respect to postponed retirement, they have currently been accepting this and other methods used by actuaries to calculate the actuarial increase for postponed retirement.

This newsletter has been prepared to provide guidance to actuaries and pension administrators across Canada to provide reasonable, consistent maximum pension benefits which are acceptable under the ITA.

The ITA currently provides the actuarial assumptions which are acceptable to calculate the maximum contribution which can be made to fund a Designated pension plan. These funding assumptions are currently used to calculate the actuarial equivalent maximum pension for an actuarial valuation report when a plan member has already surpassed age 65.

In this Newsletter, the maximum contribution funding assumptions required by the ITA are also used to calculate the maximum pension which would be available for a plan member who actually retires after age 65. These are reasonable assumptions to calculate the actuarial equivalent benefit at actual retirement since they are consistent with the assumptions used to fund the plan up to the point of retirement.

The method used to calculate the actuarially increased pension is the following:

1. Calculate the pension which would be payable if the plan member were actually age 65 in the year of retirement, including the effect of any CRA restriction.

2. Calculate the lump-sum value of the pension at 65.

3. Increase the lump-sum value with interest from age 65 to the actual age at retirement. The probability of survival during that period is 1.0 since the plan member has already survived to the actual older retirement age.

4. Divide the lump-sum value at the actual retirement age by the cost of pension at the actual retirement age.

The following page includes the calculation of the maximum pension for ages 65 to 70 which would be applicable for a retirement during 2006.

Example 1
A member retires in 2006 at age 69 with 10 years of service and always had maximum earnings
Pension at 65 is 10 x $2,111.11 = $21,111.10
Commuted Value is 14.5264 x $21,111.10 = $306,668
Pension at 69 is $306,668 x 1.33546914 / 13.2260 = $30,965.20

Example 2
A member retires in 2006 at age 69 with 10 years of service and, in at least one year, had less than maximum earnings
Pension at 65 is $20,000.00
Commuted Value is 14.5264 x $20,000.00 = $290,528
Pension at 69 is $290,528 x 1.33546914 / 13.2260 = $29,335.50

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Designated Plan - Maximum Funding Assumptions (New using Feb 2005 Budget)

Assumptions

Pre-Retire Interest	7.5000%
Post-Retire Indexing	3.0000%
Post-Retire Net Interest	4.3689%
Normal Retirement Age	65
Wage Increase Rate	5.5000%
Pension Factor at NRA	14.5264

Spouse Age	Same age as member
Mortality	- Pre-retire - None
	- Post-retire - 80% of average male & female Gam 83 rates
Pension Benefit	Joint & 66.67% survivour with 5 year guarantee

Maximum Pension

Max Pension 2005	$2,000.00	Set by Budget
Max Pension 2006	$2,111.11	Set by Budget
Max Pension 2007	$2,222.22	Set by Budget
Max Pension 2008	$2,333.33	Set by Budget
Max Pension 2009	$2,444.44	Set by Budget
Max Pension 2010	$2,578.88	Indexed

Actuarial Increase for 2006 Maximum Pension at Age 65

Attained Age	Immediate Pension Factor	Post Retire at 65 Increase Factor	Max Pension Increase Factor	Retire During 2006 Max Pension At Retirement	Attained Age
70	**12.8890**	**1.43562933**	**1.61800961**	**$3,415.80**	**70**
69	13.2260	1.33546914	1.46677445	$3,096.52	69
68	13.5588	1.24229688	1.33095121	$2,809.78	68
67	13.8869	1.15562500	1.20884222	$2,552.00	67
66	14.2096	1.07500000	1.09896690	$2,320.04	66
65	**14.5264**	**1.00000000**	**1.00000000**	**$2,111.11**	**65**