

Special Communiqué

March 30, 2009

Pension Issues in the 2009 Ontario Budget

About Us

Morneau Sobeco Income Fund is the largest Canadian-owned firm providing human resource consulting and outsourcing services.

Through Morneau Sobeco and Shepell•fgi, its two operating entities, the firm delivers solutions to assist employers in managing the financial security, health and productivity of their employees.

With over 2,300 employees in offices across North America, Morneau Sobeco Income Fund offers its services to organizations that are situated in Canada, in the United States and around the globe.



INFO@MORNEAUSOBECO.COM



WWW.MORNEAUSOBECO.COM

Ontario's Budget, released March 26, proposed a number of measures that will affect pension plans.

Harmonized Sales Tax

The Budget announced that, effective July 1, 2010, the Ontario's sales tax will be harmonized with the federal GST. Most services in Ontario will face an additional 8 percent tax on services. Pension plans will have to pay the new tax on services, such as auditing and consulting services.

Solvency Funding Relief

In December 2008, the government announced temporary solvency funding relief for pension plans. Amendments to the *Pension Benefits Act* (PBA) will be introduced for temporary solvency funding relief through regulations retroactive to September 30, 2008.

On filing the first scheduled valuation report dated on or after September 30, 2008, the plan administrator will be able to:

- > create a new five-year payment schedule by consolidating existing solvency payment schedules,
- > defer, for one year from the valuation date, the start of new going-concern and solvency special payments, and
- > extend the solvency funding payment schedule up to 10 years, with consent.

The following details will apply:

- > consent is generally required to extend solvency schedules to 10 years (see below),
- > net solvency deficiency could take into account up to 10 years of going-concern special payments when consent for the extension of the solvency schedule has been obtained,

- > future benefit enhancements will be funded over a maximum of five years on both a solvency and going-concern basis when solvency schedules have been consolidated or extended,
- > the requirement to fund benefit enhancements over five years will remain in effect for up to five years following the start of special payments identified in the initial valuation report,
- > solvency special payments identified in the initial report could be reduced by a solvency excess identified in a subsequent valuation report (currently solvency excesses can only be used to reduce the amortization schedule), provided enhanced notice of funded status is given to active, deferred and retired members,
- > the Canadian Institute of Actuaries' revised Standard of Practice for Pension Commuted Values, scheduled to take effect April 1, 2009, should be used for the purpose of solvency valuations as of December 12, 2008. Regulations to this effect are expected prior to April 1.

Consent for Solvency Funding Relief

All plans, except multi-employer or jointly-governed pension plans, will be required to obtain consent in order to extend the solvency payment schedule over 10 years. The solvency payment schedule will only be extended if no more than one-third of the aggregate of all active, deferred and retired plan members indicate (before payments start) that they do not consent. Unions will be able to provide consent for the proportionate share of the active members whom they represent.

Contribution Holidays

Contribution holidays will not be permitted for fiscal years ending in 2010 to 2012 unless:

- > an actuarial cost certificate, based on an extrapolation from the last filed report, is filed annually with the Financial Services Commission of Ontario (FSCO) and the cost certificate confirms a surplus position at

the start of the fiscal year (provided an actuarial valuation report is filed that indicates the plan has sufficient surplus to support a contribution holiday), or

- > the plan is a designated plan under the *Income Tax Act* (Canada) (ITA).

Access to Locked-in Funds

The Budget proposes to amend the PBA Regulation and the Schedule of Required Fees to allow greater access to locked-in funds. Starting in 2010, the new Life Income Funds (LIFs) will permit up to 50% of the assets held in the LIF to be unlocked and to be accessible immediately by the LIF holder. Ontarians who opened a LIF on or after January 1, 2008, will be permitted to unlock an additional 25% of the original assets. Old LIFs and Locked-in Retirement Income Funds (LRIFs) will be harmonized with the updated new LIF rules. A temporary two-year waiver of fees for unlocking of funds due to financial hardship will commence for applications approved on or after April 1, 2009.

Phased Retirement

To complement recent ITA changes, Ontario will introduce PBA amendments to permit pension plans to offer phased retirement programs. These changes will permit pension plans to allow members at retirement age to continue working while receiving partial pension and accruing additional pension benefits. Please refer to our *Vision* newsletter of September 2008 for more information on Phased Retirement Legislation.

Pension Reform

The government is reviewing the Ontario Expert Commission on Pensions' report issued in November 2008 and will continue stakeholder consultation. It is moving forward on a number of legislative or regulatory amendments to the PBA. The government proposes to introduce pension reform legislation in the fall of 2009 and will:

- > establish a Pension Reform Advisory Council to provide feedback on pension reform proposals,

- > consult with the Canadian Institute of Actuaries and FSCO to review actuarial standards and practices for pension plan funding,
- > initiate an actuarial projection study of the Pension Benefits Guarantee Fund (PBGF),
- > improve data collection and analytical research for pension policy and regulation, and
- > work with the federal government and other provinces to explore increasing pension coverage.

Pension Division on Marriage Breakdown

The government is moving forward with changes first introduced in Bill 133 on November 24, 2008. These changes simplify and clarify pension rules on marriage breakdown. The government will consult with stakeholders on regulatory details.

Corporate Restructuring

To complement recent amendments to the federal *Companies' Creditors Arrangement Act*, the Superintendent of Financial Services will be granted power under the PBA to review certain pension arrangements in restructuring proceedings.

Expanding Ontario Teachers' Pension Plan Services

The 2009 Budget will introduce legislation permitting an expansion of the mandate of the Ontario Teachers' Pension Plan (OTPP) Board. The amendment will permit the OTPP Board to provide pension administration and investment services to other pension plans and institutional investors in the public sector.

Multi-jurisdictional Plans

The Ontario government will adopt the new CAPSA agreement governing plans that operate in more than one jurisdiction.

Pension Regulation

In an effort to improve response times, FSCO will assign 25 additional full-time positions to support pension plan regulation, over a three-year period.

Tax-Free Savings Accounts (TFSAs) Beneficiaries

The *Succession Law Reform Act* (SLRA) will be amended to permit the designation of beneficiaries under a TSFA. The rules for TFSAs will be like those for Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) that allow avoidance of Estate Administration Tax.

RRSP/RRIF for Final Tax Return

The Budget proposes a change to be consistent with the 2009 federal budget proposal regarding the final distribution of property from a RRSP or RRIF of a deceased annuitant after 2008. The amount of post-death decrease in the value of the plan will be allowed to be carried back and deducted against the income inclusion for the year-of-death.

RRSP Home Buyers' Plan

To be consistent with the 2009 federal budget proposal, the Home Buyers' Plan withdrawal limit will be increased from \$20,000 to \$25,000. The proposal applies for withdrawals from RRSPs made after January 27, 2009 for first-time homebuyers. The increase will also be available to build a more accessible home by those (or persons related to those) with disabilities.