

What is a PA and what is a PSPA?



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The **pension adjustment (PA)** and the **past services pension adjustment (PSPA)** are part of a mechanism introduced on January 1, 1990 by the *Income Tax Act* and administered by the Canada Revenue Agency (CRA) that concerns the savings every tax payer can plan for his retirement.

That mechanism is intended for managing and limiting the RRSP deduction allowance per calendar year, i.e. the maximum deductible amount you can contribute to your RRSP or to your pension plan at your work place, either by regular participation, **service purchase** (buy-back) or transfer under an agreement in order to acquire a retirement pension.

The pension adjustments determined following those events represent the value of the benefits you will obtain and they reduce your RRSP deduction limit.

To know how much you can contribute to your RRSP, you must refer to the most recent notice of assessment the Canada Revenue Agency has sent you.

Who calculates pension adjustments?

In the case of regular participation to a pension plan, your employer calculates your PA and enters it on your income tax slips. However, in the case of a buy-back or a transfer, the administrator of your pension plan, i.e. CARRA, calculates your PA or PSPA and includes it on your service purchase proposal for your information.

There is no link between the cost of a buy-back and the corresponding PA or PSPA.

When does a buy-back generate a PA?

If you buy back a period of absence without pay before May 1st of the year following the end of the absence, CARRA usually calculates a PA. That information is sent to your employer, who adds that PA to the one he has calculated, and the total is registered on your income tax slips. Then, your employer sends the amended slip to the Canada Revenue Agency.



When does a buy-back generate a PSPA?

If you buy back a period of absence after April 30th of the year following the end of the absence or a period of past service performed after 1989, CARRA will calculate a PSPA and send the information to the Canada Revenue Agency for certification.

The certification is to make sure your maximum RRSP deduction allowance, even taking into account the \$8 000 margin provided under the *Income Tax Act*, is at least equal to the PSPA generated by the buy-back. If the PSPA is not certified, you have one month to withdraw from your RRSP the required amount to have the PSPA certified, otherwise CARRA will cancel the buy-back or part of it.

If you have the option of accepting a service purchase proposal before or after April 30th of the year following the absence you wish to buy back, it is advisable to consider the rules that apply to your personal situation.

For any general information on the calculation of PAs and PSPAs, you can contact the Direction des contacts clients at 418 643-4881 (Québec region) or 1 800 463-5533 (toll free).

For any question concerning income tax, please contact the Canada Revenue Agency. Their Web site address is www.cra-arc.gc.ca.