

## **PRE-BUDGET SUBMISSION IN ADVANCE OF THE UPCOMING 2025 FEDERAL BUDGET**

### **SUBMITTED TO:**

The Honourable François-Philippe Champagne,  
Minister of Finance Canada

### **SUBMITTED BY:**

The Association of Canadian Pension Management

**August 2025**

## **Who we Are**

ACPM is the leading advocacy organization for a balanced, effective, and sustainable retirement income system in Canada. Our private and public sector retirement plan sponsors and administrators manage retirement plans for millions of plan members.

Our membership is comprised of plan sponsors, administrators and service providers who work in the retirement income industry daily. Collectively, their priority is to ensure the best possible outcome that will provide their plan members with the pension and retirement security that they expect.

## **Summary of Recommendations**

1. Reinstate Canada's Real Return Bonds Program
2. Encourage the federal government to work with provinces to develop a Variable Payment Life Annuities (VPLA) framework that allows for maximum flexibility in terms of a design framework and a harmonized experience for all Canadians
3. Reform transfer values for pension members. Revise Income Tax Regulation 8517 in a flexible manner to ensure fair tax arrangements for Canadians who terminate their employment.
4. Prevent overpayment of pension benefits and establish an efficient mechanism for recovering overpayments

## **Recommendation #1 – Reinstate Canada’s Real Return Bonds (RRB) Program**

ACPM recommends that Finance Canada support the long-term sustainability of Canadian pension plans and a well-functioning pension system by restarting the issuance of real return bonds. Reinstating RRB issuance is a timely and strategic economic decision for Canada. Restoring the RRB program supports the “invest in Canada” momentum to drive long-term domestic growth. It will also anchor and protect long-term institutional pension investment.

Inflation is a key risk for all pensioners, including those who are part of a registered pension plan. RRBs are an important tool in building a balanced portfolio that manages inflation risk. Pension plans and insurers offering annuities linked to the Consumer Price Index are less equipped to hedge their liabilities against inflation risk as a result of the decision to cease RRB issuance. Members of capital accumulation plans may end up purchasing RRBs as part of target date funds that use them as a component of their portfolios to manage inflation risk. The cessation of issuing RRBs affected long-term benefit security for plan members across the pension universe by removing a tool that could be used to improve benefit security.

Although alternatives to Canadian RRBs for managing inflation risk may be available, they are less direct at hedging Canadian inflation risk, are not always appropriate or available in all situations and are less viable than RRBs. Trading of RRBs provides data to determine pension plan funding requirements and a reference point for insurers for the cost of settling benefits. Without that data, there will be increased volatility in pension plan liabilities and funding requirements.

Without the protections provided by RRBs, inflation hedging will be more expensive and Canadians who own (through individual investments or participation in a pension plan) or start investing in inflation-linked products will experience greater costs.

## **Recommendation #2 – Encourage the federal government to work with provinces to develop a Variable Payment Life Annuities (VPLA) framework that allows for maximum flexibility in terms of a design framework and a harmonized experience for all Canadians**

The ACPM has long advocated for better decumulation support for defined contribution (DC) plan retirees. We believe in the variable payment life annuity solution as an additional tool to enable individuals to decumulate their retirement savings in an orderly fashion.

We believe it is important that the VPLA vehicle be accessible to all retirees with registered savings regardless of whether they are part of a VPLA-enabled DC pension plan or Pooled Registered Pension Plan (PRPP). ACPM strongly favours permitting registered DC plans offering the option of transferring a member’s pension benefit to a VPLA. This would also be a step in the direction of harmonization of retirement income options for members of DC pension plans across Canada.

We recognize that it is not realistic for smaller pension plans to set up VPLAs, as they do not have the necessary membership base to have effective pooling, which is a key driver of the effectiveness

of a VPLA. There can also be significant cost to set up the VPLA that will only be feasible for the largest DC pension plans.

ACPM also recommends legislative changes be made to PRPP legislation to eliminate the requirement for employer participation, allow for the possibility of decumulation-only PRPPs, and reduce the administrative burden and costs associated with PRPPs. These changes will allow Canadians who have earned employment income to:

- i) participate in a pension plan
- ii) aggregate their deferred-tax retirement savings
- iii) access coherent, effectively communicated and well-managed retirement income options.

As the provinces decide to permit VPLAs, there are numerous details that need to be considered. We encourage simplicity, flexibility and pan-Canadian legislative collaboration and consistency. ACPM has published white papers on decumulation considerations ([Decumulation 2.0 \(2022\)](#) and [Decumulation, the Next Critical Frontier \(2017\)](#)), which we recommend be reviewed for consideration.

**Recommendation #3 - Reform transfer values for pension members. Revise Income Tax Regulations section 8517 in a flexible manner to ensure fair tax arrangements for Canadians who terminate their employment.**

Pension members who terminate their employment and choose the option of transferring the value of their DB pension plan (e.g., to a LIRA) are subject to the “Maximum Transfer Value” limits outlined in Regulation 8517. Often, the member is forced to take a large portion of the pension benefit in cash, subject to immediate taxation. Thus, the commuted value of their pension may not receive tax deferral. Given that registered pension plans are tax-deferred arrangements, this forced taxation on the lump sum versus deferred taxation of benefits received during retirement is punitive. The unintended unlocking of this taxable cash amount is also contrary to the retirement policy goal of preserving the lump sum value of pension benefits exclusively for retirement income.

All DB member entitlements are subject to limits on the amount of annual pension benefit for members. Regulation 8517 imposes a second limit test on a member’s benefit. Under a DC arrangement, the amount of contributions permitted are subject to limits, but the lump sum values are not limited a second time at future transfers. Given that a DB entitlement is already subject to limits on the amount of pension provided, there should not be additional restrictions.

When interest rates are low, an annual pension benefit commuted value is higher and more likely to be subject to the Regulation 8517 restriction. Conversely, when interest rates are high, the value is lower, potentially avoiding the Regulation 8517 restriction. The impact of Regulation 8517 is sensitive to fixed-income yields at the time the commuted value is prepared.

When portions of pension benefits are paid in cash, it is unlikely that the individual will be able to replicate the benefit that would have been paid from the DB pension plan. Portability options for plan members should not be subject to rules that result in smaller pension benefits.

There are many valid reasons why members choose a commuted value for their DB pension entitlement. While many DB plan members choose to take a monthly pension, there are still some for whom a commuted value makes sense based on their personal circumstances.

Not all jurisdictions require that an annuity purchase be offered to terminating members as an option. Thus, DB pension plan members who want a transfer due to concerns about benefit security must choose between the risk of leaving their funds in the pension plan or accepting the cash consequences of Regulation 8517. They will have no opportunity to purchase an annuity that is near the value of their pension. Additionally, not all jurisdictions allow financial hardship unlocking directly from the pension plan. Thus, members who have terminated their employment can only access this option by first transferring to a prescribed vehicle, subject to the Regulation 8517 rules – an outcome that disproportionately affects those who can least afford it.

We urge the revision of Regulation 8517. Registered pension plans should maintain their status as tax-deferred arrangements for retirement years. Plan members who exercise portability rights should not be disadvantaged compared to those who leave their pension with former employers.

#### **Recommendation # 4 – Prevent overpayment of pension benefits and establish an efficient mechanism for recovering overpayments**

Upon the death of a pension plan beneficiary, there is usually a delay before the plan administrator is notified to stop payments and distribute survivor benefits. This delay often results in the overpayment of pension benefits, which the plan will seek to recover from the estate.

Current guidance from the CRA is found in the CRA Registered Plans Directorate Newsletter 18-1, which discusses the tax deduction available for the return of pension plan benefits paid in error. In cases of overpayments made after a death, this deduction applies to repayments made by the member's estate.

The estate must return the gross overpayment amount to be made whole. However, this amount is often larger than what the deceased received, as a portion of the pension overpayment was remitted directly to the CRA as tax withheld at source.

The recovery of overpaid benefits is a costly and lengthy process for plan administrators and can delay the final settlement of the estate, preventing beneficiaries from receiving their benefits.

The initiatives below would support pension plan administrators in the overpayment recovery process by reducing repayment amounts owed by the estate.

***i. Permit pension plan administrators to recover tax withheld at source through a credit from CRA to accommodate repayment by the estate of the net overpayment amount***

This measure aims to reduce the repayment amount owed by the estate by ensuring it is not required to return more than was originally received by the beneficiary. Amending the withholding rules in ITA s. 153 would allow repayment of only the net overpayment amount while permitting the plan to recover the excess withholding tax through a credit on its CRA account.

The ITA was amended to streamline how employers recover overpayments to employees. This allows employees to repay only the net portion of an overpayment while enabling the employer to receive a payroll credit for the excess tax remitted. This was introduced as part of the federal government's response to errors associated with the Phoenix payroll system and is now available to all employers.

However, this provision does not apply to the repayment of pension benefits, as "remuneration" does not seem to include pension amounts. Additionally, s. 153(3.1) refers specifically to overpayments resulting from a "clerical, administrative, or system error." Amending the ITA to extend this approach to pension plans would support overpayment recovery and simplify plan administration.

Upon the return of the net overpayment amount, the pension plan would issue a T4A (or T4A-RCA) reflecting the correction. If repayment is made in a later year, the plan would issue amended tax slips for the relevant years. The estate would be made whole upon the CRA's reassessment of the affected years.

***ii. Provide confirmation of a plan beneficiary's death to pension plan administrators***

We request that the CRA establish a service enabling plan administrators to verify whether a plan beneficiary is deceased. Currently, the options for obtaining such confirmation are costly and ineffective. Plan administrators face limitations when relying solely on internal records management and audit programs.

We acknowledge that the ITA restricts the CRA's ability to share taxpayer information. However, we believe our proposal aligns with paragraph 241(4)(b) of the Act, which permits the disclosure of taxpayer information when it is reasonably necessary for determining tax payable. Under our proposal, plan administrators would be able to confirm whether a pension amount remains payable to the taxpayer, which is directly relevant to income tax calculations.

These measures would provide valuable support to pension plan administrators by helping them fulfill their obligations to plan beneficiaries and mitigate the risks associated with payments after death. These changes would support the timely settlement of estates, reduce burden on surviving relatives, and improve accuracy of tax reporting.