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Economic Statement: Relief for RRIF holders; disappointment for some

Facing weakening equity markets, a worldwide liquidity crisis and growing expectation of recession, the federal government unveiled its *Economic and Fiscal Statement,* November 27.

The 130-page document released to Parliament acknowledges that equity markets throughout Canada, the United States and the United Kingdom have fallen by 40 to 70 per cent, stalling economic growth, exports and investment. It also warns that the US and Canada are facing an economic downturn that *"is expected to be similar to the 1990 recession."*

With many political pundits and economists expecting details of potential bailout packages for the rapidly weakening banking and auto sectors, the government statement instead focused on tightening government spending and the balancing of the federal budget, leaving any major expenditure commitments to the 2009 federal budget.

The Statement offered some relief to pension plan sponsors facing possible plan insolvency beginning with their December 2008 valuations. Instead of requiring plan sponsors to make up any solvency shortfalls within the normal five-year timeframe required by pension legislation, the government proposed extending plan sponsors' solvency schedules to 10 years, effective December 31, 2008.

However, to receive the repayment extension, both pension plan members and retirees must agree to the new schedule no later than December 31, 2009. Otherwise, the extension must be backed by a letter of credit from a secured creditor. If neither the agreement nor the letter of credit is secured, then plan sponsors will be required to make up any deficiencies within five years.

The proposal only affects federally regulated pension plans.

To provide relief to registered retirement income fund (RRIF) owners who are required to make a minimum withdrawal from their retirement funds despite the significant losses they may have experienced in the recent market downturn, the government proposed to reduce the required minimum withdrawal amount by 25 per cent for 2008.

For example, if a RRIF policyholder was required to withdraw $10,000 from a plan in 2008, he/she will now only be required to withdraw $7,500. If the policyholder has already withdrawn more than $7,500, he/she will be permitted to re-contribute the excess to the RRIF to a maximum of $2,500 and claim an offsetting deduction for the 2008 tax year.

The federal Statement did not provide any relief for equity-based life income funds (LIFs) or registered retirement savings plans (RRSPs).

Whatever relief pension plan sponsors and RRIF policyholders may have expected, the potential for the Statement to be passed by Parliament appears dim, as the three opposition parties have vowed to unite to vote against the proposal, provoking either another federal election or the formation of a coalition government.

Should either scenario materialize, any concrete actions to cope with the fiscal impact of this autumn's equity meltdown on pension plans and retirement income funds would have to be deferred pending the formation of a new government and the presentation of a new budget to Parliament. ❧

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Ontario's Expert Commission on Pensions releases report

Ontario's Expert Commission on Pensions released its report to the Ontario legislature this past November. The 225-page report, entitled *A Fine Balance,* contains more than 150 different recommendations on the governance of pension plans under the jurisdiction of the Financial Services Commission of Ontario (FSCO). The majority of Canada's pension plans are governed by the FSCO.

Among its many recommendations are the following:

1. Single employer pension plans should be required to maintain a *security margin* of five per cent of solvency liabilities. The margin, which would require plans to have a solvency ratio of 105 per cent, would be amortized over an eight-year period and would be considered part of a plan's surplus on wind-up.
2. Plans with a solvency ratio of 95 per cent would have eight years to achieve full solvency instead of the current five years. Plans with solvency levels below 95 per cent level would have to continue to meet the five-year requirement.
3. On plan wind-up, pension surpluses of single employer plans would be distributed based on their plan documents. If the various parties to the plan or the Pension Tribunal of Ontario deem plan documents to be "unclear", the surplus would be distributed based on plans submitted to and voted on by plan members or the employees' union, when applicable.
4. Plan sponsors can reduce or omit their plan contributions when a plan achieves the 105 per cent solvency level. Funds may be withdrawn from a plan when it reaches the 125 per cent solvency mark.
5. Plan documents must outline what, if any, provisions have been made for indexation of benefits.
6. Letters of credit can be used as security for a fixed portion of contributions owing to the plan. Letters must be reviewed by the regulator after five years.
7. Establish an Ontario Pension Agency to receive, pool, invest and administer pensions of workers who move to other jobs that either do not have pensions or are unable to use a new member's pension assets to buy credits in the new plan sponsor's pension.
8. Provide plan members with an opportunity to transfer their pension assets to the Ontario Pension Agency on full or partial wind-up of a plan. The Agency should also be able to receive pension plan assets of companies or unions affected by mergers or restructuring.
9. Change the Pension Benefits Act to allow phased retirement.
10. Multi-employer plans be required to prepare and file a plan reduction report when a plan's member contribution base is reduced by 40 per cent or more or when a sponsoring union splits from the plan.
11. Establish an on-line register of delinquent sponsors and offenders who fail to remit their plan contributions.
12. The regulator should be given the power to replace a plan administrator when a plan sponsor is either involved in, or at risk of, bankruptcy.
13. Increase the monthly pension benefits to be protected by the Pension Benefits Guarantee Fund to $2,500 per month from the current level of $1,000 per month.
14. Retired plan members should be allowed to participate in any plan governance process.
15. Ontario's pension policy, legislation and performance should be reviewed every eight years.

Full details of *A Fine Balance* can be seen on-line at: www.ontario.ca/pensions. ❧

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Board of Directors: Brian Bockstael, Kirby Watson, Mark Hogan, Brent Moore & Ken Kaitola

Editor: David Whitbread **Graphic Designer:** Victor Lima