

Ontario: Two Stages of Pension Reform

Ontario has taken action to implement recommendations in the recent Expert Commission Report:

Stage One- Amendments to the Pension Benefits Act passed on May 18, 2010:

- Immediate vesting and locking-in.
- Grow-In benefits extended to termination of plan member for any reason (not just on plan wind-up). Grow-in means that enhanced early retirement provisions have to be extended to a terminating member whose age + service is greater than 55.
- Phased retirement is now permitted. Phased retirement means that plan member can accrue benefits while receiving a pension not in excess of 60% of his accrued benefit entitlement.

Stage Two- Announced Amendments August 24, 2010 for legislation later this year to:

- Strengthen Ontario's pension funding rules by requiring sustainable funding of promised benefits and tougher funding standards for benefit improvements.
- Clarify pension surplus rules and provide a dispute resolution process to allow members, retirees and sponsors to reach agreements on how surplus should be shared on wind up.
- Provide a more sustainable Ontario's Pension Benefits Guarantee Fund by implementing a strategy to build reserves, increase revenues, limit current exposure and reduce risk to taxpayers in the future.

Before the reforms introduced by the province in 2009, pension rules in Ontario had been largely unchanged for more than two decades. Ontario regulates approximately 8,350 employment pension plans, which comprise more than 40 per cent of all registered pension plans in Canada.

Manitoba Pension Reform

Manitoba has finally adopted Bill 10, the Pension Benefits Amendment Act which, together with changes to the Regulations is a major reform of their pension legislation.

Main changes are:

- Immediate vesting and locking-in retroactive to July 1, 1976.
- 50% of commuted value can be transferred to non-locked in RRSP for members over 55.
- Permitting phased retirement.
- Mandatory joint & survivor pension changes from 66 2/3% to 60%.
- Unlocking permissible for reduced life expectancy and small amounts.

Inside this issue:

Ontario Pension Reform	1
Manitoba Pension Reform	1
OSFI Changes PBSA	2
Update: Accounting for Pensions	2
How to calculate current service contribution	2
Timing of Qualifying Transfers	2
CRA Corner	3
Help your client choose appropriate funding media	3
Electronic Filing for Ontario AIRS	3
Op-Ed	4

Looking for an IPP Quote?

Use our unique online quoting system

Need info on IPPs?

Access our comprehensive IPP education material



OSFI changes PBSA

OSFI has set the solvency ratio threshold requirement for annual valuation reports to 120%. Previously, this requirement was set at 100%. For most plans (excluding most IPPs which are exempt) this will mean that valuation reports will have to be submitted annually. There are transitional measures for clients who have filed a report prior to December 31, 2009.

Because amendments to the PBSA are only effective July 1, 2010, OSFI has extended the filing deadline for annual valuation reports to September 15, 2010.

Update: Accounting for Pensions

Faster exposure draft has been issued by the CICA regarding rules for accounting for pension costs for entities opting to use the new CICA rules rather than IFRS.

How to calculate the correct Current Service Contribution (Connected Persons Only)

Contributions are based on T4 income. A common pitfall is when an employer contributes the maximum current service cost when in fact they cannot because the employee's T4 income is not sufficiently high. (Note: T4 income required in 2010 to qualify for the maximum contribution is \$124,722.) Contributions are prescribed in the actuarial report prepared by the plan's actuary. Current service contribution is calculated as the lesser percentage of current year T4 income and the maximum. The maximum and percentage can be found in the actuarial valuation report.

Timing of Qualifying Transfers – a warning



The rules set out by CRA for making a transfer from a member's RRSP to their IPP to cover the PSPA requirement incurred by crediting past service indicate that the transfer should occur no later than 90 days after the later of the day the administrator receives the PSPA certification and the day the administrator receives notification that the plan is registered.

We are aware of plans where this rule has not been followed—the transfer has been outstanding for some substantial period of time. Our policy is to issue periodic reminders in such cases.

Our concern is that CRA will be following up on such late transfers and start issuing penalty notices or revoking the relevant past service.

Please note that no transfer of funds may be made to a plan that has not been accepted for registration.



CRA Corner—Recent Developments

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

T4 Earnings request—We have been in contact with the RPD of CRA over this issue. We are trying to arrange that administrative relief is available in situations where the incorrect T4 information has caused over contributions to an IPP.

We expect to hear back from RPD soon.



IPP TIP

Be sure the T4 earnings you provide are 100% accurate. The CRA is checking.

When setting up new IPPs we ask for the T4 earnings history for the new IPP member, going back to 1991. Only T4 income amounts from the IPP sponsor(s) is eligible. This information must be 100% accurate when setting up the plan as the CRA carefully checks all plans submitted. If the new member no longer has records of their past T4 slips, you should advise them to write to their local tax centre to ask for a summary of T4 earnings by year, broken down by employer. Any data errors while setting up the plan will result delays and an additional fee.

Help your client choose an appropriate funding media.

There are several options for how your client can fund their IPP. Corporate trustee and three individual trustee arrangements are more flexible in terms of investment options, however, there are certain caveats that you and your client should be aware of. Although the plan allows for financial advisors to act as one of the three trustees, there may be conflict with the advisors professional affiliation. Advisors should check with their organization before accepting a trustee position. With 3-individual trustees your clients are more at risk of falling afoul of the income tax act and regulations as well as the governing plan rules.

If your client is not proactive in learning about and being involved in his/her IPP, you should consider recommending the simplest method of funding an IPP - through a Group Insurance Contract. This contract allows for investments in products offered by the insurance company and third party investment management firms (not just segregated funds.)

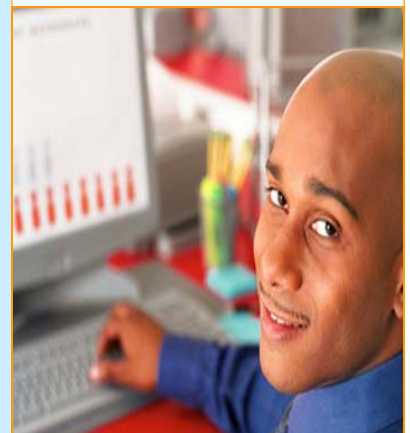
Electronic filing for Ontario AIRs—update

We now have more information on the electronic filing of Annual Information Returns for Ontario registered plans. This is the first year that this option has been made available. The procedure Westcoast Actuaries has established for our accounts is as follows:

By now you should have received a letter from FSCO advising you of your logon code to the “pension portal” established by FSCO for filing purposes. All you need to do is logon to this portal following the instructions and authorize Westcoast Actuaries to file your return in the drop-down menu on the website. Then notify us that you have done this and we will take care of the filing. Please note that this is the only time you will have to follow this procedure

We will, of course send you a copy of the completed return.

FSCO have just announced that clients can also file electronically by going online and filling in a fillable form.





908 - 1166, Alberni Street
Vancouver, BC
V6E 3Z3

Phone: 604-730-1898
Fax: 604-730-1886
E-mail: info@WAInc.ca

**Optimum Pension
Solutions!**

We're on the Web!

www.WAinc.ca



Op Ed – Pension Reform

After considerable interest has been aroused by the apparent interest in provincial and federal governments in the redesign of Canada's pension system and after a lot of hard work by various interested parties in submitting papers on this topic, all that has happened is that the Federal Finance Minister announced the possibility of a modest improvement in the CPP benefits. Ontario's changes are hardly of the variety which would encourage an employer to implement a new pension plan - most of the changes seem to attach more strings.

This appears to be the end of interest in this topic. The government position has now shifted to there not being a problem at all. I hope they are right but I doubt it.

Westcoast Actuaries Inc. is an innovative actuarial consulting firm based in Vancouver, BC that has been providing customized actuarial and administration solutions to clients since July 2002. The practices of the founding partners started in the early 1990's.

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.

STOP PRESS

More on these news items in our next edition

- HST/GST impact on pension plans
- Generational mortality
- Ontario legislation update



DISCLAIMER—While the content of this Newsletter has been scrupulously checked, Westcoast Actuaries Inc. does not guarantee its accuracy. We strongly suggest that you consult with us should you want to take some type of action based on the material in this publication. The content in this Newsletter belongs to Westcoast Actuaries. Please check with us should you wish to copy any of the content.