



# Research Advisory

Hewitt

Canadian Research Group

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The federal government introduced measures to address solvency concerns and other economic measures in light of current financial crisis.

The Hewitt Research Advisory is a regular Hewitt newsletter designed to provide a detailed overview of specific legislative and regulatory developments in Canada relating to human resources.

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## A Good Start...

The federal government's long awaited Economic Statement was delivered on November 27, 2008. As expected, measures to address pension funding relief were announced along with other fiscal management and austerity measures. Legislation will be introduced within a matter of days to implement these changes, though passage is not guaranteed. While less ambitious than some had expected, additional measures could come out of the First Ministers' conference schedule for December 2008 or the next Federal budget expected in February 2009.

### **Funding Relief - Option to Extend Solvency Funding Payment Schedule to 10 Years**

In response to the sharp decline in global equity markets that has reduced the funded status of pension plans, the government is proposing to allow federally regulated registered plans to extend their solvency funding payment schedule from five to ten years in respect of solvency deficiencies as at December 31, 2008 if, by December 31, 2009:

- members and retirees agree to the extended schedule; or
- the difference between the five- and ten-year payment schedule is secured by a letter of credit.

If, however, one of these two conditions is not met, the plan would be required to fund the deficiency over the following five years.

The government will also initiate a consultation process, in conjunction with the provinces, to address solvency funding rules and structural and regulatory frameworks. Both Defined Benefit and Defined Contribution issues will be a priority at the next First Ministers' meeting, scheduled for December 11, 2008.

**Hewitt Comment:** *The federal government has taken positive steps to address the pending funding crisis that many plans regulated under the Pension Benefits Standards Act, 1985 will be facing in 2009. The hope is that the provinces will follow suit for provincially regulated plans.*

*A concern for plan sponsors is their inability to invoke these relief measures unilaterally. Securing member buy-in today may be even more difficult than when the federal government introduced temporary funding relief measures in 2006 due to the current precarious state of the economy. Similarly, for some organizations securing a letter of credit could be quite difficult given the state of the credit markets.*

*Even if a sponsor is able to meet the requirements for relief as set out in the Economic Statement, the magnitude of present losses could be so great that spreading them out over ten years instead of five years may be insufficient.*

*As one begins to think about the relief afforded in the Economic Statement, it will be important to weigh the advantages of each option. Complicating that decision will be the plan fiduciary's responsibility to act in the best interest of plan members. These are complex issues and should involve discussions with professional advisors.*

#### **Temporary Reduction in RRIF Minimum Withdrawals**

In recognition of the impact of deteriorated market conditions on retirement savings, the government proposes to reduce the required minimum withdrawal amount for Registered Retirement Income Funds (RRIFs) by 25 per cent for 2008. RRIF holders who have already withdrawn more than the reduced 2008 minimum amount will be permitted to re-contribute the excess to their RRIFs, until the later of March 1, 2009 and thirty days after this proposal is enacted (up to the amount of the reduction provided by this measure). Re-contributions will be deductible for the 2008 taxation year, and similar rules will apply to those receiving variable benefit payments under a money purchase Registered Pension Plan.

Additionally, instead of selling assets to meet the RRIF minimum withdrawal requirements, seniors can opt for an "in-kind" distribution of assets, thus benefiting from future market growth. Therefore, the government has asked all financial institutions to accommodate the in-kind distribution of assets from a RRIF, as permitted under current tax rules, at no cost to clients, or to offer another solution that achieves the same result.

Finally, if seniors do not immediately need their pension payments or minimum RRIF withdrawal, they can save the after-tax amount in a Tax-free Savings Account (TFSA) up to their available contribution limit, thus achieving a rate of return equivalent to what they would have had were they able to leave the money in a RRIF. TFSAs were introduced in Budget 2008 and will be implemented on January 1, 2009. In its first year, everyone will have a \$5,000 TFSA contribution limit.

**Hewitt Comment:** *While taxpayers might have hoped for a further extension of the age at which RRIF withdrawals must commence, this temporary reduction in the minimum withdrawal will provide an opportunity to recoup some of the recent investment losses on a greater portion of RRIF balances.*

### **Accelerating Infrastructure Investments and Supporting Business Investments**

The government will pursue Public-Private Partnership (PPP) opportunities to leverage private capital and expertise to help meet growing infrastructure needs. This will be accomplished through PPP Canada Inc., a new Crown corporation which will be fully operational in 2009.

In addition, the government is actively considering ways to accelerate the roll-out of anticipated infrastructure projects, and will boost its support for provincial, territorial and municipal infrastructure to approximately \$6 billion next year. By January, 2009, specific projects in each jurisdiction capable of enhancing economic stimulation over the next two years will be identified, and the government will work with the provinces and territories to tackle regulatory and administrative barriers to moving such projects forward.

As well, the government will implement a new private-sector-managed, later-stage venture capital fund, with \$75 million from Budget 2008 for the Business Development Bank of Canada to increase investments in leading-edge, growing companies.

***Hewitt Comment:** Many pension plan sponsors have recently established dedicated allocations to the infrastructure asset class. One of the challenges sponsors have faced, however, is the limited supply of infrastructure assets available for investment. This further support of infrastructure spending and investor access to these assets through PPPs is a longer-term positive in that it encourages expansion in the supply of infrastructure investment opportunities.*

### **Protecting the Stability of Canada's Financial System and Strengthening Financial Markets**

The Government is proposing that the Minister of Finance and Governor-in-Council be granted additional flexibility to support financial institutions and the financial system in extraordinary circumstances. Included would be authority for:

- funding in case of a draw on the Canadian Lenders Assurance Facility;
- the Canada Deposit Insurance Corporation (CDIC) to establish a bridge bank as a further resolution tool to help preserve banking functions;
- an increase in the borrowing limit of CDIC to \$15 billion to reflect the growth of insured deposits since the last increase in 1992;
- the Minister of Finance to provide the CDIC Board of Directors broader scope of action when systemic risk concerns may result from the potential failure of a member institution;
- the power to direct CDIC to undertake resolution measures when necessary to prevent adverse effects on financial stability;
- the provision to CDIC of greater flexibility in the timing of preparatory examinations; and
- the Government to inject capital into federal financial institutions to support financial stability, with appropriate provisions to protect taxpayers.

In addition, the government will proceed with recommendations expected from the Expert Panel on Securities Regulation on how to improve the content, structure and enforcement of securities regulation in Canada. The government also encourages the provinces and territories to join this initiative.

### **Improving Opportunities for Workers**

Despite the economic slowdown, skills shortages remain a significant challenge across Canada. As a result, the Government will:

- implement the comprehensive labour market training architecture announced in Budget 2007;
- introduce the Canadian Experience Class and move forward with the improved processing of immigration applications;
- continue to explore ways to ensure the immigration program is aligned with labour market needs; and
- work with the provinces to improve the recognition of foreign credentials.

### **Establishing Appropriate Public Sector Compensation and Modernizing Pay Equity**

The government will introduce legislation establishing annual wage increases for the federal public administration, including senior members of the public service, Members of Parliament, Cabinet Ministers and Senators, of 2.3 per cent in 2007–08 and 1.5 per cent for the following three years, for groups in the process of bargaining for new agreements. For groups with collective agreements already covering 2008–09, the 1.5 per cent increase would apply for the remainder of the three-year period starting at the anniversary date of the collective agreement. The right to strike on wages will be suspended through 2010–11.

The government will also introduce legislation to modernize the pay equity regime for federal public sector employees, similar to the process now in place in Ontario and some other provinces. Pay equity considerations will be addressed as an integral part of the collective bargaining process. The new pay equity regime is designed to increase fairness and make employee compensation more predictable.

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