SPECIAL
COUGHLIN
APRIL 2012
COURIER

Federal budget focuses on retirement

Retirement and cost cutting were the major focus of the federal government budget tabled by Finance Minister Jim Flaherty on March 29.

As predicted by the media and pension experts, the federal budget introduced measures to move the qualification age to receive Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits from age 65 to 67, beginning in April 2023.

Under the budget proposal, the eligibility for OAS and GIS benefits will gradually increase in monthly increments for those born in April 1958 or later, beginning in 2023. The increase in eligibility age will be fully implemented by January 2029, based on the following table:

OAS/GIS eligibility by date of birth

Year of birth	1958	1959	1960	1961	1962
Month of birth					
Jan.	65	65+5 mos.	65+11 mos.	66+ 5 mos.	66+11 mos
Feb.-Mar.	65	65+6 mos.	66	66+6 mos.	67
Apr.-May	65+1 mo.	65+7 mos.	66+1 mo.	66+7 mos.	67
June-July	65+2 mos.	65+8 mos.	66+2 mos.	66+8 mos.	67
Aug.-Sept.	65+3 mos.	65+9 mos.	66+3 mos.	66+9 mos.	67
Oct.-Nov.	65+4 mos.	65+10 mos.	66+4 mos.	66+10 mos.	67
Dec.	65+5 mos.	65+11 mos.	66+5 mos.	66+11 mos.	67

(Source: Federal Department of Finance)

Based on this table, those born February 1, 1962 or later will have to wait until age 67 before they qualify to receive the OAS and GIS benefits. Individuals age 54 or older on March 31, 2012 will not be affected by these reforms.

The moving of the OAS eligibility age was not entirely unexpected. In January 2012, Prime Minister Stephen Harper telegraphed to the World Economic Forum in Davos, Switzerland that the federal government was considering the move.

continued on page 2

...continued from cover

Federal budget focuses on retirement

The increasing of the minimum age mirrors changes adopted in other developed countries including the United States, Germany, France and Britain and others that have introduced similar legislation in recent years.

Deferral of OAS payments

More surprising was the federal government's borrowing a page from its recent reforms to the Canada Pension Plan (CPP) allowing individuals to defer receiving OAS benefits for up to five years in return for a higher benefit payout. Under the plan, a person who postpones receiving the OAS benefit to age 66 would receive $6,948 per year instead of the current payout of $6,481. Using that formula, a delay of five years could result in retirement income of as much as $8,814 in today's dollars.

The deferral option will go into effect on July 1, 2013.

OAS and GIS enrolment to be streamlined

The budget document also promised that the enrolment process for both the OAS and GIS benefits will be streamlined to *"reduce the burden on seniors of completing the application processes and reduce the government's administrative costs."* While specific details of the streamlined processes were not unveiled in the budget, the document did mention that the new enrolment process would be phased-in from 2013 to 2015.

Demographic challenge

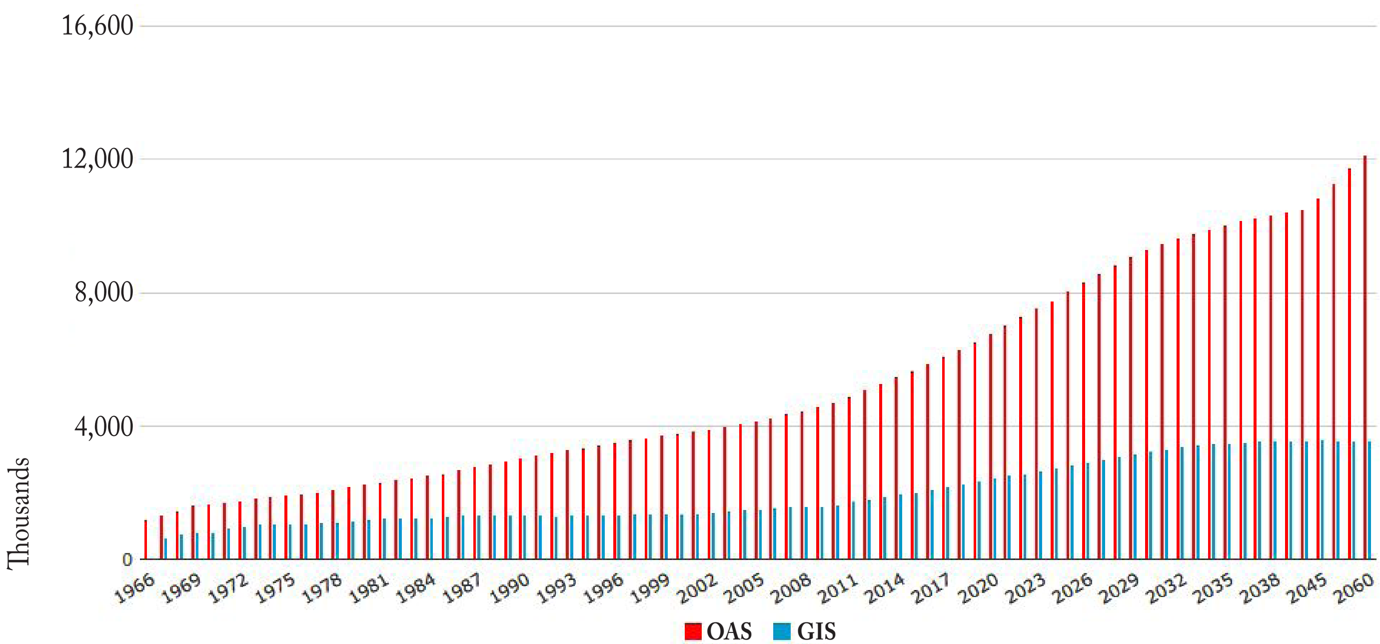
While the changing of the minimum retirement age to 67 will likely be challenged by organized labour and by public interest groups representing seniors, supporters of the raising of the eligibility age are likely to consider the move as financially necessary. With the average lifespan increasing to age 80 from the late 60s only a few decades ago, and with the baby boom generation now reaching the traditional age of retirement, the government is facing pressure to contain its retirement benefits costs.

However, while the moving of the "normal" retirement age from 65 to 67 will save an estimated $3 to $4 billion for the programs in the coming years and even more later in this century, increasing demand for OAS and GIS benefits is expected to continue well past the mid-point of the 21st century, according to actuarial studies published by the Office of the Superintendent of Financial Institutions (OSFI.)

The challenge can be seen in the following chart:

Old Age Security and Guaranteed Income Supplement beneficiaries

Historical (to 2009) and projected



(Source: Actuarial Report on Old Age Security, 2009, Office of the Superintendent of Financial Institutions)

Public service pensions

The federal budget also proposes changing the terms of the federal public service, Canadian Forces and RCMP pension plans. Under the new rules, plan members would be expected to contribute 50 per cent of the cost of the pension premiums. As well, the normal retirement age for public sector workers will be moved from 60 to 65 for those who join the plans in 2013 or later.

Details on how or when these changes will be implemented will be released later.

Pooled registered pension plans (PRPPs)

The budget document re-iterated the federal government's commitment to introducing pooled registered pension plans (PRPPs) to encourage the self-employed and people working for small organizations without pension plans to save for retirement through a new universal pension plan.

The rules governing the new plans are scheduled to be released later in 2012.

Registered disability savings plans (RDSPs)

The budget proposed increasing the maximum allowable withdrawals for these plans. As well, the government plans to require RDSP holders to make minimum annual withdrawals from them.

The budget will also allow spouses, common-law partners or parents of the disabled individuals to set-up an RDSP for an eligible individual. Under current rules, only a plan holder can be a beneficiary under an RDSP.

Taxable benefit for some accident and sickness policies

Lump sum benefits from group accident and sickness policies, such as critical illness insurance, may be subject to taxation if the plan premiums have been paid by the employer. More information will be published as it becomes available.

Long-term disability for regulated employers

The budget said that the government will introduce legislation requiring federally regulated employers to insure long-term disability plans so that employees may be protected in the event of the bankruptcy of the plan sponsor. The new rules will directly affect federally regulated private sector plan sponsors that self-insure their long-term disability benefits.

Ontario and Quebec budget highlights

The federal government wasn't the only jurisdiction to unveil its 2012 budget recently. Both Ontario and Quebec released their budget documents in the last two weeks of March. Some of their more noteworthy proposals follow:

Ontario

- Both jointly sponsored and single-employer public sector pension plans must move to a 50-50 cost sharing formula by 2017. Plans with pension deficits will be required to reduce their future or ancillary benefits before increasing employer contributions. Benefits of plan members and retirees that have already been accrued will not be affected by this change.
- Public sector single employer pension plans where the employer is solely responsible for plan deficits will be expected to convert to jointly sponsored pension arrangements with a 50-50 cost sharing formula within five years.

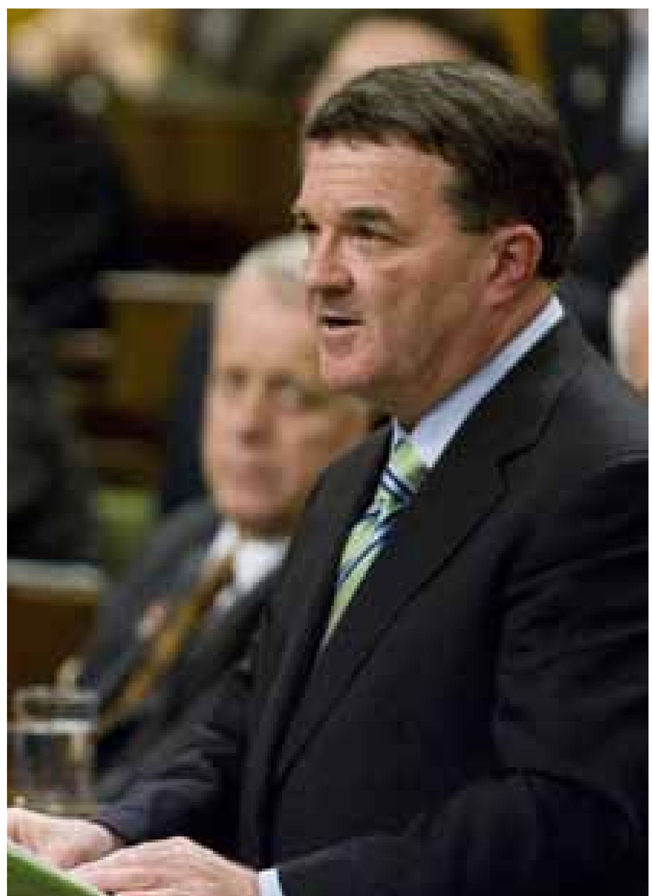


Photo: Federal Finance Minister Jim Flaherty.

...continued

Federal budget focuses on retirement

- The approximately 50 public sector pension plans that hold assets of less than $1 billion each will be legislated to pool their assets and improve their investment management costs and practices.
- Beginning in August 2014, seniors with incomes of more than $100,000 will have to pay a deductible of $100 *plus* three per cent of their income over $100,000 for eligible drugs covered under the provincial drug plan for seniors. Prescription costs remain unchanged at $6.11 per prescription.
- The provincial budget also telegraphed Ontario's concerns about the federal government's proposed pooled registered pension plans, noting that the proposals to date have not provided concrete direction on how PRPPs will handle life events such as divorce and financial hardship. The province favours enhancing existing CPP contributions and benefits over the introduction of a new federal pension plan.

Quebec

- The Quebec budget affirmed that province's support of the PRPP concept by introducing detailed rules to govern its voluntary retirement savings plan (VRSP). Modelled on the federal PRPP proposal, companies with five or more employees that do not offer a group retirement savings plan will be required to select a VRSP from an accredited VRSP plan administrator. They also must automatically enrol all employees with a year or more of service into the plan and remit employee contributions to the administrator in their employees' names.

  Employers will not have to contribute to the plan. Minimum employee contributions begin at two per cent of eligible earnings in 2015 rising to four per cent effective January 1, 2017. RRSP contribution maximums will apply to VRSPs.

  Employers have until January 2015 to comply with the new regime. ❧

Follow us on Facebook and Twitter

facebook.com/coughlincanada and click "**Like**"

twitter.com/coughlincanada

The Coughlin Courier is published by Coughlin & Associates Ltd.

Board of directors: Brian Bockstael, Kirby Watson, Mark Hogan, Brent Moore, Ken Kaitola, Michel Quenneville & Brett Becker

Editor: David Whitbread | **Graphic designer:** Victor Lima