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WESTCOAST WATCH!



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The Federal budget was released on February 18, 2003. This edition of **Westcoast Watch!** summarizes the budget proposals that relate to tax-assisted retirement savings, in particular Registered Pension Plans (RPPs) and Registered Retirement Savings Plan (RRSPs).

Proposed New RPP and RRSP Limits

The following proposed new retirement savings limits were announced in the budget (existing limits are shown for comparison):

Year	2003	2004	2005	2006	2007
MP* RPPs					
Existing	\$14,500	15,500	Indexed		
Proposed	\$15,500	16,500	18,000	Indexed	
DB** RPPs					
Existing	\$1,722.22	1,722.22	Indexed		
Proposed	\$1,722.22	1,833.33	2,000.00	Indexed	
RRSPs					
Existing	\$13,500	14,500	15,500	Indexed	
Proposed	\$14,500	15,500	16,500	18,000	Indexed

* MP = Money Purchase (Defined Contribution)

** DB = Defined Benefit

Indexed means increased at the rate of wage inflation for Canada.

Please note that the amounts shown for MP RPPs or RRSPs are annual maximum dollar contribution limits while the amounts shown for DB RPPs are annual maximum dollar pension limits per year of pensionable service.



The higher maximum limits may benefit only pension plan members or individuals who earn in excess of certain threshold levels. For example the new money purchase limit for 2003 will only benefit members who earn in excess of \$80,555 based on 18% of earnings; the new defined benefit limit for 2004 will only benefit members who earn in excess of \$86,111 based on 2% of earnings. The “magic factor of 9” is maintained, i.e., the defined benefit limit continues to be 1/9 of the money purchase limit.

Certain pension plans may have been worded such that new limits under tax legislation are automatically recognized. The proposed increases in the retirement savings limits will add costs for plan sponsors. Sponsors of plans with plan texts that do not automatically reflect increases in limits should consider whether to make amendments to incorporate the proposed higher limits.

Other Proposed Changes

- ◆ After 2003, payment of retirement income under a money purchase provision of an RPP is allowed in the same manner as is permitted under a Registered Retirement Income Fund (RRIF).
- ◆ After 2003, transfer of funds by former RPP members back to an RPP is allowed if they had previously transferred the funds to an RRSP or RRIF.
- ◆ After 2002, the level of income used to determine the financial dependence of an infirm child or grandchild will increase from the current \$7,634 to \$13,814 (indexed after 2003) for the purpose of determining eligibility to receive, on a tax-free basis, proceeds from an RRSP or RRIF of the individual’s parent or grandparent.
- ◆ The government is committed to review and enter consultations to assess whether Tax Pre-Paid Savings Plans (TPSPs) could be a useful and appropriate mechanism to improve the tax treatment of savings and to provide additional savings opportunities to Canadians. TPSPs are plans funded with non-tax-deductible contributions that accumulate investment income tax-free and provide tax-free withdrawals.

The payment of retirement income under a money purchase provision of an RPP will alleviate some concerns that these retirement funds, once transferred to a Life Income Fund (LIF) type of plan, will have to purchase an annuity with the remaining balance at a certain age (e.g. 80 for B.C.). Many money purchase pension plan members consider the purchase of an annuity at times of low interest rates to be very undesirable.

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