

# Special Communiqué

March 20, 2007

## About US

Morneau Sobeco is a leading human resource consulting firm focusing on the design and delivery of compensation, retirement, and employee benefits programs. With over 1,000 professionals working in 12 cities across North America, we serve more than 1,000 clients.

In addition to its in-depth consulting practice, Morneau Sobeco is recognized for its expertise in the provision of integrated administrative solutions and for its vision in terms of progressive employee self-service tools.

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## 2007 Federal Budget Announces Measures to Keep Up With Aging Workforce

On March 19, 2007, Federal Finance Minister Jim Flaherty presented the 2007 Federal Budget. The new budget featured some changes to the Income Tax Act (Canada) that will have an impact on certain retirement matters in Canada.

This communiqué summarizes those changes related to:

- > Phased retirement;
- > Maximum deferral age;
- > Qualified investments;
- > Tax credit due to age; and
- > Pension income splitting.

### Phased Retirement

Phased retirement is when a person works for a portion of a year and then collects a pension for the remainder of the year. During the portion of the year worked, the member continues to accrue a pension benefit. Currently, only Alberta and Quebec specifically allow for phased retirement ten years before normal retirement age, whether the person is entitled to or not entitled to an unreduced pension.

Phased retirement is not permitted by the Income Tax Act (Canada), which specifically prohibits accruing a pension benefit at the same time as receiving a pension. A complicated and administratively cumbersome process requiring partial

commutation of pension entitlements is currently used to allow the Alberta and Quebec phased retirement schemes to operate under current tax rules.

The proposed changes in the 2007 Federal Budget will apply to anyone who is 55 years of age or older, and eligible for an unreduced retirement. Registered pension plans will be permitted to offer an annual amount of up to 60% of the pension payable to the member if the member were to retire. At the same time, the member may continue to accrue additional pension benefits based on actual service with the employer. There is no restriction on how often the member's pension benefit may be recalculated. Bridge benefits may also be paid without requiring the underlying pension benefit to also commence.

The changes are expected to apply starting in 2008, and do not apply to designated plans or connected persons.

There is no requirement for a registered pension plan to offer phased retirement.

## Maximum Deferral Age

Currently, the Income Tax Act (Canada) requires that a pension commences, or a Registered Retirement Savings Plan (RRSP) is converted to a Registered Retirement Income Fund (RRIF), no later than December 31<sup>st</sup> of the year the person turns 69 years of age. The proposed change would allow a person to defer starting a pension or converting an RRSP to an RRIF until December 31<sup>st</sup> of the year the person turns 71 years of age, returning to the original pre-1998 rules.

According to changes in the 2007 Federal Budget, people who are currently 70 or 71 years of age in 2007 may continue to defer the start of their pension. Requirements for withdrawals from an RRIF for people who are 70 and 71 will be waived for 2007 (for those who are currently 70 or 71) and for 2008 (for those who are currently 70). People who will be 71 years of age or younger on December 31<sup>st</sup>, 2007 may convert an RRIF to an RRSP, but the RRSP must be converted back to an RRIF no later than December 31<sup>st</sup> of the year the person turns 71 years of age. Contributions may be made to an RRSP provided the individual has RRSP room.

Pension plans that currently have the age 69 restriction, and that are registered in a province where mandatory retirement is not permitted, will need to amend their plans to the new age requirement.

## Qualifying Investments

Investments qualifying as permissible for RRSPs and other registered plans will be expanded to provide registered plan investors with greater investment choice and diversification opportunities, effective March 19, 2007, according to the new federal budget.

## Tax Credit Due to Age

The age credit will be increased to \$5,066, an increase of \$1,000 in the 2007 budget.

## Pension Income Splitting

The 2006 Federal Budget committed the government to investigating the issue of splitting pension income between spouses. This year's federal budget confirms that pension income splitting will be permitted.

For additional information, please contact your Morneau Sobeco consultant.