



SECTION: Commuted Value

INDEX NO.: C125-500

TITLE: Computation and Interest Requirements
on Transfer, PBA, 1990 s. 42
O. Reg. 909 ss. 19(1), 20(1), 24(11.1)

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Mandatory portability rights for individual pension plan members who are entitled to a deferred pension at termination of employment were introduced under the *Pension Benefits Act, 1987* (the "PBA"). Due to the volatility of interest rates over recent months, some confusion has arisen concerning what computation date must be used as the basis for a commuted value calculation and what rate of interest must be credited until a transfer is completed.

In considering the matter of the computation date, some distinction should be made between commuted values determined for two separate purposes. The first is for the purpose of a calculation made with respect to a mandatory right, or any portability right available under a pension plan that is effective at an individual's date of termination. The second is for the purpose of a calculation made with respect to any portability right provided for under a pension plan which is effective after an individual's date of termination.

This article will explain the computation and interest requirements in relation to the first instance. These requirements are applicable where a terminated member is making an election within the prescribed period.

Prescribed Election Period

Section 42 of the PBA stipulates that terminated members (individual members who terminate employment or who cease to be eligible for continued plan membership) who are not eligible to commence receiving payment of an immediate pension at date of termination, have the right to elect a portability option. That right is time-limited.

The maximum required period for making a transfer election under section 42 is prescribed under subsection 20(1) of the Regulation. In accordance with clause 41(1)(p), the election period must be identified in the termination statement. If an individual does not make an election within the prescribed period, the right to require the administrator to transfer the commuted value is extinguished (subsection 42(4) of the PBA). In this case, the default option is a deferred pension payable from the pension plan.

Of course, in circumstances where an administrator fails to provide a written statement within the period prescribed under subsection 41(2) of the Regulation, a terminated member's election period cannot be shortened as a consequence of late notice. Accordingly, the appropriate period to make an election should commence at the date the statement is provided.

Computation Date

Subsection 19(1) of the Regulation identifies the method of determining a commuted value for the purposes of section

42 of the PBA. The commuted value of a termination benefit may not be less than the value determined in accordance with the September 1, 1993 "Recommendations for the Computation of Minimum Transfer Values of Pension" (the "Recommendations") issued by the Canadian Institute of Actuaries.

Part C. of Section 2 of the "Recommendations", indicates that the transfer value should normally be computed as of the termination date (i.e., the date an individual terminates employment or the date an individual is no longer eligible for membership, as appropriate). Under circumstances where a pension plan provides section 42 entitlements for terminating members who are entitled to an immediate pension, the computation date will be determined as above. However, where a plan is amended to provide portability entitlements for deferred vested members who previously either had no statutory or plan rights or did not make a transfer election within the prescribed period, the computation date will be the date the transfer value is determined.

Interest Accrual

Part C. of Section 2 of the "Recommendations" also permits an adjustment of the transfer value in accordance with Section 4. Section 4 permits an actuary to establish the period for which a transfer value applies before recomputation is required. For the purposes of the PBA and the Regulation, Section 4 has no application during the initial prescribed period for making a transfer election.

In accordance with subsection 24(11.1) of the Regulation, where an election is made within the prescribed period, interest calculated at the same rate used to calculate the [initial] commuted value must accrue from the date of termination to the beginning of the month of transfer. Where a plan administrator fails to provide a written termination statement within the prescribed period, no downward adjustment of the cumulative amount of commuted value plus interest is permitted. At the date the transfer is made from the pension plan, the amount transferred with respect to an individual should not be less than the commuted value computed as at the individual's date of termination, plus interest credited at the rate and over the period indicated above.