

ACTUARIAL EVIDENCE SEMINAR

**SESSION/SÉANCE : Experience and Issues under Ontario's Bill
133 Marriage Breakdown Regime**

SPEAKER(S)/CONFÉRENCIER(S) : Jamie Jocsak

CONTINGENT INCOME TAX

- The value provided by the plan administrator is pre-tax
- A deduction needs to be made in NFP for contingent income tax
- The calculation methodology for contingent income tax is not specified in the law or regulations



SAMPLE CALCULATION

- Active teacher age 49.5 (prior to EURD).
- Accrued pension of \$36,000 prior to age 65 and \$32,000 from age 65
- Commuted value A, B and C calculated by pension plan administrator as follows:

	Value A	Value B	Value C
Age of retirement	61	65	55.5
Weighting (T= 6)	6%	37.6%	56.4%



SAMPLE CALCULATION

- Calculate total projected retirement income in current dollars for each assumed retirement age (i.e. use current earnings). Include OAS, CPP, etc.
- Calculate expected average income tax rate in retirement using current income tax rates.
- Weight each average income tax rate based on the weighting applied to commuted value A, B and C.



Experience and Issues -Ontario's Bill 133 MB Regime

SAMPLE CALCULATION

	Value A	Value B	Value C	Total
Age of retirement	61	65	55.5	
Weighting (T= 6)	6%	37.6%	56.4%	
Pre-65 ret income	\$46,600	N/A	\$41,700	
Post-65 ret income	\$59,400	\$62,700	\$55,100	
Average tax rate	19.1%	20.2%	17.4%	
Average tax rate multiplied by weighting	1.1%	7.6%	9.8%	18.5%



SAMPLE CALCULATION

- There are many variations on this methodology (i.e. different average income tax calculations, projected income, termination assumption, etc.).
- When determining expected income from RRSPs, PV of pre/post-65 ret income, use same assumptions as plan administrator (i.e. unisex)?



LEAVE PENSION OUT OF NFP

- Many lawyers are leaving the pension out of NFP.
- Mathematically speaking, not equivalent to including it in the equalization calculation unless the spouses have the same expected average income rate in retirement.
- Some separation agreements have wording that the pre-tax imputed value division of 50% needs to be adjusted to reflect any income tax considerations.



LEAVE PENSION OUT OF NFP

- How to determine an appropriate tax adjustment to a 50% pre-tax transfer of imputed value?
- You can iteratively determine the percentage that would need to be transferred to spouse to result in both spouses having the same after-tax pension value based on projected income tax rates.
- If non-member spouse is the lower income spouse, they will require less than 50% of the pre-tax value
- May seem unfair to parties to transfer smaller amount to lower income spouse.

