WESTCOAST ACTUARIES

Westcoast Watch

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Changes to accounting rules - IFRS or CICA

The Accounting Standards Board of Canada (AcSB) is adopting International Financial Reporting Standards (IFRS) as Canadian Generally Accepted Accounting Principles (GAAP) for Publicly Accountable Enterprises (PAEs). Adoption is required for fiscal years beginning on or after January 1, 2011.

Private Canadian Companies have the option of adopting IFRS or the new Canadian standards developed specifically to meet the needs of users of their financial statements.

IFRSs, issued by the International Accounting Standards Board (IASB), are high quality, global accounting standards that require transparent and comparable information in financial statements and other financial reporting.

AcSB is inviting public comment on proposed financial accounting standards for private enterprises. The board recognizes that while some private businesses will opt to report under IFRS, the majority will prefer to adopt a more straightforward set of standards specifically tailored to address private business issues. The AcSB's proposed changes to private company GAAP are outlined in a recent Exposure Draft, Generally Accepted Accounting Principles for Private Enterprises.

What this means as far as Employee Benefit Plan accounting is concerned is that if the Employer opts to adopt IFRS for its accounting standard, then IAS 19 (the IFRS standard for employee benefits) will apply.

If the employer decides to stay with the CICA accounting rules , then they will have the option of continuing to amortize gains and losses under CICA 3461 or to recognize gains and losses immediately on their balance sheets.

It should be noted that the accounting standards relate not only to pension benefits but also to other post-employments benefits (OPEBs) such as medical, dental and life insurance arrangements.

Options if RRSP funds to transfer to IPP are insufficient

Options to consider when dealing with insufficient RRSP funds to meet the qualifying transfer Past Service Pension Adjustment (PSPA) requirement at IPP implementation are:

- If the employee has eligible years of past service for the years 1991 to 1994, consider having those years recognized first – the maximum PSPA for those years is grandfathered and capped at $11,500, $12,500 and $13,500, etc. Those years would require less qualifying transfer and more company past service contribution – a bigger bang for the buck.
- Do partial past service recognition and use up only a portion of the RRSP for qualifying transfer purposes – this will leave behind a healthy remaining RRSP balance. If the employee can manage to generate a sufficiently high return (e.g. 7% to 10% each year) under the RRSP in future years, there would be sufficient

continue ...

Options if RRSP funds to transfer to IPP are insufficient (cont'd)

accumulated RRSP funds in the future to meet the qualifying transfer requirements for the remaining years. Otherwise, some years may be forever lost for past service funding purposes if the employee used up all RRSP funds to meet qualifying transfer requirements.

- If the spouse has earned income for RRSP purposes, have the spouse make spousal RRSP contributions so the IPP member (the annuitant under the spousal RRSP) can use the RRSP funds contributed by the spouse for qualifying transfer purposes in the future.

The qualifying transfer from RRSP to IPP to meet the Past Service Pension Adjustment (PSPA) requirement must be from the IPP member's "personal" RRSP and not a "spousal" RRSP. Income Tax Regulation 8303(6) that governs qualifying transfer states that the qualifying transfer from an RRSP must be in accordance with Subsection 146(16) of the Income Tax Act which reads "the transfer from RRSP is on behalf of the annuitant ("transferor") of the RRSP to a registered pension plan for the benefit of the transferor".

It has come to our attention that certain IPP service providers claimed that qualifying transfer requirements could be satisfied using spousal RRSP funds that the IPP member contributed. This is totally incorrect and may result in very serious and adverse tax consequences. You should bring Income Tax Regulation 8303(6) and Income Tax Act Subsection 146(16) to the attention of the service provider to ensure compliance with the tax legislation.

Pension Reform - Finance Ministers to meet on Pensions in May

The Finance ministers met last December to discuss Canada's pension system. This was in response to the various Expert Commission reports on ways to improve saving for retirement. Rather than the provincial solutions which had been suggested, their preference appeared to be for a Canada-wide approach. They requested more studies on the various possible options and will meet again in May to discuss the results of these studies.

Pension Reform – Views requested by BC, Nova Scotia, Alberta

B.C., Nova Scotia and Alberta have recently asked for input from stakeholders on pension reform. Submissions are requested from interested parties on such items as:

- Expansion of the CPP / QPP
- Creation of Voluntary DC Plan supplemental to the CPP
- Modernization of pension standards to allow more flexible plan design
- Tax Reform.

This is the next step in the process started by the various Expert Commission reports to attempt to improve pension coverage for Canadians.

New Limits for Excess Surplus

Finance Minister Jim Flaherty announced that the Excess Surplus rule is being raised to 25% of accrued liabilities from 10%. Although this still needs Royal Assent before it becomes law , CRA have indicated that they will apply this rule starting from January 1, 2010.

This is good news for those plan sponsors who wish to make contributions even though their plan is in a surplus position.

CRA Corner—Recent Developments

This column provides an update of recent communications we have received from CRA.

T4 Earnings request—A number of our clients have received requests from CRA to substantiate the T4 earnings used for past service benefits for their IPP. We have a "Task Force" working on responding to these letters.

Change of sponsor- A number of clients have received letters requesting additional information where the plan sponsorship has changed. There are a number of different issues here which revolve around the "primary purpose" test. In simple terms, this states that a pension plan should provide income on retirement but it appears to have more complex meanings when interpreted by CRA. We have drafted responses to these issues and either have responded to CRA or will be responding to these letters in the near future.

IPP TIP

It is preferable to use locked-in RRSP funds or locked-in retirement account funds, if available, rather than regular RRSP funds to meet the qualifying transfer requirement. IPP funds will eventually be locked in so it is better to use existing locked-in funds. This will maximize the regular RRSP funds available at retirement to provide the necessary flexibility.

New Documents from CAPSA

The Canadian Association of Pension Supervisory Authorities (CAPSA) has released two new documents:

"The Commentary Guide to the Agreement regarding multi-jurisdictional pension plans" and

"The Prudence Standard and the Roles of the Plan Sponsor and Plan Administrator in Pension Plan Funding and Investment".

The Commentary Guide details the revised Agreement regarding multi-jurisdictional pension plans, which should be required reading for anyone involved in multi-jurisdictional plans. The Prudence Standard is an exposure draft and indicates CAPSA's approach to good plan governance. Again, an excellent reference for plan administrators looking to improve governance issues with respect to their pension plans.

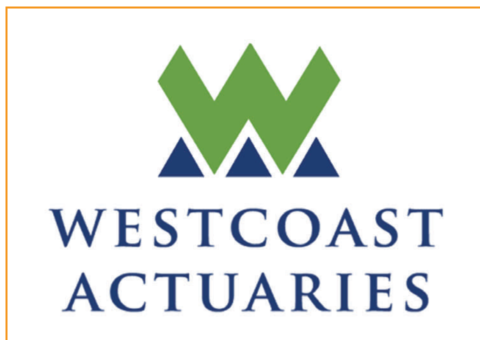
FSCO offers electronic filing of AIRs

FSCO has announced that it will be permissible to file Annual Information Returns (AIRs) electronically. The process will be for a pension plan administrator to log on to a "portal" with FSCO and download an XML file which is created in a specified format.

Paper filing is still acceptable and will probably be preferable for administrators with few plans to file as the work developing the XML file may be onerous for those without adequate IT support.

Westcoast Actuaries Inc. will file all AIRs on behalf of our Ontario registered clients electronically.

The effective date for the start of electronic filing is March 31, 2010



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We assist our corporate and public sector clients with retirement savings plans, retirement income plans and group benefits programs that achieve their business goals and objectives in the most tax-efficient and cost-effective manner.

IPPs with more than one participating employer

This note sets out our position on the allocation of costs between participating employers in an registered pension plan.

CRA's position is that apportionment of cost should be done on a basis which is acceptable to them.

Our interpretation of this is to allocate liabilities based on T4 earnings paid by the relevant participating employer. Assets are allocated in a similar manner.

We will then track assets and liabilities at subsequent valuation based on this approach. It is a requirement of CRA that the Company paying the T4 income should be the Company which makes the pension contribution and claims the deduction.

We are quite often presented with very complex corporate structures which are difficult to interpret. We would apply the same set of rules (outlined above) consistently to ensure that the apportionment of costs among participating employers is acceptable to CRA.

STOP PRESS

Manitoba amend their Pension Benefits Act to "strengthen pension plans".

Ontario release Bill 16—changes to accommodate multi-jurisdictional plans under new CAPSA guidelines.

Finance Department asks for submissions re Pension Reform

More on these news items in our next edition

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