

SECTION CONTENTS

9 PAs, E-PAs, PSPAs, APAs AND PARs

9.1 Pension Adjustment (PA)	3
9.1.1 Distribution of PA statements (T4A slips – paper PA statements)	7
9.2 Amended Pension Adjustment (APA)	11
9.3 Past Service Pension Adjustment (PSPA)	12
9.4 Tax implications of purchasing service	13
9.4.1 Receipts for tax deduction of contributions	14
9.5 Pension Adjustment Reversal (PAR)	14

9 PAs, E-PAs, PSPAs, APAs AND PARs

9.1 Pension Adjustment (PA)

A pension adjustment (PA) represents the value of the benefits a member earned in the previous year from their pension plan for service accrued after 1989. The Pension Corporation calculates the PA amount for all pension plan members based on the Service Event data each employer reports for the calendar year. This PA amount must be reported to the Canada Revenue Agency (CRA) each year.

If you choose to have your PA statements produced by the corporation, a T4A slip is created for each member and distributed to you by February 28 each year. Even though we report this information to CRA, it is your responsibility to distribute these to members (including members who are on LTD, LOA, etc.). If, however, you report the PA amount on your members' T4 slips, we will arrange to provide you with an electronic file. Under this option, you are required to report PA amounts to CRA directly. When a member has been approved for LTD, service will accumulate in their account and they will receive an annual pension adjustment (PA) statement to file with their income tax return. The benefit entitlement (BE) for a member receiving LTD is calculated using the salary at the start of the LTD period and includes any cost of living adjustments.

PA Calculation

PAs are calculated as follows:

$$PA = (9 \times \text{Benefit Entitlement}) - \$600$$

The Benefit Entitlement (BE) for each calendar year is calculated using the plan's pension formula, and the member's total pensionable salary during that year.

- For service accrued post 2017, the BE = 1.9% × pensionable salary.

- For service accrued pre 2018, the BE = $(1.3\% \times \text{YMPE}) + (2\% \times \text{pensionable salary over YMPE})$.
- If a member does not have full service in a year, the BE is calculated using an annualized salary.
- If a member has worked for more than one employer in the same plan, the BE is calculated using a separate annualized salary for each employment and then combined to determine the total PA.
- For a member receiving LTD, the BE is calculated using the salary at the LTD start date and includes any applicable cost of living indexing.

EXAMPLES

Full Service Formulas

The following formulas apply based on when the service was accrued.

Service accrued on or after January 1, 2018:

$$\text{Benefit earned} = 1.9\% \times \text{earnings}$$

$$\text{PA} = (9 \times \text{BE}) - \text{offset}$$

Service accrued prior to January 1, 2018:

$$\text{Benefit earned} = (1.3\% \times \text{YMPE}) + [2\% \times (\text{earnings} - \text{YMPE})]$$

$$\text{PA} = (9 \times \text{BE}) - \text{offset}$$

Example #1: service accrued on or after January 1, 2018

Using the following values:

Year: 2018

Annual salary: 87,500

Pensionable service: Full

$$\text{Benefit earned} = 1.9\% \times 87,500 = 1,662.50$$

$$\text{PA} = (9 \times 1,662.50) - 600 = 14,362.50$$

Example #2: service accrued prior to January 1, 2018

Using the following values:

Year: 2017

YMPE: 55,300

Annual salary: 70,000

Pensionable service: Full

$$\text{Benefit earned} = (1.3\% \times 55,300) + [2\% \times 14,700 (70,000 - 55,300)] = 1,012.90$$

$$\text{PA} = (9 \times 1,012.90) - 600 = 8,516.10$$

EXAMPLES

Partial Service Formulas

The following formulas apply based on when the service was accrued.

Service accrued on or after January 1, 2018:

$$\text{Annualized earnings} = (\text{actual earnings} / \text{pensionable service}) \times \text{number of months in full year}^*$$

$$\text{Annualized benefit} = 1.9\% \times \text{annualized earnings}$$

$$\text{Benefit earned} = (\text{annualized benefit} \times \text{pensionable service}) / \text{number of months in full year}^*$$

$$\text{PA} = (\text{BE} \times 9) - \text{offset}$$

Service accrued prior to January 1, 2018:

$$\text{Annualized earnings} = (\text{actual earnings} / \text{pensionable service}) \times \text{number of months in full year}^*$$

$$\text{Annualized benefit} = (1.3\% \times \text{YMPE}) + [2\% \times (\text{annualized earnings} - \text{YMPE})]$$

$$\text{Benefit earned} = (\text{annualized benefit} \times \text{pensionable service}) / \text{number of months in full year}^*$$

$$\text{PA} = (\text{BE} \times 9) - \text{offset}$$

* 10 months for 10 month teachers or 12 months for 12 month teachers

Example #1: service accrued on or after January 1, 2018 for 10 month teacher

Using the following values:

Year: 2018

Pensionable salary: 70,000

Pensionable service: 8 months

$$\text{Annualized earnings} = (70,000/8) \times 10 = 87,500$$

$$\text{Annualized benefit earned} = 1.9\% \times 87,500 = 1,662.50$$

$$\text{Benefit earned} = (1,662.50 \times 8) / 10 = 1,330$$

$$\text{PA} = (1,330 \times 9) - 600 = 11,370$$

Example #2: service accrued prior to January 1, 2018 for 10 month teacher

Using the following values:

Year: 2017

YMPE: 55,300

Pensionable salary: 75,000

Pensionable service: 8 months

$$\text{Annualized earnings} = (75,000/8) \times 10 = 93,750$$

$$\text{Annualized benefit} = (1.3\% \times 55,300) + [2\% \times 38,450 (93,750 - 55,300)] = 1,487.90$$

$$\text{Benefit earned} = (1,487.90 \times 8) / 10 = 1,190.32$$

$$\text{PA} = (1,190.32) \times 9 - 600 = 10,112.88$$

RRSP room calculation

CRA uses the PA to calculate a member's RRSP contribution room, to a maximum dollar limit, using the formula below.

EXAMPLE

$$\text{RRSP room} = (18\% \times \text{previous year's earnings}) - (\text{previous year's PA})$$

Continuing with the full service example from above: for any given tax year, the member will receive their PA by February 28th of the **following** year. CRA will use the PA to calculate RRSP room for that following year. Assuming the member had no income other than the \$50,000 pensionable salary, their RRSP room will be calculated as follows:

$$\text{RRSP room} = (18\% \times \$50,000) - (\$5,357) = \$3,643.$$

Members enter their PA amount on line 206 of their tax return. CRA calculates each member's RRSP deduction limit for the coming tax year, and sends the member a *Notice of Assessment*, which includes the amount of their RRSP contribution room for the year.

9.1.1 Distribution of PA statements (T4A slips – paper PA statements)

There are two different options to distribute your members' PA statements:

1. An electronic PA file is sent to you to populate your members' T4 slips. See section 9.1.1.1 Electronic PA (E-PA) files for T4 slips for details.
2. Paper PA Statements (T4A slips) are produced by the corporation and sent to you for distribution to plan members. We will produce and deliver your paper PA statements (T4A) to you for distribution as soon as we are able.

Employer Report

Along with your PA Statements, we provide you with a report listing your members who are receiving a PA statement. The report contains the member's SIN, name, PA amount, PA type, calculation date and 'notes' if applicable. It lists your members based on the sort option you selected.

PA type

There are different PA types: original, replacement and amended. The first PA calculated in the tax year for a plan member is the original. If an original PA amount changes before it is reported to Canada Revenue Agency (CRA), then the type becomes replacement. If the PA amount changes after it has been reported to CRA, it becomes an amended PA (APA).

Sort options

There are three different ways to have the PA statements (and Employer Report) sorted.

Name Sort

We put the member's name and address (if on record) on the PA statements and sort them alphabetically by last name.

Location and Name Sort

You choose any description, alpha and/or numeric, up to 29 digits for your location code. The member's name and address are printed on the PA statements and they are sorted alphabetically by last name, within each location code.

If you receive paper PA statements, there will be a separator page dividing each location. Employer Reports will be separated the same way as the PA statements.

Location, Sub-location and Name Sort

You choose any description, alpha and/or numeric, up to 29 digits for your location code and an additional 30 digits, alpha and/or numeric, for your sub-location code. The member's name and address are printed on the PA statements and they are sorted alphabetically by last name within each location and/or sub-location code.

If you receive paper PA statements, there will be a separator page dividing each location only. Within each location, sub-locations are sorted in ascending order. Employer Reports will be separated the same way as the PA statements.

Members on approved Long-term Disability (LTD)

- If you receive paper PA statements for your members, the information for your LTD members will be listed at the end of the Employer Report, regardless of the sort order you have chosen.
- If we have the member's address, we will mail the paper PA statements (T4A slips) to them directly.
- If you receive an electronic PA file for your members but receive paper PA statements for your LTD members, we will mail the paper PA statements (T4A slips) directly to these members.
- In a year where rehabilitative (RH) service, regular (RG) service, or pensionable salary is reported, and the member was on LTD for the year or part of the year, we will send the paper PA to you for distribution.

Members who terminated employment

The corporation will produce and mail paper PA Statements (T4A slips) directly to members with terminated employments in the calendar year. These members will be listed at the end of your Employer Report.

PA statements not provided

If you have not received a member's PA statement, there could be several reasons. To learn why, look for these 'notes' on the Employer Report:

- **“More data expected; PA supplied later”**

This means data is still being validated and/or a member worked for more than one employer during a calendar year and the data from all the employers needs to be posted to the member's account.

 - A amounts are combined for members with more than one plan employment. The PA statement will only be provided to the employer with the lowest ORG ID.
- **“Plan member deceased in tax year”**

PA statements are not issued for the year a plan member dies.

9.1.1.1 Electronic PA (E-PA) files for T4 slips

You may choose to have your members' PA information sent to you electronically so that you can populate the PA box on your members' T4 slips.

Considerations for E-PA reporting/files

- Available formats are: fixed width (.dat), tab delimited (.txt), comma delimited (.csv), or extensible markup language (.xml).
 - Fixed width (.dat) is a file that separates the data by defining the length of each field. Alpha character fields are padded with blanks and numeric fields are padded with zeroes.
 - Text pad (.txt) is a tab delimited format where the data is separated with a tab. No extra spaces—ensure your text editor does not automatically convert tabs to spaces.
 - Comma delimited (.csv) is a file that separates the data with commas. No extra spaces.
 - Extensible markup language (.xml) is a flexible way to create common information formats, and share both the information and the format on the web.
- Consult with your IT department and/or payroll provider to ensure you can accept/convert the E-PA files(s) and populate your members' T4 slips.
- Determine if your T4 program will produce a T4 slip for a member who paid no income tax and/or contributions in the tax year (e.g., LTD members). If not, we will produce paper T4s for these members.
- Your electronic PA file will be provided to you in time for you to include on your employee's T4 slip. We will confirm the date we will provide you with your electronic PA on the *Contact Confirmation For Employers* form you are asked to review each fall.
- Once the E-PA file is created and made available to you it cannot be changed and/or re-formatted. You must ensure you have the correct format selected on the *Contact Confirmation For Employers* form.

Contact Employer Operations to set up your user ID and password, which are necessary to access your file.

- Any original PAs calculated after the E-PA file has been sent to an employer and before the final PA run (done the third weekend each February) will be produced as a paper PA statement (T4A slip) and it will be mailed directly to the member. We report these PA amounts to CRA directly.
- Any adjustments to PAs that were originally submitted to you electronically will be sent to you electronically. We will also provide you with an Employer Report and *Authorization* form. Please note these would be amendments to information you reported on the member's T4 so it must be reported to CRA by you following their prescribed format requirements. This is done each June and December. Refer to section 9.2 for more details.
- Once an E-PA file has been produced, it cannot be recreated to produce paper T4As for members on LTD. If you select E-PAs for LTD members, you must ensure your T4 program can also produce T4 statements for them. Otherwise, you should select 'the corporation provides paper T4As for these members' option.

PA file pick-up process for Electronic PAs

We will advise your PA contact by email when your E-PA file is ready for pick-up. E-PA files are retrieved from the corporation's website through the File Pick-up portlet (on the Employer Reporting home page). See section 7.2 Web services for more information about File Pick-up.

Reporting the E-PAs to CRA and members

You must provide the electronic PAs to members for whom they were generated, and report the amounts to CRA via your T4 file.

9.2 Amended Pension Adjustment (APA)

An amended pension adjustment (APA) is a PA we have to recalculate because we have received new information about a member's pensionable service or salary. Purchasing a leave of absence or an arrears period can also generate an APA.

We will report the APAs directly to CRA in June and December for members where a paper PA statement (T4A slip) was originally produced for the member by us.

For employers who chose E-PAs, the amended PA employer report will be available for you to download on the corporation's website. Your PA contact will be notified by email when it is available for downloading through the File Pick-up portlet (on the Employer Reporting home page). See section 7.2 Web services, for more information about File Pick-up.

- This is an amendment of information you reported on the member's T4 so it must be reported to CRA by you following their prescribed format requirements.
- You must also notify plan members of the amended PA amount(s). You can choose how to inform your members of the amended PA.
- It is the employer's responsibility to inform CRA of the amended PA amount(s) if your members reported the original PA amount to CRA. Members do not have to inform CRA of the amended PA.

9.3 Past Service Pension Adjustment (PSPA)

A past service pension adjustment (PSPA) may be issued if a member purchases any post-1989 service. A PSPA corrects the difference between the sum of PAs reported to CRA for that period, and the sum of PAs that include the increased benefits from the purchased service.

CRA approval is required if the member wishes to purchase any post-1989 service with cash, in the form of a cheque, or money order.

A PSPA for the purchase of any post-1989 service must be certified (approved) by CRA.

If the PSPA for a given purchase exceeds the member's unused RRSP contribution room by more than \$8,000, CRA will send the member a letter stating the PSPA cannot be certified.

Members can reduce or eliminate PSPAs by:

- paying for a purchase by transferring funds from an RRSP, or
- de-registering (withdrawing) funds from an RRSP.

If a member has a PSPA that CRA won't certify, and the member cannot or does not take steps to reduce or eliminate the PSPA, the member will not be allowed to make the purchase.

9.4 Tax implications of purchasing service

Non-contributory service and reinstatements

Purchasing post-1989 non-contributory service or reinstating a refund for service that occurred after 1989 will result in a PSPA calculation. Members must either have the PSPA certified, or take steps to eliminate or reduce the PSPA to make the purchase. Purchasing or reinstating service that occurred before 1990 does not create a PSPA calculation and no certification is required.

Leave of absence

When a member purchases a leave of absence, a PSPA or an APA may be created.

If the member purchases the leave by April 30 of the year following the year in which the leave ended, an APA will be calculated and reported to CRA.

If the member purchases the leave after that date, a PSPA is calculated and reported to CRA if it is greater than \$50.

EXAMPLE

For a leave from October 1, 2000 to October 31, 2001, an APA is calculated if the member purchases the leave period before April 30, 2002. If the member purchases the leave after that date, a PSPA is calculated.

Arrears

Arrears for service after 1989 will generate an APA or a PSPA. If the member's participation in the plan was mandatory during the arrears period, an APA is generated. If the member's participation in the plan was optional during the arrears period, a PSPA is generated and reported to CRA if it is greater than \$50.

Even if a member chooses not to pay their portion of an arrears cost, the employer must always pay their portion, so an APA or a PSPA is always produced.

9.4.1 Receipts for tax deduction of contributions

It is important that members understand that purchases made from a severance or retiring allowance may affect RRSP room.

Contributions made to pay for purchases are tax-deductible in the same way that regular pension plan contributions are. If a member pays cash (in the form of a cheque or money order) or instructs their employer to forward severance pay or retiring allowance to the corporation, we will issue a receipt to the member to use when filing their income tax return for the year in which the payment is made.

If a member pays by RRSP transfer, we will not issue a receipt as the funds are already tax-sheltered and would have been deducted by the member at the time they were contributed. However, we will acknowledge receipt of these funds by sending the member a *Purchase Confirmation Letter*.

If you are paying for some or all of a member's purchase, then no tax receipt will be issued for the employer portion of the purchase.

In the event of payroll arrears you are required to remit both the employee and employer portions and then recover that amount from the member. You are responsible for indicating the deduction for the plan member's portion on their T4 slip.

9.5 Pension Adjustment Reversal (PAR)

Pension Adjustment Reversals (PARs) are issued to restore RRSP contribution room to members who terminate employment and transfer their retirement benefits out of the pension plan.

If a member leaves the pension plan before retirement, the total PAs and any PSPAs may have overestimated the value of the benefit earned after 1989, and the member may have lost too much RRSP contribution room. PARs give back that RRSP contribution room, where applicable.

PARs are issued for members who terminate employment after 1996 and transfer their benefit out of the plan, whether to an RRSP, another pension plan, or as a cash payment to the member.

Terminated members who leave their funds on deposit for a deferred retirement benefit do not receive PARs.