TRANSFERS FROM A REGISTERED PENSION PLAN TO A **SUN LIFE PAYOUT ANNUITY**

ADVISOR GUIDE

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Sun Life
Global Investments

A guide to understanding transfers from a registered pension plan to a life annuity

The purpose of this guide is to help advisors understand the transfer of registered pension plan assets to a life annuity in general and, specifically, to a Sun Life Payout Annuity. It will cover the basic differences between defined contribution (DC) and defined benefit (DB) plans with a focus on how those differences impact the transfer opportunity as outlined below.

DC plan transfers:

- Transfers to life annuities are very common.
- Generally, there are few tax issues.
- Determining Client suitability is a relatively straightforward process.

DB plan transfers:

- There are potential tax implications to consider.
- Determining Client suitability requires more diligence.

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Registered Pension Plans (RPP) Overview

Many employers offer pension plans for their employees. The plans range from basic plans to more complex plans that may offer guaranteed periods and other extra benefits.

Pension plans are governed by federal and provincial legislation, with each level of government responsible for different aspects of a pension plan. The provinces or federal government regulate the administration of pension plans. Administration covers things like record keeping and disclosure, required contributions, benefits, and government oversight of pension plans to ensure that they remain adequately funded.

Jurisdiction	Applicable Legislation	Administered/governed by
Federal (Canada)	Pension Benefits Standards Act (PBSA)	Office of the Superintendent of Financial Institutions
Alberta	Employment Pension Plans Act	Alberta Treasury Board and Finance, Alberta Superintendent of Pensions
British Columbia	Pension Benefits Standards Act	British Columbia Financial Institutions Commission
Manitoba	Pension Benefits Act	Office of the Superintendent – Pension Commission
New Brunswick	Pension Benefits Act	Pension Division of the Financial and Consumer Services Commission (FCNB)
Newfoundland & Labrador	Pension Benefits Act	Pension Benefits Standards Division, Service NL
Nova Scotia	Pension Benefits Act	Finance and Treasury Board, Pension Regulation Division
Ontario	Pension Benefits Act (PBA)	Financial Services Commission of Ontario
Prince Edward Island	No legislation in force	Not applicable
Quebec	Supplemental Pension Plans Act	Retraite Québec
Saskatchewan	Pension Benefits Act	Saskatchewan Financial and Consumer Affairs Authority (FCAA)

*Yukon, NWT and Nunavut governed by federal jurisdiction.

WHICH FEDERAL OR PROVINCIAL PENSION LEGISLATION GOVERNS A CLIENT'S PLAN?

A plan is governed by the pension legislation where the plan is registered. This is usually where the head office of the Client's company is located. Individual benefits are governed by the law of the province in which the Client works, except when they're a member of a federally regulated plan.

At the federal level, the Income Tax Act (ITA) governs the taxation of pension plans, including the taxation of pension benefits to plan members, and the tax treatment of pension transfers. There is also some federal regulation of pension administration for pensions offered by employers who are in federally regulated industries, such as banking, telecommunications, railways and airlines, and for pensions offered by employers with their head offices located in any of the three territories.

Comparing Defined Contribution and Defined Benefit pension plans

RPPs come in two basic types: DC and DB. The ITA uses the term "money purchase plan" to describe a DC plan, but the industry uses the term "DC plan," so in this guide we'll use the term "DC plan." In the private sector DB plans are becoming less common as employers opt instead to offer DC plans to reduce their ongoing pension liabilities. In the public sector DB plans are still commonplace.

The table below summarizes the key differences between DC and DB plans.

Defined Contribution	Defined Benefit
Contributions defined by the plan	***Benefits*** defined by the plan

Employer ***must*** make contributions to plan
• Employer may claim the contributions as a tax deduction
• Size of employer contributions determined by applicable law and by plan document: percentage of employee's salary or fixed amount
• Contributions made to a pension trust
  • Are separate from employer's assets
  • Not available to employer's or employee's creditors
  • Can't be returned to employer if vested
Employee ***may*** contribute if plan allows
  • Employee contributions limited by registered retirement savings plan (RRSP) contribution room
• Employer matches employee contributions if plan requires it
  • Size of employer matching contributions, if any, determined by applicable law and by plan document
• Employee not taxed on employer contributions, may deduct own contributions (subject to RRSP deductibility rules)
• New employees and employees without RRSP contribution room (such as immigrants to Canada) may need to wait until following year before becoming members in a DC plan
	Employer ***must*** make contributions to plan
	• Employer may claim the contributions as a tax deduction
	  • Size of employer contributions determined by applicable law and based on actuarial assessment of amount needed to fund employee's anticipated future pension benefits, which in turn is based on:
	    - Employee life expectancy
	    - Normal retirement age
	    - Possible interest rate changes
	    - Expected benefit amount
	    - Potential employee turnover
	  • Contributions made to a pension trust
	    - Are separate from employer's assets
	    - Not available to employer's or employee's creditors
	    - Generally, can't be returned to employer
	Employee ***may*** contribute if plan allows
	  • Employee contributions limited by
	    - RRSP contribution rules
	    - Pension plan rules
	• Employee not taxed on employer contributions; may deduct own contributions (subject to plan and RRSP deductibility rules)

During working years (before retirement)	
Employee directs investment of plan contributions (subject to investment options available in plan)	***Employer*** directs investment of plan contributions (subject to regulatory oversight)

CONTINUED

Defined Contribution	Defined Benefit

• Plan investment growth, if any, tax-free
• Employee must monitor plan to ensure it provides enough money at retirement to provide adequate income. Employee may
  ◦ Change investments
  ◦ Make or increase contributions, subject to plan and legislative limits
• If employee leaves employer, and if employee is vested* in the plan, employee can
  ◦ Leave plan assets with employer plan OR
  ◦ Move plan assets to a locked-in retirement account (LIRA)
	• Plan investment growth, if any, tax-free
	• Regulator may require employer to increase contributions if actuarial report indicates a shortfall, or may allow employer to reduce contributions if pension surplus accumulates
	• If employee leaves employer, and if employee is vested* in plan, commuted value of plan assets moved to employee's new employer pension plan (if acceptable**) or to a LIRA (subject to the Maximum Transferable Amount)

*Vesting means employer contributions belong to the employee (employee owns growth from employer and employee contributions). If employee leaves before employer contributions have vested, employee can move only their own contributions and the growth.

**This is very rare as the pension plans are not usually compatible.

At retirement

Employee responsible for retirement income	***Employer*** responsible for retirement income

• Amount of money available for retirement income depends on amount contributed and on employee's investment decisions
  ◦ Not guaranteed by employer
• Retirement income depends on employee decision to take retirement income as a life annuity or life income fund (LIF)
  ◦ LIF income not guaranteed by employer
  ◦ Sustainability of LIF income continues to depend on the performance of the investments chosen by the employee and rate of withdrawals
	• Retirement income determined by plan formula based on employee earnings, years of service
	  ◦ Guaranteed by employer
	  ◦ Income is taken in the form of a life annuity

DID YOU KNOW?

A DB plan's "magic number" determines when the employee can retire with a full pension. It is typically 85 or 90 (retirement age = age + number of years of service). For example: If the plan's magic number is 90, age 55 + 35 years of service = 90. If you had 35 years of service by the time you reached age 55 you could retire with a full pension.

The amount of benefits is defined by a formula, such as those shown below, though there can be variations:

1. Career average: pension benefits based on a percentage of the employee's career average earnings (usually 1 or 2%) times the number of years of service
2. Flat benefit: provides a specific amount of pension for each year worked
3. Best earnings plan: pension benefits based on an average of the best years of pensionable earnings (e.g. best three of last five years). For example: average of best three years' earnings x 2% x years of service

How to tell if a pension plan is DB or DC

The best way is to review a Client's pension statement. DC plan statements will describe the investment options that the Client may select for the plan. DB plans do not provide Clients with investment options because the employer guarantees the pension benefit.

DC pension plan statement	DB pension plan statement
• Generated annually or semi-annually • Displays a current account value • Displays details on investments held in the Client's plan • Provides details of employee and employer contributions • Describes Client's different investment options	• Generally annually, but can be generated at any time • Displays retirement benefit amount • For retirement at 65 or other date • Provides details of values used to calculate benefit amount.

When a Client can transfer and their options

Opportunities to transfer assets out of an RPP are typically restricted to specific events:

- Pre-retirement
    - RPP restructure
    - Termination of employment (voluntary or involuntary)
- Retirement

	Transfer to another workplace pension plan	Transfer to locked-in retirement account*	Transfer to life annuity
Retirement		✔	✔
Termination of employment**	✔	✔	
Plan restructure***		✔	

DID YOU KNOW? "LOCKED IN MONEY"

Pension legislation typically restricts a Client's access to their pension assets ("locks in" the assets) until the Client reaches retirement age (typically age 65, although some provinces allow limited access starting at age 55). Generally, pension assets can be transferred to a LIRA and held there until the Client reaches retirement age.

*Locked in retirement account – means any kind of investment account designed specifically for pension money with "locking-in" provisions. These include Locked in RRSPs or a LIRA provided under provincial or federal pension legislation. In this article we'll use the terms locked-in retirement account (LIRA) and LIF to describe RRSPs, and RRIFs governed by provincial or federal pension legislation. Note: each province and the federal government may use a different term to describe RRSPs and RRIFs governed by their pension legislation.
**Assumes the employee is too young or has too few years of pensionable service to retire and start their pension income.
***A DB plan may be converted to a DC plan. Employees over a certain age (such as age 55) and those employees who have been in the plan for a substantial period of time (such as 10 years) may be allowed to continue in the DB plan. Other employees may have their values in the DB plan frozen and become members of the DC plan going forward, or may have their DB plan values commuted and transferred to the new DC plan.

Transferring from an RPP to a life annuity at retirement

We'll first discuss these transfers in general terms and then the transfer from a DC or DB plan to a life annuity in more detail.

General rules applicable to DC and DB transfers

The pension transfer rules support one of the policies underlying Canada's pension system: to provide some tax assistance for most Canadians to save enough for retirement, regardless of the type of pension plan they have and whether they've worked for one or several employers throughout their careers. Pension money accumulates in accounts that are not subject to tax and may be transferred to different types of pension accounts without triggering taxation.

It's important to have the pension plan administrator confirm their procedures for transfers. It's also important that the pension plan administrator confirm the expected transfer amounts as they will change from day to day. Not all pension plans include these amounts in the information/document they provide to their members. It's important to make sure you're dealing with the right figures.

Details applicable to DC and DB transfers

A transfer from a DC plan is relatively straightforward with few things a Client must consider. A transfer from a DB plan is more involved and there are many more aspects the Client must consider, including potential tax consequences.

In the case of either transfer, income from the life annuity will:

- be fully taxable in the year received.
- qualify for the pension income tax credit and for pension income splitting, provided the Client is age 65 or older, or receives the income as the result of their spouse's death.

Client choices regarding annuity features (e.g. length of guaranteed period, single or joint life) will affect the premium amount required to purchase the life annuity: the less expensive the option, the higher the income. Not all annuity features will be allowed for all pension transfers.

Details to consider – DC plan transfer to life annuity

If the Client is retiring, some or all of the balance in their DC plan can be transferred directly to a life annuity. If the Client is too young under provincial or federal pension rules to buy a life annuity or does not want to purchase an annuity at retirement, some or all of the DC plan balance can be transferred to a LIRA or similar plan. Later, when the Client reaches their minimum retirement age or is ready to purchase an annuity, they can transfer the balance to a life insurance company to buy a life annuity.

Example: DC to an annuity – commuted value equals annuity premium	
DC pension plan balance	$200,000
Monthly annuity income	$990
Premium required to generate $990 per month	$200,000

The $200,000:

- purchases an annuity that will generate $990 per month with the features the Client selected.
- is transferred directly to the insurance company, tax-free, to buy the life annuity.

Example: DC to an annuity – commuted value greater than annuity premium	
DC pension plan balance	$200,000
Monthly annuity income	$700
Premium required to generate $700 per month	$180,000

- $180,000 is transferred directly to the insurance company, tax-free, to buy the life annuity.
- $20,000 is transferred, tax-free, to a LIRA.

Details to consider – DB Plan transfer to a life annuity

Every DB plan should accumulate money intended to fund the company's obligation to provide retirement benefits for the company's employees. When an employee leaves a company they're entitled to transfer the value of their future retirement benefits. This value, called the commuted value, is calculated at the time the money is transferred. It represents the present value of all future benefits the pension plan may be required to pay to the employee at and throughout their retirement.

When an employee retires or is terminated, the entire commuted value in their DB plan can be transferred to another plan, subject to pension legislation and plan rules (see the transfer rules above). If the employee is too young to retire, the commuted value (or most of it) generally goes to a LIRA. If the employee is at retirement age, two additional options become available. The employee may take a pension from the plan or transfer the commuted value to a life insurance company to buy a life annuity.

If the Client decides to transfer the commuted value of their pension from their DB plan, they must transfer the entire amount. They may not leave any portion of the commuted value in the plan.

Maximum transferable amount

A DB plan's commuted value may be transferred to a DC plan, LIRA or LIF, or to a life insurance company to buy a life annuity. Except for the life annuity option, there is a limit on the amount that can be transferred from a DB plan tax-free. The tax-free amount, called the maximum transferable amount (MTA) is determined by a formula set out in Income Tax Regulation (ITR) 8517. Transfers to life annuities are subject to a different limit, discussed below.

If the MTA is greater than the pension plan's commuted value, the entire commuted value can be transferred tax-free; if it's less, only the MTA may be transferred tax-free. The rest is considered an "excess amount" and is taxable to the employee. The only way to obtain any tax sheltering for the excess amount is to deposit it to a personal or spousal RRSP, provided sufficient RRSP contribution room is available.

DID YOU KNOW?

To determine the MTA, you multiply the DB plan's expected pension benefit by a pension factor listed in the regulation.

The ITA allows the transfer to a life annuity on a tax-free basis as long as the "rights" under the life annuity are "not materially different" from those provided under the DB plan. The term "rights" implies benefits beyond income, such as guarantee periods, joint and survivor options, indexing, and so forth, as discussed below. None of them can be "materially different" from those offered under the DB plan.

The "not materially different" rule and potential tax consequences

The term "not materially different" suggests that the life annuity income can differ from the pension income, but not by much: the two income streams must be approximately the same. How much of a difference will the Canada Revenue Agency (CRA) tolerate? It will only evaluate a transfer after the life annuity has been purchased. If the CRA determines after purchase that the life annuity benefits do not comply, the Client must take the full amount of the commuted value into income in the year in which the transfer was made. Note: a life annuity purchase cannot be reversed.

Due to the CRA's position, Clients must seek tax advice before initiating a DB plan to life annuity transfer.

Complying with the "not materially different" rule

The best way to ensure compliance with the "not materially different" rule is to make sure that the Client's life annuity income exactly matches the income they would have received from the DB plan, and that annuity features, such as guarantee periods and continuing income for a surviving spouse, also exactly match their DB plan counterparts.

However, it may be impossible to avoid some differences. For example, a life annuity may be able to match a DB plan's income and features for a lower premium than the DB plan's commuted value. If the difference is not too large, the excess amount from the commuted value will be taxable to the Client in the year of the transfer, but the transfer of the commuted value used to purchase an annuity will remain tax-free.

Conversely, a DB plan's commuted value may be less than the premium needed to buy a life annuity that can match the DB plan's income and other features. In those cases, the CRA has indicated that the income and features can be reduced to match the available commuted value without violating the "not materially different" rule. However, the full amount of the commuted value must be used to purchase the annuity.

Many DB plans offer CPI indexing of the income benefits. Most life insurance companies do not offer CPI indexed annuities. However, the CRA has provided guidance that a proxy fixed indexed rate can be substituted for CPI indexing situations without violating the "not materially different rule".

Example: DB plan to a life annuity – commuted value greater than annuity premium	
DB plan commuted value	$738,000
DB pension payment	$4,000/month
Life annuity payment*	$4,000/month
Premium required to match the DB Plan income*	$720,000

- 720,000 of the commuted value is transferred directly, tax-free, to the life insurance company to buy the life annuity.
- The annuitant must take the remaining $18,000 in cash and it will be taxable in the year it's received.

Example: DB plan to a life annuity – commuted value equals premium	
DB plan commuted value	$738,000
DB pension payment	$4,000/month
Life annuity payment*	$3,600/month
Premium required to match the DB Plan income*	$738,000

$738,000 is transferred directly, tax-free, to the life insurance company to buy the life annuity.

Suitability of an annuity as a transfer option for DB plans

Transfers from a DB plan to a payout annuity are less common than DC to annuity transfers, in part because the situations where a transfer may be suitable for a Client are limited.

May be suitable	May not be suitable	Not suitable

• Valid concerns about the plan's future
  ◦ Plan significantly underfunded
• Private sector pension plan
• Ancillary benefits easily replaced or not important to Client
	• Plan's future prospects good
	  ◦ Employer has good credit rating
	  ◦ Plan close to fully funded
	• Ancillary benefits important to Client and may be difficult, expensive or impossible to replace
		• Government guaranteed pension
		• Clients seeking estate planning options where a life annuity is a poor choice
		  ◦ e.g. Client values liquidity and ability to leave money to heirs more than lifetime income
		• Annuity benefits are materially different from the DB benefits

*Assumes other benefits (survivor benefits, guarantee periods) are the same for the life annuity and the DB plan. This increases the likelihood that the CRA will agree that the life annuity benefits are not materially different from the DB plan benefits.

DB Transfers to Sun Life Payout Annuity

Before initiating a DB plan transfer to a payout annuity at Sun Life there are two additional matters that should be considered:

- matching income, and
- acceptable DB transfers and the "not materially different" requirement.

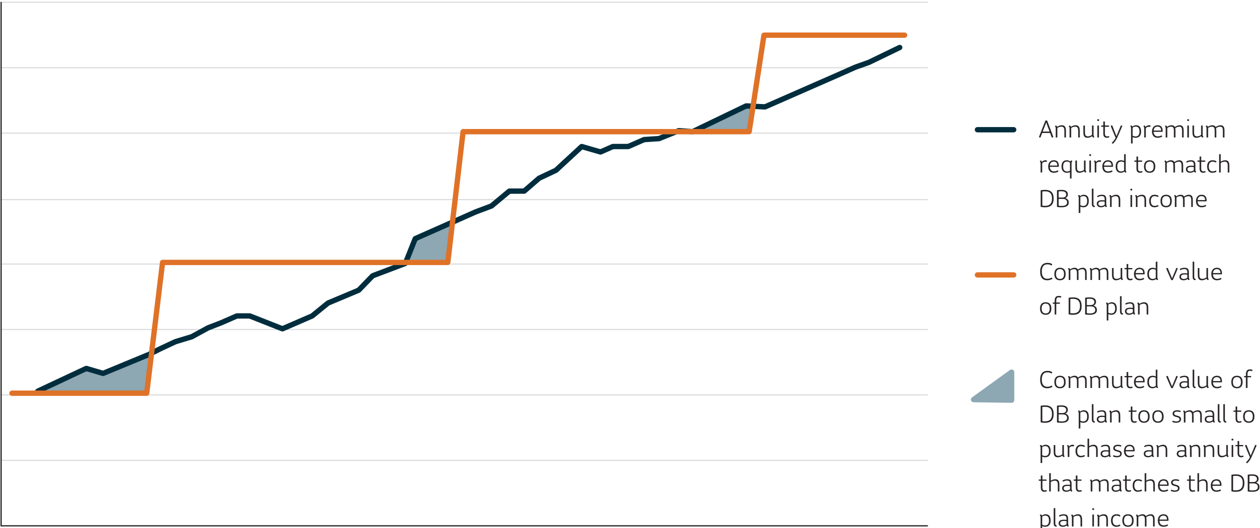
Matching income

It is possible that Sun Life will not be able to match the income from a DB plan.

Sun Life calculates annuity income based on current interest rates (that change daily) and other factors like life expectancy. DB plans typically change their commuted value assumptions, including interest rate assumptions, less frequently. As a result, there may be periods of time when the income offered by the DB plan will be higher than the income that would be generated from an annuity purchased with the commuted value of the DB plan.

The following chart shows a hypothetical example of how a DB plan's commuted value and the annuity premium required to match the DB plan's income could change over time in a declining interest rate environment. The chart shows that in this environment the amount of annuity premium required to match the DB plan income increases, as does the commuted value. The shaded areas show where the required annuity premium has adjusted to the declining interest rates while the commuted value has not. In this situation the commuted value will not purchase an annuity large enough to match the DB plan income.

DB plan commuted value and annuity premium comparison



Acceptable DB transfers and the "not materially different" requirement – sample scenarios

It is possible Sun Life will not consider a transfer to be acceptable due to the tax risk associated with the transfer and the "not materially different" requirement. The table below provides several examples where the tax risk has been evaluated and indicates whether or not Sun Life will accept the transfer.

Please note that Sun Life does not offer CPI indexing on payout annuities. However, it can accept a transfer from a CPI indexed plan using an annuity with a fixed indexed rate that acts as a proxy for CPI indexing.

Scenario	Tax risk category and comments	Will Sun Life accept the transfer?
A. The commuted value of the DB plan will purchase a life annuity that will pay income and provide features ***equal*** to those of the DB plan.	Low	Sun Life will accept this transfer in most circumstances.
B. The commuted value of the DB plan will purchase a life annuity that will pay income ***equal*** to the RPP income but the life annuity premium will be ***less than the commuted value*** of the pension. The difference will be paid out as a taxable lump sum payment.	Low	Sun Life will accept this transfer in most circumstances.
C. The full commuted value of the DB plan will purchase a life annuity that will generate ***more income*** than the DB plan.	High This transfer can be changed to low tax risk by buying an annuity with identical income and paying out the unused commuted value in a taxable lump-sum	Sun Life will not accept this transfer unless it is modified to equate the annuity income to the DB plan income and pay the remaining commuted value out in a taxable lump sum.
D. The full commuted value of the DB plan will purchase a life annuity that will pay ***less income*** than the DB plan.	Low	Sun Life will typically accept this transfer in most circumstances.
E. The full commuted value of a CPI-indexed DB plan is used to purchase a ***proxy fixed indexed life annuity*** with the ***same starting*** income as the DB Plan.	Low	Sun Life will accept this transfer in most circumstances.
F. The full commuted value of a CPI-indexed DB plan is used to purchase a ***proxy fixed life annuity*** with a ***higher starting income*** than the DB plan.	High Exiting a CPI-indexed DB plan to buy a non-indexed life annuity with higher starting income has a high risk of being deemed "materially different."	Sun Life will not accept this transfer.

This table is not all-inclusive; each DB plan transfer must be evaluated on a case-by-case basis.

Pension transfers (DB & DC) at Sun Life Global Investments

Steps

- Confirm the Client has sought independent tax advice or has chosen not to seek independent tax advice.
- Confirm the plan allows the Client to transfer to a life annuity at this time.

For DC plans

- Submit the application and any applicable documents.

For DB plans

- Discuss the suitability of the annuity purchase with the Client.
- Confirm if the DB plan offers benefits the life annuity does not.
- If the DB plan offers benefits the life annuity does not, confirm the Client is willing to give them up.
- Confirm if the DB plan offers CPI indexing. If so, please be aware that a proxy fixed indexed rate will be used.
- Submit the DB plan documents to Payout Annuity (Head Office) Administration for review. Before a review of these documents, we're unable to provide an illustration due to the possibility that the illustration details will be "materially different" than the rules of the DB plan (legislation stipulates that we not be "materially different").
- Request an illustration to confirm if Sun Life can match the income.
- Confirm if the premium required to match the DB plan income is the same, more or less than the commuted value.
- Obtain approval from the plan administrator for the transfer.
- If the income from the annuity is:
    - the same as the income from the DB plan:
        - Submit the application and all applicable documents.*
    - higher than the income from the DB plan:
        - Confirm the Client has received their own tax advice (only the portion of the commuted value required to match the income can be transferred to purchase the annuity. The excess must be taken in cash).
        - Submit the application and all applicable documents.*
    - lower than the income from the DB plan,
        - Confirm the Client:
            - is willing to accept lower income,
            - is willing to accept the risk CRA may consider the annuity to fail the not materially different standard, and
            - has received their own tax advice
        - Submit the application and all applicable documents.*

*These transfers are complex. Please contact the Payout Admin team prior to initiating the transfer, so they can help ensure a fast and problem-free transfer.

Special retirement plan types – SERPs, RCAs, and IPPs

In addition to DC and DB pension plans, you may encounter special retirement plan types, such as supplemental executive retirement plans (SERPs), retirement compensation arrangements (RCAs), and individual pension plans (IPPs). These can present challenges that differ from the more common DC or DB plans when it comes to transferring plan assets to a payout annuity. However, plan administrators often consider payout annuities because they want to transfer the liability for income payments and ongoing administration to a life insurance company. The following is general information about special retirement plan types.

DID YOU KNOW?

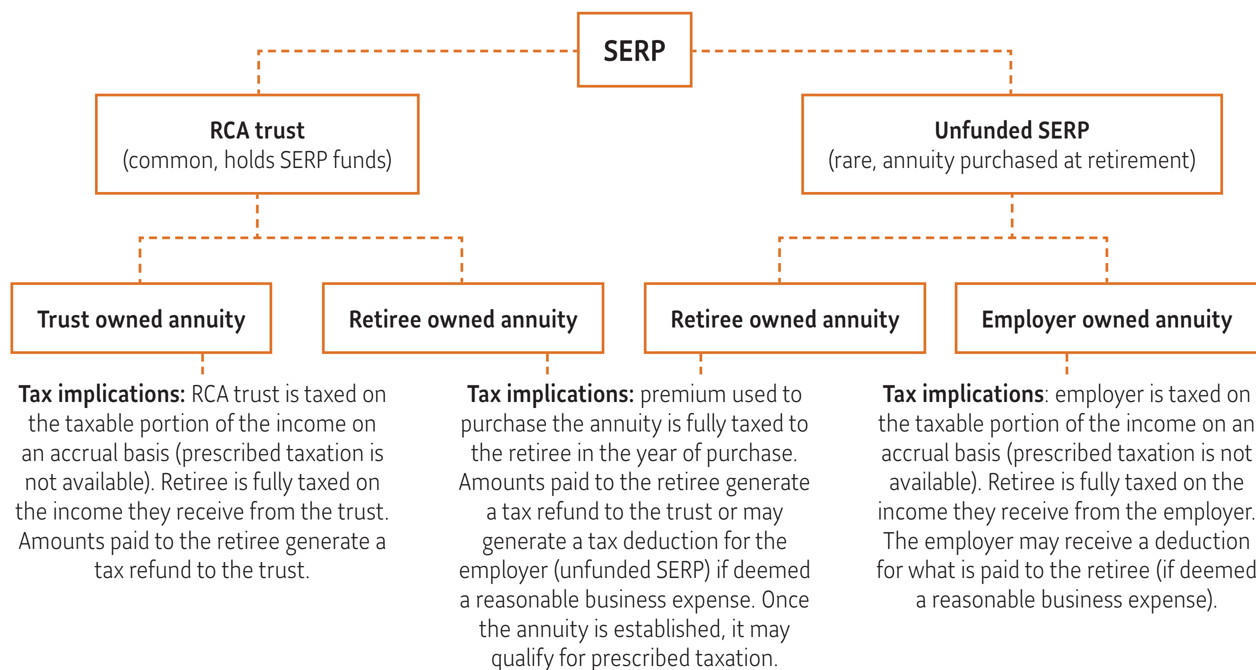
If you're considering transferring assets to a payout annuity from one of these types of plans, please contact the Payout Annuity Team to understand the unique requirements associated with these cases and for support with processing.

SERPs and RCA trusts (these are always non-registered plans)

A SERP is a non-registered retirement plan created by an employer for its executives to provide benefits in excess of RPP and RRSP limits under the ITA. Generally, there are two types of SERPs: funded and unfunded.

- A funded SERP is a promise to pay a retirement benefit with money set aside for the executive in a trust. Funded SERPs are taxed under the RCA rules in the ITA.
- An unfunded SERP is an employer's promise to pay a benefit to an executive at retirement without setting aside money to guarantee that promise.

This diagram shows the relationship between SERPs and RCA trusts, and some of the tax implications.



Note: the tax implications discussed above are not a complete discussion of all tax consequences that may be involved with RCA trusts or unfunded SERPs. Advisors must ensure Clients seek independent tax advice.

RCA trusts

Key points about RCA trusts:

- The employer may deduct the contributions it makes to the RCA trust. The retiree doesn't pay tax on employer contributions at the time they are made or on the annual growth of assets in the trust.
- Any employer contributions to the trust and growth on trust assets are subject to a 50% refundable tax.
- At retirement, the trust begins paying income to the retiree, who must pay tax on the trust income in the year it's received. Any amount the trust pays to the retiree qualifies for a refund to the trust of the refundable tax it has paid: 50 cents for every dollar paid to the retiree.
- The RCA trustee can use trust assets to buy a payout annuity. There are two ways the ownership of the annuity can be structured, each with important tax implications to consider beforehand:

RCA trust owned annuity	Retiree owned annuity
• Generally, the RCA trust buys a payout annuity to provide secure income to support some or all of its obligations to the retiree. It does not have to use all of the trust assets to buy the annuity (it may wish to keep a float in cash). • Prescribed taxation is not available in this structure (prescribed annuities must be held by an individual, not a corporation or a trust). Instead, accrual taxation will apply, resulting in taxable amounts that change each year. • As owner, the RCA trust may direct the insurer to pay the annuity income to the trust or the retiree. However, even if the trust directs income to the retiree, the insurance company will still issue a tax reporting slip to the RCA trust to report the taxable part of each year's annuity income. In turn, the RCA trust will issue a tax reporting slip to the retiree to report income paid to the retiree each year by the trust, or from a trust owned annuity paid to the retiree at the trust's discretion. • Unlike the retiree owned annuity structure, **this requires ongoing administrative and tax accounting by the trustee.**	• This structure moves the liability for continuing income payments and administration (including annual tax reporting) to the insurer. • For retiree owned annuities, prescribed annuities can be used. A prescribed annuity has preferential tax treatment compared to accrual taxation. • The full amount of the employer's money used as the premium to purchase the annuity is taxable to the retiree in the year of purchase. This is an important consideration with significant tax implications for Clients due to the large, immediate tax liability. However, in rare cases the employer may be willing to compensate the retiree for the tax implications in order to transfer the liability and administration to the insurer. • Before Sun Life provides a payout annuity quote, the employer or RCA trustee and retiree must confirm with Sun Life that they understand the tax implications and how they plan to deal with them.

Unfunded SERPS

Employer owned annuity	Retiree owned annuity
• The employer buys a payout annuity to provide secure income to support some or all of its obligations to the retiree. • Prescribed taxation is not available in this structure (prescribed annuities must be held by an individual, not a corporation or a trust). Instead, accrual taxation will apply, resulting in taxable amounts that change each year. • As owner, the employer may direct the insurer to pay the annuity income to the employer or the retiree. However, even if the employer directs income to the retiree, the insurance company will still issue a tax reporting slip to the employer to report the taxable part of each year's annuity income. In turn, the employer will issue a tax reporting slip to the retiree to report income paid to the retiree each year, or from an annuity it owns but for which it has directed the insurance company to pay income to the retiree. • Unlike the retiree owned annuity structure, this requires ongoing administrative and tax accounting by the employer.	• This structure moves the liability for continuing income payments and administration (including annual tax reporting) to the insurer. • For retiree owned annuities, prescribed annuities can be used. A prescribed annuity has preferential tax treatment compared to accrual taxation. • The full amount of the employer's money used as premium to purchase the annuity is taxable to the retiree in the year of purchase. This is an important consideration with significant tax implications for Clients due to the large, immediate tax liability. However, in rare cases the employer may be willing to compensate the retiree for the tax implications in order to transfer the liability and administration to the insurer. • Before Sun Life provides a payout annuity quote, the employer and retiree must confirm with Sun Life that they understand the tax implications and how they plan to deal with them.

IPPs (these are always registered plans)

An employer establishes an Individual Pension Plan (IPP) for one employee or a small number of employees and then, singularly or jointly with the employee(s), makes annual contributions that exceed the limits of an RRSP. These plans can be DB or DC, but are usually DB and associated with high income individuals. This is due in part to the high cost of set up and maintenance (by a specialized administrator). IPPs may also be created for spouses of business owners if they too receive income from the business.

An IPP has some important advantages over an RRSP:

- A retiree receives a pension amount that is known in advance.
- Contributions to an IPP increase with age, unlike RRSPs that remain at a predetermined maximum.
- In the event of financial difficulty, IPP assets are protected from creditors, provided the IPP was set up in good faith.

In order to fully or partly secure its income obligations to the retiree, the IPP administrator can purchase a payout annuity to be owned by the IPP. The IPP administrator can secure as much or as little of its income obligation as it deems appropriate. Although the insurance company will issue tax reporting slips to the IPP, an IPP is tax sheltered, so it will not pay tax on any part of the annuity income it receives. However, any money the IPP pays to the retiree will be fully taxable to the retiree in the year it's paid.

An alternative is for the IPP to transfer the commuted value of the retiree's pension plan to a life insurance company to buy a payout annuity that the retiree will own. As outlined in the DB section of this guide, a transfer must satisfy the "not materially different" rule to be transferred on a tax free basis. Once the transfer is complete, the income from the annuity will be fully taxable to the retiree, just as the IPP income would have been.

Another option is for the retiree to transfer the commuted value of their IPP entitlement to a locked-in RRSP and buy a payout annuity using RRSP money. This arrangement will not be as restrictive as the direct transfer noted above. However, any annuity the retiree buys still will be governed by applicable provincial pension rules, and it may not be possible to transfer all of the IPP money tax free to the RRSP. If the commuted value exceeds the maximum transferable amount prescribed by regulations, the excess must be paid out in cash and will be taxable in the year of the transfer.

For more information, contact your Wealth Sales Team or:

Visit **sunlifeglobalinvestments.com**

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