

Maximum Transfer Amount from a Defined Benefit Pension Plan

The *Income Tax Act of Canada* and regulations thereof limit the amount of money that can be contributed to a retirement savings arrangement each year on a tax-sheltered basis. It also limits the amount which may be transferred tax free (Maximum Transfer Value) from a defined benefit plan to:

- a defined contribution provision of a registered pension plan,
- a locked-in retirement account (LIRA), or
- a registered retirement income fund (RRIF)/life income fund (LIF).

MAXIMUM TRANSFER VALUE AND EXCESS AMOUNT

As a member of Part A, the hybrid segment of the McGill University Pension Plan (MUPP) you can view your current estimated Defined Benefit (DB) entitlement under My Plan – Accounts – Balances – Defined Benefit Overview on the Plan’s record keeper’s (Sun Life Financial) website (see Appendix A).

When you terminate your participation in the MUPP, you will receive a *Pension Termination Package* from Sun Life Financial indicating the potential supplement arising from the Defined Benefit Minimum provisions of the MUPP that you may be entitled to. Details related to the Maximum Transfer Value and the amount exceeding that value (Excess Amount) can be found in the section 2 of the *Options for the Supplemental Retirement Benefit*.

PAYMENT OF THE EXCESS AMOUNT

The Excess Amount is payable in cash and is taxable. In your preparation for retirement, you should incorporate the amount and timing of the anticipated payment in your cash flow projections.

HOW TO ESTIMATE THE MAXIMUM TRANSFER VALUE AND THE EXCESS AMOUNT

Prior to terminating your participation in the MUPP, you may wish to estimate the Maximum Transfer Value and the Excess Amount that would be applicable. Estimating the Maximum Transfer Value is not a simple undertaking. You will need to access your DB Information screen on the Sun Life Financial website (see Appendix A) as well as the Canada Revenue Agency’s (CRA) table of present value factors (see Appendix B).

The applicable formulas to determine the Maximum Transfer Value and the Excess Amount for the MUPP are as follows:

Maximum Transfer Value = Potential Supplemental Retirement Benefit (SRB) X CRA Present Value Factor

$$\text{Excess Amount} = \left[1 - \frac{\text{Maximum Transfer Value}}{\text{Potential Supplemental Retirement Benefit Value (SRBV)}} \right] \times \text{Potential SRBV}$$

EXAMPLE: A member age 65 that has accumulated a Potential Supplemental Retirement Benefit annual pension of \$5,302 with an potential transfer value of \$80,000 (see Appendix A). The CRA Present Value Factor at age 65 is 12.4 (as per Appendix B).

Maximum Transfer Value = \$5,302 X 12.4 = \$65,745

$$\text{Excess Amount} = \left[1 - \frac{\$65,745.80}{\$80,000} \right] \times \$80,000 = 17.8\% \times \$80,000 = \$14,255.$$

This means that in this case, 17.8% of the member's Potential Supplemental Retirement Benefit Value (or \$14,255) would be paid out as taxable income.

Should you have any questions please call the McGill University Savings Programs Call Centre at 1-888-444-2023, Monday through Friday between 8 a.m. and 6 p.m. Eastern Standard Time.

APPENDIX A

Login at: <https://www.mcgill.ca/hr/pensions/mupp/mupp-login> using your McGill Username & Password.



My McGill University Pension Plan summary

The McGill University Pension Plan (Part A) is a hybrid plan that combines the features of a defined contribution plan with a defined benefit minimum.

If the value of your Defined Benefit Minimum Pension is higher than the Defined Contribution regular account value if invested 100% in the balanced account, at the earlier of termination (or retirement) or when you turn 65, you may be entitled to an extra amount known as the "Supplemental Retirement Benefit Value". There are various options available if you wish to transfer the amount, or you can have the value paid out in the form of a recurring pension amount.

Note that if you are over age 65, the amounts presented in the table below reflect the annual accrued pension adjusted for postponed retirement and the related transfer value as of the date indicated. For additional information, please refer to your age 65 pension statement.

We update your Potential Supplemental Retirement Benefit Value monthly within 10 days of month-end.

Description	Values
Defined Contribution account value as of April 7, 2022	\$475,000.00
Potential Supplemental Retirement Benefit Value as a transfer value as of March 31, 2022 	\$ 80,000.00
Or	
Potential Supplemental Retirement Benefit Value as an annual life only pension (optional forms are available at settlement) 	\$ 5,302.00

Current DC Value

Potential SRBV as a Transfer Value

Potential SRBV as an annual pension

APPENDIX B

Attained Age	Present Value Factor	Attained Age	Present Value Factor	Attained Age	Present Value Factor
Under 50	9.0	66	12.0	83	6.4
50	9.4	67	11.7	84	6.1
51	9.6	68	11.3	85	5.8
52	9.8	69	11.0	86	5.5
53	10.0	70	10.6	87	5.2
54	10.2	71	10.3	88	4.9
55	10.4	72	10.1	89	4.7
56	10.6	73	9.8	90	4.4
57	10.8	74	9.4	91	4.2
58	11.0	75	9.1	92	3.9
59	11.3	76	8.7	93	3.7
60	11.5	77	8.4	94	3.5
61	11.7	78	8.0	95	3.2
62	12.0	79	7.7	96 or over	3.0
63	12.2	80	7.3		
64	12.4	81	7.0		
65	12.4	82	6.7		

Between the ages of 49 and 64, these factors are to be interpolated based on the member's exact age (i.e. expressed in years, including any fraction of a year, e.g. 58 years + 3 months = 58 + (3/12) = 58.25 years).

Formula: $Y = Y1 + [(X - X1) \times (Y2 - Y1)]$

Where:

X	58.25	Y	Unknown
X1	58	Y1	11.0
X2	59	Y2	11.3

$$Y = 11 + ((58.25-58) \times (11.3 - 11))$$

$$Y = 11 + (0.25 \times 0.3)$$

$$Y = 11 + 0.075$$

Y = 11.075 is the interpolated factor for age 58.25 (58 years and 3 months)

Formula Source : <https://www.wikihow.com/Interpolate>