



Introduction

We've prepared the following questions and answers with respect to the establishment of the Retirement Compensation Arrangement (RCA),

which will fund retirement benefits for members of the Public Service Pension Plan (PSPP) whose salary exceeds the limits on pension benefits and contributions under the federal Income Tax Act (ITA) at retirement. The RCA was established as of January 1, 2022, to fund benefits that were previously paid out of the Public Service Supplementary Benefits Account (PSSBA). This change impacts how employers calculate, remit and report pension contributions to OPB effective January 2022, (i.e., employers will have to separate contributions related to the RCA from PSPP contributions).

1. What is an RCA?

An RCA is an arrangement under which contributions are made into a trust to fund benefits payable at retirement, and that is not a registered pension plan (RPP). There are a number of tax benefits for members as a result of this arrangement (which are discussed below in Question 2).

2. What are the benefits of an RCA?

Establishing the RCA will provide a number of benefits for PSPP members compared to the prior existing PSSBA arrangements.

Tax deductibility of contributions

Member contributions to the RCA will generally be tax deductible. (Tax deductibility is discussed further in Question 8).

Contributions previously remitted to the PSSBA (i.e., pension contributions in excess of the ITA contribution limit) were not tax deductible.

Income splitting

Benefits paid from the RCA are eligible for pension income splitting (under which a portion of eligible pension income may be allocated to the RCA member's spouse for tax purposes), provided that the member is at least 65, and is subject to limitations under the ITA.

Portability

The RCA may improve portability options for members transferring into or out of the PSPP, which in turn may assist employers in attracting and retaining executive and other senior staff.

Historically, PSSBA benefits were generally not transferable to other employers' supplementary pension plans. However, a tax-sheltered transfer is possible where RCA benefits are transferred directly to another RCA. A direct RCA Transfer is only possible where both the PSPP and the predecessor / successor plan agree to the transfer.

3. How does the RCA impact employers?

Effective January 2022, employers will be responsible for separating RCA contributions from PSPP contributions and remitting each set of contributions to a separate bank account (i.e., one for PSPP contributions and one for RCA contributions).

4. Are contributions rates going to be impacted?

PSPP and RCA contribution rates were not affected by the establishment of the RCA.

5. When are members required to make RCA contributions?

A PSPP member must contribute to the RCA when their annual salary rate exceeds the annual threshold that corresponds to the ITA benefit limit for that year. This is referred to in the Plan Text (and by OPB) as the maximum benefit salary rate.

The maximum benefit salary rate for 2023 is \$198,643.50. Since the salary rate is updated on an annual basis, we will include the updated salary in our annual Rates & Limits communication.

6. How are pension contribution calculations going to change?

The overall contribution calculation formula remains unchanged. What's changing is that employers will need to determine what contributions need to be remitted to the PSPP and RCA. When a member's annual salary rate (as defined in the PSPP) exceeds the annual threshold that corresponds to the ITA benefit limit for that year (the maximum benefit salary rate), employers must determine the member's total contributions based on their annual salary rate. Employers then determine, and subtract, the member's contributions up to the maximum benefit salary rate, which are made to the PSPP. The difference is the amount of the RCA contributions.

A calculation example for an Agency employer with a bi-weekly payroll calendar is outlined below.

Additional examples are available upon request, including examples for members employed by a Ministry or an Agency that pays members semi-monthly.

Example:

PSPP member has an annual Salary Rate of \$250,000

Step 1: Determine the member's Bi-weekly salary rate.

$\$250,000 / 26 \text{ pay periods} = \$9,615.39$

Step 2: Calculate YMPE bi-weekly salary and determine the bi-weekly salary above the YMPE.

- (i) Calculate Bi-weekly up to the YMPE:
 $\$71,300 / 26 = \$2,742.31$
- (ii) Calculate Bi-weekly salary above the YMPE:
 $\$9,615.39 - \$2,742.31 = \$6,873.08$

Step 3: Calculate the total bi-weekly Contributions.

- (i) $7.85\% \times \$2,742.31 = \215.27
- (ii) $11.00\% \times \$6,873.08 = \756.04
- (iii) $\$215.27 + \$756.04 = \$971.31$

Step 4: Calculate Bi-weekly threshold salary and PSPP contributions based on the threshold

2025 Threshold salary is \$212,788.50

- (i) $\$212,788.50 / 26 = \$8,184.17$
- (ii) $\$71,300 \text{ (2025 YMPE Salary)} / 26 = \$2,742.31$
- (iii) $\$2,742.31 \times 7.85\% = \215.27
- (iv) $(\$8,184.17 - \$2,742.31) \times 11.0\% = \598.61
- (v) $\$215.27 + \$598.61 = \$813.88 \text{ (PSPP Contributions)}$

Step 5: Determine RCA Contributions

$\$971.31 \text{ (Total Contributions)} - \$813.88 \text{ (PSPP Contributions)} = \157.43

7. How does the RCA impact pension data reporting?

Since employers must remit RCA and PSPP contributions to OPB separately, pension data must show the breakdown between contribution types. Additional information about the pension data reporting requirements is available upon request.

Please note that the separation of RCA and PSPP contributions will also extend to invoices employers receive from OPB with respect to Long Term Income Protection (LTIP), unpaid leaves of absence, and buybacks. Employers are required to send OPB separate remittance forms for PSPP and RCA contributions. Remittance forms are available upon request.

8. How will the RCA impact income reporting?

Contribution deductibility

RCA contributions are tax deductible as long as the member's share of the RCA contributions does not exceed the employer's portion (e.g., RCA contributions will not be deductible where the members contributions are not matched by the employer, such as buybacks of special leaves). Deductible contributions can be reported in Box 20 of members' annual T4 slip. This is the same box used to report RPP contributions (i.e., PSPP contributions). Because the amount in Box 20 of the T4 slip will include both RPP contributions and deductible RCA contributions, employers must attach a letter to the employee's copy of the T4 slip showing each amount separately. Please contact OPB for a copy of the letter.

Pension Adjustments

Pension adjustments (PAs) are not affected by the establishment of the RCA. Continue to calculate members' PAs using the existing methodology.

9. When are PSPP members eligible to receive RCA benefits?

A PSPP member whose pension is based on an average annual salary that exceeds the salary level that corresponds with the ITA benefit limit at retirement is eligible to receive RCA benefits (this would also apply to terminating members who withdraw the CV of their pension entitlement). Their RCA entitlement is based on the conditions that exist at the time of retirement or termination. Until the actual termination occurs, whether it is pre-retirement, retirement or death, there is no way of knowing for certain whether a member is entitled to an RCA benefit in addition to the benefit from the PSPP. Benefit entitlements will be calculated in the same manner as they are calculated for those members whose benefits are entirely within the PSPP. Any benefit entitlements that exceed the benefit limit will be paid from the RCA account, if eligible.

10. How are RCA benefits administered when a member terminates their PSPP membership?

Most provisions of the PSPP as described in the Termination Sections of OPB.ca apply to the benefit entitlement under the RCA. The choice that the member makes with regard to the direction of their entitlement from the PSPP will affect the choice for the RCA benefit. For example, at termination, if the member chooses to receive a commuted value from the PSPP, any benefit under the RCA will also be paid out as a commuted value. The member cannot choose to have the PSPP benefit paid out as a commuted value and the RCA benefit as a deferred vested pension. If a commuted value is paid out from the RCA, it will be paid in cash, less withholding taxes. The payment will be included as income in the year of payment.

In addition to the payment options described above, members can also elect to transfer their RCA benefit to another RCA (if the other RCA agrees).

Such a transfer may be available where a member transfers their CV, or where a member transfers their PSPP pension entitlement under a reciprocal transfer agreement.

11. How are members' pensions impacted?

The pension benefit formula will remain unchanged. The monthly PSPP pension and RCA benefits will be combined into a single monthly payment for retired members receiving RCA benefits.

12. How are RCA benefits paid when the member dies?

The eligibility criteria for survivor and death benefits from the RCA are the same as those for the PSPP. The RCA benefits are payable to beneficiaries named under the PSPP. Please refer to **OPB.ca** for additional information.