

PHASED RETIREMENT

A bulletin respecting the administration of phased retirement in a pension plan registered under *The Pension Benefits Act, 1992*

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Introduction

Pension plan members are able to receive pension benefits from a defined benefit pension plan, while simultaneously accruing further benefits from that pension plan, subject to certain conditions.

The purpose of this bulletin is to outline our policy position on phased retirement, and provide guidance to plan sponsors who wish to offer phased retirement.

Phased retirement is considered to be an optional benefit as it exceeds the minimum standards provided under *The Pension Benefits Act, 1992* (“the Act”). No amendments to the Act or to *The Pension Benefit Regulations, 1993* (“the Regulations”) have been made to accommodate phased retirement.

As phased retirement is an optional plan provision, it is up to the employer to determine whether a pension plan will offer this benefit. However, if phased retirement is to be offered, amendments to the plan text are required as described below. If the employer chooses to offer phased retirement, it is a discretionary benefit. In other words, it is the employer’s decision whether to offer phased retirement to a particular individual, and to determine what the terms and conditions of the arrangement are, subject to pension and income tax legislation.

Pursuant to the *Income Tax Regulations*, phased retirement benefits are not permitted for a designated plan, or for an employee who was at any time considered to be a connected person with a participating employer.

Amendments Required to Plan Text

In order to comply with the *Income Tax Regulations*, the plan must address the following two conditions:

1. To qualify for phased retirement, the plan member must be:
 - a. At least 60 years of age; or
 - b. At least 55 years of age and eligible for an unreduced pension.
2. Qualifying members are able to receive up to 60% of their accrued pension while they continue to accrue additional benefits under the plan. The 60% limit is based on the amount of pension entitlement, including bridge benefits, that are payable from the plan if the member retired on the date that phased retirement payments commence.

There is no requirement that the partial pension be based on a reduction in work time, or that there be a corresponding reduction in salary. As a result, qualifying employees will be able to receive up to 60% of their accrued pension benefits while continuing to work, part-time or full-time, as well as continuing to accrue benefits for that work.

In addition to amendments required to comply with the *Income Tax Regulations*, it is recommended that plan sponsors also amend the plan text to provide that a written agreement between the employer and the employee be established to set out the phased retirement arrangement.

Disclosure

We are not recommending amendments to legislation to require a plan administrator to make specific disclosures to plan members with respect to phased retirement. However, consistent with a plan administrator's fiduciary duty to members, we expect a plan administrator to provide the information necessary for a plan member to make an informed decision before entering into a phased retirement period.

During the Phased Retirement Period

Members receiving phased retirement benefits are treated as active members, and the payment of phased retirement benefits is not considered to be a commencement of a pension in pay. Phased retirement benefits are a temporary benefit, payable over the phased retirement period only. On full retirement, the member will make an election as to the form of the lifetime pension.

End of the Phased Retirement Period

The phased retirement period ends when the member dies, terminates plan membership, retires, or the plan terminates.

The pension benefit accrued during the phased retirement period is fully vested.

The amount of the pension benefit paid to a person after the end of the phased retirement period is not reduced to account for the payments received during the phased retirement period.

Pensioner Recommencing Employment

This bulletin does not apply to former plan members, in receipt of a pension from the plan, who recommence work in employment covered by the plan. This group of individuals is governed by section 26 of the Regulations.

Funding Implications

Any material costs associated with providing phased retirement must be reflected in the actuarial valuation.

Defined Contribution Plans

The Regulations accommodate phased retirement for defined contribution plans. This is accomplished by way of the Variable Benefit. The Regulations allow, but do not require, a defined contribution plan to offer a Variable Benefit to members and former members who are eligible to retire. A plan which offers a Variable benefit may allow a member to continue to work while receiving a Variable Benefit from the plan. For information on the Variable Benefit, please see our publications "*Member Guide*" and "*Retirement Guide*".

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