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## Government Proposes Funding Relief

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In his fiscal update on Thursday, federal Finance Minister Jim Flaherty proposed that federally regulated pension plans will have twice as much time—10 years instead of five—required for solvency payments.

Companies that pursue this option must meet one of two conditions: the agreement of pension plan members and retirees by the end of 2009 or the securing of a letter of credit to cover the five-year difference.

“Today’s announcement will give these companies one more option they can use to cope with these extraordinary circumstances,” he said.

To deal with longer-term pension concerns, the federal government will soon be launching consultations on issues facing defined benefit and defined contribution pension plans, with a view to making permanent changes in 2009.

“Since pension plans are regulated either federally or provincially, our government will coordinate our efforts with our provincial and territorial counterparts to create a pension system able to withstand whatever future challenges come its way,” Flaherty added.

For seniors who have seen asset values collapse in their registered retirement income funds (RRIFs), he proposed a one-time 25% reduction in the minimum withdrawal amount for this tax year. If a senior were required to take \$10,000 out next year, this measure would reduce the withdrawal to \$7,500.

RRIF holders who withdraw more than the reduced 2008 minimum amount will be permitted to re-contribute the excess to their RRIFs until March 1, 2009, or 30 days after this proposal is enacted, whichever is later.

Similar rules will apply to those receiving variable benefit payments under a money-purchase registered pension plan. Flaherty has estimated this will cost the federal government about \$200 million.

Feedback on the RRIF initiative was mixed. “Basically the government has allowed seniors to reduce their 2008 withdrawals by 25%,” says Karen Atkinson, tax partner at Ernst & Young.

“That’s what I would classify as a very minor tax element of the stimulus. Many people’s retirement funds have fallen substantially in value due to market conditions, so this is a way of saying ‘we recognize that, so we’re not going to force you to take as much money out of your retirement fund.’ This will alleviate the personally income tax burden of many seniors.”

Adrian Mastracci, portfolio manager, KCM Wealth Management Inc., noted that he “would like to remind investors is that there is no reason to convert RRSPs to RRIFs until age 71, unless there is need to establish pension income that qualifies for the \$2,000 tax credit.”

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