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Assets Are Shifting from DB Pension Plans to DC Pension Plans

Defined Contribution pension plan assets have grown to 47% of all pension assets in 2014 from 38% in 2004. These DC assets are expected to overtake their DB counterpart in the next few years. "The inexorable shift to DC, which we believe will soon constitute the majority of global pension fund assets, means it is becoming the dominant global pension model," says *Roger Urwin*, global investment director at Towers Watson.

This shift can be attributed somewhat to the financial health of Canadian DB pension plans. Unfortunately, there continues to be a decline in 2015 according to an Aon Hewitt survey which assesses the financial health of pension plans by measuring their market value of assets over liabilities. The median solvency ratio dropped for the third quarter in a row and fell below 90% for the first time since September 2013. The Aon Hewitt survey of 449 Aon Hewitt-administered DB pension plans, found that only 18% of surveyed plans were more than fully funded at the end of the first quarter. The main drivers of this lower solvency issue is declining long term interest rates and a decrease in discount rates used to value a plan's liabilities. However, overall plan solvency has remained strong by historical standards. Taking a stronger risk management approach can help Canadian DB pension plans better meet their obligations over the longer term.

We Care,
You Benefit.

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Update on the Ontario Retirement Pension Plan (ORPP)

Much has been written about this topic since Bill 56 was introduced December 8, 2014; The proposed legislation intended to institute the new Ontario Retirement Pension Plan (ORPP). As of this writing we are one step closer to this becoming law.

The Standing Committee on Social Policy met at Queen's Park recently where amendments to the bill were voted on. Sixty amendments were proposed including a proposal to reduce the maximum combined contribution rate to between 0.2% and 3.4% from the proposed 3.8% as well as a proposal to exclude individuals with an RRSP from having to participate in the ORPP. Unfortunately, both of these motions failed.

Frank Swedlove, President and CEO of the Canadian Life and Health Insurance Association (CLHIA) appeared on March 23, 2015 before the Standing Committee. His focus was on the issue of which plans should be considered "comparable" (i.e. exempt from implementing the ORPP).

As currently proposed, only Defined Benefit (DB) and Target-Benefit Multi-Employer plans would be considered "comparable". Mr. Swedlove pointed out to the Committee that 2.4 million Ontario workers have other types of workplace retirement plans, largely Defined Contribution (DC) Pension Plans or Group RRSP plans, most of which are not in the "undersaving" cohort that the ORPP is intended to help. He also pointed out that the average contributions are 9.5% of an employee's salary to DC plans and 8.3% to Group RRSPs, both of which are far above the proposed ORPP contribution level of 3.8%.

The CLHIA conducted an Environics survey earlier this year and found that three-quarters of employers with existing plans would consider reducing contributions to those plans if also forced to participate in the ORPP. The problem of inadequate savings is limited largely to mid to high-income households that do not have an employer plan or do not make sufficient contributions to their plans. Mr. Swedlove says it is "clear that the ORPP proposal, as it now stands, not only undermines existing retirement savings but would force additional contributions on a large segment of the population who are already on track for retirement".

What are the consequences for employers with collectively bargained DC Plans? While the Ontario government has indicated that participation in the ORPP, slated to be introduced in 2017, will be in stages and contribution rates will be phased in over two years, it is not clear if and how these transitional measures will take into account the collectively bargained DC plans that have been negotiated between an employer and trade union as part of the total compensation package provided.

As the debate rages on about what type of Pension Plan is considered comparable and what is not, you can rest assured that **Manion** will be closely monitoring the consultation process.

A Word on the Manion Healthcare Spending Account

In late 2014 **Manion** launched our own Healthcare Spending Account. We have seen a number of our clients elect to include this benefit within their plan design.

With a Healthcare Spending Account, plan members have the opportunity to claim medical and/or dental expenses that are not available through their base benefit plan and use it to supplement or enhance what is included.

If you are considering this as an alternative or supplement to your existing plan design, give us a call to discuss.

Budget 2015

Finance Minister, Joe Oliver, delivered the 2015 Federal Budget on April 21, 2015. Some of the positive measures announced however have delayed implementation to 2017. The following is a summary of the most relevant budget proposals;

- **Tax Free Savings Account** – increasing from the current annual contribution maximum of $5,500 to $10,000. The contribution will no longer be indexed to inflation.
- **Minimum Withdrawal Factors for RRIFs** - Current RRIF factors were determined in order to provide a regular payment stream from age 71 to 100. The factors are capped at 20% for ages 94 and above. Budget 2015 proposes to adjust the minimum withdrawal factors that apply from age 71 to 94. As a result the factors will be significantly lower that the existing factors. These new factors will apply to the 2015 and subsequent taxation years.

  RRIF holders who withdraw more than the reduced 2015 minimum amounts will be permitted to re-contribute the excess to their RRIFs. Any re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year. Similar rules are applicable to annual payments received from a defined contribution Registered Pension Plan (RPP) or a Pooled Registered Pension Plan (PRPP).
- **New Home Accessibility Tax Credit** – A proposed non-refundable Home Accessibility tax credit for seniors and persons with disability. The proposed tax credit will provide tax relief of 15% on up to $10,000 of eligible expenditures per year, per qualifying individual, per eligible dwelling starting in 2015. The maximum benefit is $1,500 per year.
- **Small Business Tax Rate** – The federal small business tax rate applies to the first $500,000 of active business income of a Canadian-controlled private corporation. The Budget proposes to reduce this rate from 11% to 9% by January 1, 2019. For corporations with non-calendar tax years, the reduction in the small business tax rate will be pro-rated.
- **Non-Eligible Dividends** – In conjunction with the proposed changes to the small business tax rate, the Budget also proposed to adjust the gross-up factor and dividend tax credit that applies to non-eligible dividends. The Gross Up percentage will decrease from 18% in 2015 to 15% as of 2019. The Dividend Tax Credit percentage will decrease from 11% in 2015 to 9% as of 2019. This proposed change will increase the federal top marginal tax rate for non-eligible dividends from 21.2% in 2015 to 23% as of 2019.

- **Extending Compassionate Care Benefits** – Through the Employment Insurance (EI) program, Compassionate Care Benefits provide financial assistance to people who have to be away from work temporarily to care for a family member who is gravely ill with a significant risk of death. The Budget proposes to extend this benefit from six weeks to six months as of January 2016.
- **Lowering the Employment Insurance (EI) Premium Rate –** In 2017, the Government will implement the seven-year break-even EI premium rate-setting mechanism, which will ensure that EI premiums are no higher than needed to pay for the EI program over time. This is expected to reduce the EI premium rate from $1.88 in 2016 to an estimated $1.49 in 2017.

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What is a Health Spending Account (HSA)?

An HSA is a great alternative or supplement to a traditional health benefits program. It is a self-insured plan arranged by the Plan Sponsor for their Members residing in Canada. The Member may use the allocated funds for:

- Eligible expenses not covered under a current benefit plan or provincial health plans
- Eligible expenses in excess of current plan maximums
- Co-insurance and deductibles charged by current benefit plans
- Expenses for dependents not eligible under other benefit plans but eligible under the broader Canada Revenue Agency (CRA) definition of a dependent

Why an HSA?

EFFECTIVE

- Decreases number of fraudulent claims
- Increases Member's appreciation of the benefit plan

AFFORDABLE

- Predictable health care expense. The Plan Sponsor allocates a set amount of funds to the Member's HSA account and the Member can claim up to their individual maximum
- It is a tax deductible business expense for corporate Plan Sponsors

FLEXIBLE

- Can be imbedded within a traditional health care plan or can be used as a stand-alone plan
- Can be tailored to the Plan Sponsor's needs and budget
- Member can use HSA funds on expenses that are not covered in traditional benefit plans or government programs

HSA Types

1. Carry forward "balance" - unused balance at the end of the benefit year (Year 1) is carried forward into the next benefit year (Year 2). If any of the balance from Year 1 remains unused at the end of Year 2, the balance is returned to the Plan Sponsor. Under the Income Tax guidelines, if the Member uses their full HSA balance, additional expenses cannot be carried forward into the next year.

2. Carry forward "expenses" - expenses not claimed at the end of the benefit year (Year 1) are carried into the next benefit year (Year 2) and reimbursed from the Year 2 balance. If the Member does not use their full balance within any given year, the balance is returned to the Plan Sponsor as Members are not eligible to carry forward the unused balance into the next benefit year.

3. No carry forward "use it or lose it" - Any unused funds not claimed against in the benefit year are returned to the Plan Sponsor.

For all **HSA Types** Members have 90 days after the plan year end to submit claims.

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How it Works

HSA funds are allocated to the Member's account annually. Claims submitted are paid in a similar manner as a traditional benefit plan. Eligible expenses are paid up to the total dollar amount available in the HSA.

How it is funded

An HSA can be funded annually, semi-annually, quarterly or monthly.

Eligibility

CLAIMANTS:

- Member
- Member's spouse/common-law partner
- Member or Member's spouse/ common-law partner's children
- The Plan Sponsor has the option to include any Member of the Member's household with whom the Member is connected by blood relationship, marriage or adoption

EXPENSES:

- Eligible expenses not covered under a current benefit plan or provincial health plans
- Any item that qualifies for the medical Tax Credit is eligible for coverage through an HSA.
- Please refer to the CRA website http://www.cra-arc.gc.ca/menu-eng.html for a detailed list of eligible expenses which are subject to change. Some examples are:
  - ➤ Payments to medical practitioners, hospitals, etc.
  - ➤ Care of individual with mental or physical impairment
  - ➤ Care in a self-contained domestic establishment
  - ➤ Care due to lack of normal mental capacity
  - ➤ Care in an institution and care and training in a school
  - ➤ Artificial limbs, aids and other devices and equipment
  - ➤ Products required because of incontinence
  - ➤ Eyeglasses
  - ➤ Oxygen tents
  - ➤ Guide and hearing-ear dogs
  - ➤ Bone marrow or organ transplants
  - ➤ Renovations and alterations to a dwelling that are deemed medically necessary
  - ➤ Rehabilitative therapy
  - ➤ Devices and equipment prescribed by regulation
  - ➤ Preventive, diagnostic and other treatments
  - ➤ Dentures

For more information visit our site at www.manionwilkins.com for the latest news. If you have any questions or wish to make a specific inquiry please contact us at info@manionwilkins.com (416) 234-3511 or toll free at 1-800-263-5621.

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