

Legislative News Release

Issue 34
Second Quarter 2009

Pensions and Investments Division, Actuarial Department

Marc Robichaud
Director,
Pensions and Investments

Justin Belliveau
Administrator

Rita Poirier
Administrative Assistant

Bernice Gallant
Pensions Representative

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 2009 Federal Budget as well as other recent investment and pension legislative issues. We encourage you to send copies of this news release to your employees.

Increasing Withdrawal Limits Under the Home Buyers' Plan

Saving the down payment for a home can be a challenge for many first-time home buyers. The Home Buyers' (HBP) allows first-time home buyers to withdraw up to \$20,000 from a Registered Retirement Savings Plan (RRSP) to purchase or build a home. Unlike regular RRSP withdrawals, HBP withdrawals are not included in income when withdrawn. Amounts withdrawn under the HBP must be repaid over a 15-year period, starting the second year following the year of the withdrawal, or included in the individual's income if not repaid. To provide first-time home buyers with additional access to their RRSP savings to purchase or build a home, Budget 2009 proposes to increase the HBP withdrawal limit to \$25,000 from \$20,000 in respect of withdrawals made after January 27, 2009. It is also proposed that the increase apply to HBP withdrawals made for the purchase of a more accessible or functional home where the individual making the withdrawal is eligible for the Disability Tax Credit (DTC), or if the withdrawal is made for the benefit of a DTC-eligible person who is related to the individual making the withdrawal. This is the first increase in the withdrawal limit since the HBP was introduced in 1992. With the \$5,000 increase to the withdrawal limit, two first-time home buyers purchasing a home jointly (e.g. a married or common-law couple) with sufficient RRSP funds in each of their names may now together withdraw up to \$50,000 from their RRSP

funds toward the purchase of a home in Canada.

RRSP/RRIF Losses After Death

The fair market value of investments held in a Registered Retirement Savings Plan (RRSP) at the time of an RRSP annuitant's death is generally included in the income of the deceased for the year of death. A subsequent increase in the value of the RRSP investments is generally included in the income of the beneficiaries of the RRSP upon distribution. Similar rules apply in the case of Registered Retirement Income Funds (RRIFs). There is, however, no existing income tax provision to recognize a decrease in the value of RRSP or RRIF investments that occurs after the annuitant's death and before they are distributed to beneficiaries. Budget 2009 proposes to allow, upon the final distribution of property from a deceased annuitant's RRSP or RRIF, the amount of post-death decreases in value of the RRSP or RRIF to be carried back and deducted against the year-of-death RRSP/RRIF income inclusion. The amount that may be carried back will generally be calculated as the difference between the amount in respect of the RRSP or RRIF included in the income of the annuitant as a result of the death of the annuitant and the total of all amounts paid out of the RRSP or RRIF after the death of the annuitant. This measure will apply in respect of deceased annuitants' RRSPs or RRIFs where the final distribution from the RRSP or RRIF occurs after 2008.

Losses Extend To First Quarter

Canadian pension plans continued to suffer from the turbulence in the global equity markets in the first quarter of 2009, says a survey by RBC Dexia Investor Services. It found pension assets shrank another 2.5 per cent in the quarter ending March 31, bringing 12-month losses to 16.3 per cent. In the first three months, global equity was the worst performing asset class, losing 9.3 per cent, despite outpacing the MSCI World Index by 0.9 per cent.

Employee Pension Plans

Canadian stocks fared better, dropping only two per cent in the quarter, as strengthening commodity shares cushioned the fall. Thanks to a late March rally, domestic bonds earned 1.6 per cent for the quarter, ahead of the DEX Universe.

Phased Retirement Employer's Decision

It is the employer's decision whether to provide the option of phased retirement according to changes to the Pension Benefits Standards Act. The new rules say phased retirement may be offered on a case-by-case basis on varying terms. In exercising this discretion, employers must fulfill their duty of good faith, and must not discriminate in a manner prohibited under human rights laws. In terms of the phased retirement benefit, employers can offer a portion of an employee's current pension entitlement with continued accrual of pension benefits. The amount an employee receives while in phased retirement cannot exceed 60 per cent of the employee's current pension entitlement.

CPP can weather economic storm

At a recent seminar held in Geneva by the International Social Security Association (ISSA) – in conjunction with the Social Security Department of the International Labour Organization – ISSA's chief actuary, Jean-Claude Ménard, noted that compared to countries that use a single funding approach, Canada's well-diversified funding approach has made its retirement income system much less vulnerable to changes in economic, market and demographic conditions.

At retirement, most Canadians receive an income from one or more pension schemes, which are financed using different approaches:

- **CPP:** Financial through contributions paid in equal parts by the employer and employees. The contribution rate of 9.9% in 2009 and thereafter will provide plan assets equal to approximately 25% of the plan's liability in about 15 years.

- **The Old Age Security Program:** Financed on a pay-as-you-go basis, which means there is no fund.

- **Occupational private pension plans and RRSPs:** Fully funded, individual tax-sheltered saving accounts.

DC Conversion Most Complicated

With plan sponsors looking for ways to reduce pension costs, the conversion from a Defined Benefit to a Defined Contribution plan is the most complicated and has the most legal risk, says Jeffrey P. Sommers, of Blakes. In a presentation entitled 'Weathering the Economic Storm: Options for Changing Pension Plan Design' at its 'Recent Developments in Pension and Employee Benefits Law' seminar, he said for sponsors contemplating that move, the easiest and least risky approach is to have existing members stay in the DB plan and put all new hires into the DC plan. However, the best cost benefits can be achieved by freezing the DB plan and moving all members into the DC plan for future service.

Pressure Grows On Governments To Act on Pensions

Workers are rightly worried about the fall in the value of the private pension savings and there is growing pressure on governments to act, says the Organization for Economic Co-operation and Development's 'Private Pensions Outlook'. It says policymakers need to step up action to improve the way both Defined Benefit and Defined Contribution systems are regulated. For DB plans, regulations should encourage the build-up of funding buffers in good market conditions and provide more flexibility during periods of market turmoil. Investment rules for DC plans should promote a reduction in exposure to risky assets substantially as workers age, especially in countries where such plans are a major component of retirement income. It recommends policy actions in line with the long-term horizon of private pensions. In particular, it calls for using public safety nets to address the impact of the crisis. It also calls for structural changes in the way private pensions are managed, regulated, and promoted.