

Special Communiqué

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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.



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Quebec Adopts a Bill to Reduce the Effects of the Financial Crisis on Pension Plans

On January 15, 2009, the Quebec National Assembly adopted Bill 1, *An Act to amend the Supplemental Pension Plans Act and other legislative provisions in order to reduce the effects of the financial crisis on plans covered by the Act*.

Bill 1 includes the following provisions:

- 1) The Canadian Institute of Actuaries (CIA) will implement the new standards for commuted values on April 1, 2009, but they may be applied from December 31, 2008, for the purposes of an actuarial valuation. These standards will allow the value of the pension plans' obligations (liabilities) to be reduced on a solvency basis regarding active members or those eligible for a deferred pension.
- 2) Members and beneficiaries, whose benefits could be paid only partially following the employer's bankruptcy because the plan's assets are not sufficient to pay their benefits in full, may request that these benefits be paid by the Régie des rentes du Québec ("Régie").
- 3) The government may adopt a regulation that will retroactively exempt any plan or any type of plan it designates from certain provisions of the *Supplemental Pension Plans Act*.

According to the Régie's representative, such draft regulation will most likely be adopted to follow up on the recommendations of the Task Force established in November 2008. This Task Force was established for the purpose of recommending to the government measures that would lessen the negative effects of the financial crises on supplemental pension plans. In December 2009, the Task Force proposed five special relief measures for pension plans. The two measures described in paragraphs 1) and 2) above

Example of the impact of the temporary relief measures as at December 31, 2008

The impact of the temporary relief measures will be different for each plan. Below is an example of how these measures would apply to a standard plan.

Solvency Funding Position as at December 31, 2008

	Temporary Relief Measures		Impact
	With	Without	
Assets ¹	\$70M	\$81M	+ 16%
Solvency Liabilities ²	\$100M	\$96M	- 4%
Solvency Deficits	\$30M	\$15M	- 50%
Solvency Ratio	70%	84%	
Amortization Contributions³	\$6.6M	\$1.8M	- 73%

1. The assets are smoothed over 5 years under the temporary relief measures (the market value was required before these measures came into effect).
2. The decrease in solvency liability reflects the impact of using the new CIA standard for active members.
3. The amortization payments are amortized over 10 years under the temporary relief measures (before these measures came into effect, this period was a maximum of 5 years).

The temporary relief measures decrease amortization contributions for 2009 by about 75%!

Therefore, these measures may prove to be quite significant for many employers in this difficult economy.

Please note that we did not show the impact of the consolidation of deficits in this example. In addition, contributions must not be less than those that would otherwise apply if there were no financial crisis.

Obviously, the plan in this example is fictitious. It should be emphasized that the impact of the temporary relief measures will be different for each plan. It will depend on the age distribution of the members, the proportion of active members and retirees, as well as the pension fund's historical returns.

Please contact your Morneau Sobeco consultant to find out how the temporary measures impact your pension plan.

were incorporated into Bill 1. The Task Force's three other recommendations, which should once again be in this bill, are:

- a) consolidation of solvency deficiencies in order to combine all the deficiencies, both new and existing at the time of the actuarial valuation, into a single deficiency;
- b) extension of the amortization period for solvency deficiencies from 5 to 10 years; and
- c) smoothing of the plan's assets over a period of 5 years, allowing the plan to spread out investment losses.

These various measures apply only to 2009, 2010 and 2011. They cannot have the effect of reducing the amortization payments that an employer was required to make as at December 31, 2008, below the level that the employer would have had to pay if there were no financial crisis.

In addition, it is expected that the pension plans using the regulatory relief measures must immediately apply the new funding rules of the *Quebec Supplemental Pension Plans Act* (the ones introduced by Bill 30, adopted in December 2006), which would have normally come into force on January 1, 2010. This includes the measure requiring that the actuarial valuation be prepared annually.

Safeguards

Below is a summary of the main safeguards provided in the bill in case of an employer's bankruptcy.

Conditions That Must be Present

The bill introduces measures intended to safeguard pensions when a pension plan is terminated due to the employer's bankruptcy and inability to pay the deficiency, provided the following conditions are met:

- 1° the plan is terminated due to the employer's bankruptcy (or, in the case of a multi-employer pension plan, an employer withdraws from the plan due to bankruptcy or insolvency);

- 2° the date of the employer's withdrawal or the date of the plan's termination is after December 30, 2008, but prior to January 1, 2012; and
- 3° on the date of the employer's withdrawal or the date of the plan's termination, the assets in the plan were not sufficient to pay in full the benefits of the members and beneficiaries affected by the withdrawal or termination.

Options Available to Some Members and Beneficiaries

Some members and beneficiaries whose benefits are reduced because not enough assets remain after the employer's bankruptcy may opt for one of the following methods of payment:

- a) if members or beneficiaries would have been entitled to a pension on the date of withdrawal or termination had they applied, they may choose:
 - 1) to have their benefits transferred to a locked-in retirement account (or any other arrangement usually offered); or
 - 2) to have their pension paid out of the plan's assets administered by the Régie, in a reduced amount in order to take into account the deficiency.
- b) if, on the date of the withdrawal or termination, a pension is being paid to members or beneficiaries, they may choose:
 - 1) to have their pension guaranteed by an insurer, in a reduced amount in order to take into account the deficiency (in other words, what is normally offered); or
 - 2) to have the value of their reduced pension transferred to a life income fund (this is a new option, but of equivalent value); or
 - 3) to have the pension paid from the plan's assets administered by the Régie, in a reduced amount in order to take into account the deficiency.

The Régie Replaces the Pension Committee

When members or beneficiaries choose a pension payable from the plan's assets administered by the Régie, the Régie will then exercise the powers of the pension committee that concern these members and beneficiaries and the pension assets that correspond to the share of their benefits that may be paid in the order of collocation set out in the *Supplemental Pension Plans Act*. The pension committee, or those to whom these powers were delegated or granted, will then be unable to exercise such powers in respect of these members and beneficiaries and this portion of the plan's assets. The Régie will then assume the obligations and the liability of a pension committee. Depending on the prescribed terms and conditions, it will be able to amend the pension plan to improve the members' and beneficiaries' benefits. The Régie's expenses in the scope of its role as administrator will be paid by the pension fund unless the Régie decides to waive these expenses.

By assuming the role of the pension committee with respect to the plan's assets that correspond to the part of the benefits payable to the members and beneficiaries, the Régie is confident that it will be able to realize sizeable gains and thus possibly increase the pensions that had been reduced due to the employer's bankruptcy.

Régie's Obligation to Insure the Pensions

Not later than the end of the pension plan's fifth fiscal year that follows the fiscal year during which the Régie began to pay to the members and beneficiaries who opted for this choice a pension from the assets of the plan it administers, the Régie must have an insurer guarantee this pension.

The pension amount guaranteed by an insurer must be equal to or greater than the pension amount that would have been paid if the plan's assets had been increased, on the termination date, by an amount equal to the difference between the required contributions if the normal legislative provisions were applied and the required contributions if the special relief measures described above were applied.

Insufficient Assets to Cover the Pensions to be Paid by the Régie

If the plan's assets administered by the Régie are insufficient to:

- > pay the pensions as they become due,
- > have the pensions guaranteed by an insurer; or
- > pay the expenses relating to the Régie's administration of the pension plan,

then the government will pay the required sums to the Régie.

Other Measures

The Bill also provides that, as of January 1, 2010, a summary prepared on a form provided by the Régie must now be transmitted to the Régie with any report regarding the pension plan's actuarial valuation.

Effective Date

The Bill will come into force as soon as it is adopted. However, the changes regarding the application of the CIA's new solvency valuation standards, as well as the application of the new pensions paid by the Régie, should come into force retroactively to December 31, 2008.