

Legislative News Release

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Employee Pension Plans

The aim of these news releases is to keep you up to date on the most recent legislative changes governing pension plans and various aspects of the way in which your plan works. This initiative is part of Assumption Life's information and communications program for employers, pension committee members, and employees participating in your pension plan. This particular news release shares with you some current issues involving the 2008 Federal Budget as well as other recent pension legislative issues.

We encourage you to send copies of this news release to your employees.

2008 Federal Budget

Federal Minister of Finance James M. Flaherty tabled his third budget on February 26, 2008.

Following is a summary of the points of particular interest to employers which may have implications for employees and their benefits.

Introduction of a Tax-Free Savings Account (TFSA)

The federal government has introduced the Tax-Free Savings Account (TFSA) to allow Canadians to put money aside and make it grow tax free. Unlike the Registered Retirement Savings Plan (RRSP) or the Registered Educational Savings Plan (RESP), which both have a dedicated purpose, the TFSA is totally flexible on how the savings are used.

It is a flexible, registered general-purpose savings vehicle that will allow Canadians 18 or older to contribute up to \$5,000 a year starting in 2009. Investment income, including capital gains earned within the account will not be taxed and withdrawals will be tax-free. The TFSA will work as follows:

- Starting in 2009, Canadian residents aged 18 or older will be eligible to contribute up to \$5,000 annually to a TFSA, with unused room being carried forward indefinitely.
- Contributions will not be deductible.
- Capital gains and other investment income earned will not be taxed.
- Withdrawals will be tax-free.
- Qualified investments include all arm's-length RRSP qualified investments.
- Withdrawals will create contribution room for future savings.
- Financial institutions currently eligible to issue RRSPs will be permitted to issue TFSAs (including trust companies, life insurance companies, banks and credit unions).
- Contributions to a spouse's or common-law partner's TFSA will be allowed (without the application of the attribution rules), and TFSA assets will be transferable to the TFSA of a surviving spouse or common-law partner upon TFSA holder's death.
- The \$5,000 annual contribution limit will be indexed to inflation in \$500 increments.
- Neither income earned within a TFSA nor withdrawals from it will affect eligibility for federal income-tested benefits and credits.
- There will be no age limitation on the TFSA holder, therefore Canadians who reach age 71 may continue to save on a tax-assisted basis.

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- TFSA eligible investments generally are the same as eligible RRSP investments.
- Interest on funds borrowed to contribute to a TFSA is not tax deductible.

When faced with limited resources and the decision to invest in an RRSP, RESP or TFSA, an individual should consider the primary purpose of each tax-assisted savings plan as well as the tax consequences when monies are both contributed and withdrawn. If an individual holds both an RRSP and a TFSA, careful consideration of the tax consequences and clawback implications on other benefits due to withdrawals from each plan should be reviewed with a qualified financial advisor.

For more information on the TFSA, including FAQ and contributions calculator, please visit the CRA website: www.cra-arc.gc.ca.

Proposed Changes to RESP Time Limits

To increase the flexibility of the RESP program, Budget 2008 proposes a 10-year increase in the applicable RESP time limits for 2008 and subsequent taxation years as follows:

1. Number of contribution years after plan entered into

Current

- 21 years
- For DTC beneficiary plans, 25 years

Proposed

- 31 years
- For DTC beneficiary plans, 35 years

2. Deadline for plan termination

Current

- Year that includes the 25th anniversary of the plan
- For DTC beneficiary plans, year that includes the 30th anniversary of the plan

Proposed

- Year that includes the 35th anniversary of the plan
- For DTC beneficiary plans, year that includes the 40th anniversary of the plan

3. Contribution age limit for family plan

Current

- No contributions for beneficiary who is 21 years of age or older

Proposed

- No contributions for beneficiary who is 31 years of age or older

Providing Increased Flexibility for Locked-in Pensions

Many seniors and other Canadians want increased flexibility as to when and how they can use their retirement savings to better reflect the wide range of employment and leisure choices available to them today. Increased flexibility can also be important when financial circumstances change, and an individual requires access to his or her retirement savings to help meet current financial needs. In response, Budget 2008 proposes to increase the choices available to holders of life income funds (LIFs).