

## 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 pension plans and the outlook of the financial recovery of 2009.*

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

## Time for Coherent System

The time has come to turn Canada's supplemental pensions jumble into a coherent system with a clear goal and a clear plan to achieve it, says Keith Ambachtsheer. In the '2009 Annual Benefactors Lecture,' published by the C.D. Howe Institute, Ambachtsheer proposes a two-pronged plan for turning supplemental pension arrangements into an integrated, effective system. He says reform should be guided by the principles of using pension plan designs to target a post-work standard of living that is adequate, achievable, and affordable; give all workers a simple, accessible, portable opportunity to participate in pension plans that have explicit post-work income-replacement targets; ensure all forms of retirement saving receive equal tax, regulatory, and disclosure treatment across all sectors of the Canadian workforce; and pension management and delivery structures should be expert, transparent, and cost effective. To turn these principles into practice requires bringing the outdated rules and regulations governing supplementary pensions into the 21st Century, and creating a simple, low-cost pension plan for workers without a pension plan.

## Canada Won't Force Pension Changes on Provinces

Canada's federal government won't force the provinces to make changes to the country's pension system though it will urge them to consider ways to boost retirement savings, says Ted Menzies, the finance minister's parliamentary secretary. Provincial and federal government officials will receive a report on pensions when they meet December 18 in Whitehorse, Yukon. The study will outline options, but policy decisions will be left to the individual provinces. The federal government will look at the research presented to determine whether there are also private-sector options and for ways to "incent" people through the taxation system. The government's position is to encourage retirement savings, short of forcing mandatory pensions, and encourage provinces to "work together" in a bid to ensure all Canadians are "treated equally".

## CIA Makes Important Recommendations

The Canadian Institute of Actuaries (CIA) report, 'Retooling Canada's Ailing Pension System Now, for the Future: Canada's Actuaries Advocate Change,' should be taken into account by Canada's finance ministers in preparation for their meeting in December on pension reform, says a Heenan Blaikie Pension Pulse. It says the report contains a number of very important recommendations and adds to the growing momentum for pension reform. The report contains 10 recommendations for Defined Benefit pension plans including a call for regulators to develop a principles-based approach to the supervision and monitoring of pension plans and introducing employer-funded pension security trusts that would permit employers to make contributions to amortize solvency deficiencies to separate trusts which could be refunded to employers in the event a pension plan is later fully funded.

# Employee Pension Plans

Federal Finance Minister Jim Flaherty has begun to address a broad range of important issues, but, in the opinion of the Canadian Institute of Actuaries (CIA), he needs to dig deeper into the elements that will strengthen the legislative framework to solve fundamental pension funding problems and secure benefits for pensioners and plan members. As well, steps need to be taken to create a more positive environment that would encourage employers to set up or maintain Defined Benefit pension plans. The CIA says, for example, raising the pension surplus threshold from 10 percent to 25 percent is an important piece of the puzzle. However, it is doubtful that plan sponsors will take advantage of this opportunity unless there is a mechanism in place that would enable sponsors to have greater access to funds not needed once adequate benefit security is provided.

## **Nova Scotia Plans Get Relief**

The Nova Scotia Government has implemented solvency relief, providing some funding relief to pension plan sponsors and administrators in the wake of the 2008 financial crisis and resulting decline in global equity markets, says a McInnes Cooper Pension and Benefits Legal Update. The measures are consistent with what was announced by the prior Nova Scotia government in April and bring the province into step with relief already implemented in other Canadian jurisdictions early this year. Key provisions include temporarily extending the amortization period for a solvency deficiency from five years to 10 years. This applies to both existing and new solvency deficiencies. However, within the first five years, plans may not be amended to increase benefits (unless the cost of the benefits has been fully funded) nor to decrease employee contributions. The measures do not provide for plan sponsors to utilize letters of credit as alternate funding vehicles.

## **Economy Shows Positive Factors**

The Canadian economy is showing a number of positive factors, says Pierre Ouimet, chief strategist at UBS Global Asset Management. Speaking at the Investment Counsel

Association of Canada's annual meeting, he said he expects domestic demand to continue to improve and the labour market in Canada remains far healthier than the U.S. market. In addition, signs of a rebound in the Canadian housing market are also having a positive impact on the state of consumer confidence which is fuelling a return to consumption.

## **Managers Optimistic On Economy**

Institutional investment managers polled by Northern Trust Global Advisors in the third quarter of 2009 expressed near-consensus optimism on the economy. Fully 83 percent expect corporate earnings to increase in the coming quarter, and 84 percent believe that global growth will accelerate in the next six months. However, managers, still hesitant to call a buoyant V-shaped recovery, see potential fragility in the system. Three-quarters (76 per cent) expect interest rates to hold steady, reflecting a view that central banks will be hesitant to raise interest rates for fear of choking off early signs of recovery.

## **Pension System Ranks Fourth**

Canada's retirement income system ranks fourth – just behind Sweden – in a global pension index that compares private and public pension systems from around the world and ranks them based on adequacy, sustainability, and integrity. The inaugural Melbourne Mercer Global Pension Index gives the Netherlands the top ranking followed by Australia, Sweden, and Canada. It recommends Canada's system could be improved by increasing the level of coverage of employees in occupational pension plans, possibly through a more efficient system; introducing a mechanism for ensuring that voluntary retirement savings are preserved for retirement purposes; introducing a mechanism to increase the pension age as life expectancy continues to increase; and increasing the level of household savings. Japan had the lowest ranking retirement income systems.