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The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

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Dear Sirs,

Thank you for the opportunity to meet with you earlier this year. Further to our discussions, we are pleased to provide additional comments on these topics.

Annuity Commutation

Background

The issue arises where, in accordance with the terms of a prior defined benefit registered pension plan ("Prior RPP"), a member exercised a portability option under the Prior RPP and acquired an annuity contract with an insurance company in satisfaction of their entitlements to benefits under that Prior RPP. For these purposes, assume the annuity contract satisfies the requirements of section 147.4 of the ITA. This could also arise where the Prior RPP administrator purchased buy-out annuities in bulk.

That member is now participating in a new defined benefit registered pension plan (the "New RPP"). The terms of the New RPP permit members to purchase eligible past service. That member wants to transfer the commuted value of their annuity contract into the New RPP to pay for the purchase of that past service.

Issue

There is currently no mechanism in the ITA that will permit a "double rollover" from the Prior RPP to the annuity contract and then from that annuity contract into the New RPP to purchase past service. In fact, unless the ITA is amended to permit a commutation in these circumstances, paragraph 147.4(1)(g) expressly prohibits it. In other words, the exclusion of section 147.3 under paragraph 147.4(1)(g) means the amount cannot be deemed to be paid from the Prior RPP, and it prevents an annuitant from completing a transfer from the annuity to the New RPP under subsection 147.3(3) (as if the amount was being paid from the Prior RPP). As a result, there is no mechanism in the ITA to permit the subsequent second transfer from the annuity.

A purchase of past service may be permitted under the terms of a pension plan text, but it is not expressly required under the minimum standards legislation and, in Ontario, the minimum standards legislation does not address how that past service may be purchased.

It is not clear that the barrier as it applies to annuity purchases is the result of a deliberate policy decision. This restriction creates an inconsistency within the pension rollover framework, particularly when compared to transfers permitted directly between registered pension plans under subsection 147.3(3), even though the annuity in question represents pension benefits that were themselves settled out of a registered plan in full compliance with the ITA. Permitting such a transfer would not increase the risk of unlocking or benefit leakage, as the funds would remain within the registered pension system and be used solely to purchase pension benefits under another defined benefit registered pension plan. Absent a technical amendment, similarly-situated members may experience materially different retirement outcomes based solely on whether a prior DB entitlement was satisfied through a direct plan-to-plan transfer or through a compliant annuity purchase, which raises fairness and neutrality concerns within the tax-assisted retirement system.

In the future, DB pension plans may receive more requests for such transfers from members who previously participated in a DB plan given the growing use of "buy-out annuities" as a de-risking strategy over the past few years. Addressing this issue would result in a more complete set of technical amendments to avoid future confusion on the factual scenario described above and promote the ability of pension plan members to preserve and grow their DB entitlements until retirement.

Marriage Breakdown Fees

Background

ACPM's March 2025 paper, *Proposals to Modernize Canadian Tax Rules Applicable to Registered Plans 2.0*, recommends that administrative fees be added to the list of permissible contributions under paragraph 8502(b) of the *Income Tax Regulations*. This letter expands on that recommendation by identifying the types of relationship-breakdown administrative fees that Canadian pension minimum-standards legislation already permits plan administrators to charge.

Several jurisdictions permit fees for preparing a pension or family-law value, registering a spouse or former spouse with the plan, or administering a division or transfer of benefits. The applicable rules vary by jurisdiction and plan type. Appendix A summarizes the generally applicable occupational pension minimum-standards provisions.

Paragraph 8502(b) identifies the contributions that may be made to a registered pension plan, but it does not expressly include administrative fees paid to a plan. Paragraph 8502(d) permits a plan to pay reasonable administrative, investment and similar expenses, but does not clearly address whether a plan may receive a fee for an administrative service.

Issue
This creates uncertainty when a relationship-breakdown fee is paid into the pension fund. A plan may absorb an individual transaction cost across the membership, route the payment outside the fund, or choose not to charge a fee that pension law otherwise permits.

Appendix A shows that these fees are targeted and modest. Prescribed maximums generally range from $100 to $1,000, depending on the jurisdiction, plan type and service. Some jurisdictions require specified statements to be provided at no charge, and others do not prescribe an express fee. The federal regime permits a reasonable fee without a prescribed maximum.

These payments are not intended to fund or increase pension benefits. They reimburse a plan for a specific administrative service provided to an individual member, spouse or former spouse. Treating the payment as impermissible solely because it is received by the plan is inconsistent with the pension standards framework and may shift an individual cost to the broader membership.

ACPM recommends that Finance Canada amend paragraph 8502(b) to confirm that a reasonable fee paid to a registered pension plan for administrative services related to a relationship breakdown is a permissible contribution, provided the amount is not credited to an individual account and does not determine or increase a pension benefit. The amendment should be broad enough to accommodate fees authorized under applicable pension or family-property law, including future changes to provincial fee schedules.

This narrow change would align the federal tax rules with relationship-breakdown fees already contemplated by Canadian pension law. It would remove registration uncertainty without changing benefit limits, funding rules or administrators’ fiduciary duties.

ACPM appreciates the opportunity to provide these comments and would welcome the opportunity to continue discussions with you on these important issues.

Yours sincerely,

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