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Coming soon: Major changes in pension accounting

Canadian and international accounting regulators have announced that major changes are coming in pension plan accounting practices beginning as early as 2004.

The International Accounting Standards Board (IASB) is drafting new international regulations that will require organizations with defined benefit pension plans to clearly show the impact of income gains or losses on separate pension statements. As well, organizations will be compelled to show the impact of those changes on their overall performance.

The proposed reforms, which are supported by the Canadian Institute of Chartered Accountants (CICA), are designed to prevent providers of defined benefit pension plans from using pension surpluses to inflate their corporate earnings. Complicating the issue is that fact that the collapse of equity markets over the past three years has pushed many pension plans into loss positions, resulting in the disappearance of surpluses and, potentially, the undermining of the earnings reported by major plan sponsors. Already, both General Motors Corporation and Ford Motor Company have faced credit rating reductions due to concerns about the health of their pension funds.

Under current regulations, pension income can be included in overall profit figures. While this may not have been a major issue when equity markets were buoyant, it raises serious problems now that many defined benefit plans are facing large liabilities. Plus, the IASB says, current accounting practices make it difficult to clearly define pension assets or liabilities -- opening the door to potential reporting irregularities as well as uncertainty for pension plan members and investors.

According to reports published in the December 23 edition of the *Globe and Mail,* many major companies have not reported the large and growing pension liabilities on their balance sheets. Preliminary results of a study by the University of Western Ontario (UWO) indicate that a growing gap exists between what the plans report on their balance sheets and how they perform. In 2001, it says, the country's 100 largest pension plans article goes on to *"were underfunded by $1.8 billion, but showed assets of $6.7 billion on their balance sheets."* This indicates, *"that there was about $8.5 billion in debt kept off the books among these firms,"* the article suggests. The *Globe and Mail* article goes on to report that the UWO study shows that only 42 per cent of these pension plans had a surplus in 2001, down from 77 per cent in 2000. Only 17 to 22 per cent are expected to report surpluses in 2002.

Also, as part of the IASB reforms, pension plans will no longer be allowed to delay or "smooth" the reporting of asset changes over several years. This, they warn, will result in more volatility in corporate earnings as they feel the full impact of any changes experienced by their pension plans. On the positive side, investors and plan members will be in a better position to judge the valuations and earnings of plan sponsors and their pension plans.

However, the IASB's new rules won't come without either pain or surprise. When Britain introduced such rules in 2002, the negative impact on annual statements forced several

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Ontario reviews benefits after employment

The Ontario government is considering an amendment to its Employment Standards Act which, if passed, would require employers to continue to provide benefits to terminated employees for up to six months following the end of their employment.

If passed, Bill 176 would radically alter the conditions and costs of most employee benefit programs. Under the proposed legislation, employers would be required to offer terminated or laid-off employees that have a minimum 52 weeks of service with benefits coverage that would "... *be the same as those of the plans as they existed before the end of employment, unless the employee agrees otherwise."*

Under the new arrangement, the terminated employee would pay for the full cost of the benefit plan during the six-month post-employment period.

A member of the governing Progressive Conservative Party introduced Bill 176 in September 2002 as a private member's bill. Most private members' bills do not survive first reading. However, Bill 176 has now passed its crucial second reading, approval in principle, and is now being considered by the Legislature's Standing Committee on General Government. If it survives the committee review process, the bill will be presented for third and final reading and proclamation into law.

If enacted, plan sponsors should expect to see a new trend: claims by terminated employees seeking to take quick advantage of dental, drug or medical coverages during the six-month period following the end of their employment. This trend, known as anti-selection, is likely to be particularly acute among those requiring long-term drug or medical coverage or those facing one-time expenses that are larger than average.

The "use it or lose it" stress may also extend to long-term disability or weekly indemnity benefits and result in increased claims and cost pressures. It is unlikely that group insurance carriers would be open to offering such coverage to individuals facing unemployment with little or no hope of a return to their previous job.

According to the bill, employers that fail to comply with the proposed law could be liable to pay for any losses incurred by the terminated employee. There is no provision in the draft legislation for losses resulting from insurers failing to provide such coverage.

While the chances of passage of this bill remain uncertain, private members' bills are passed on occasion. For example, at the federal level, the creation of Air Canada and the latest wording of the national anthem trace their origins to such bills.

And this bill has gone much further in the legislative process than most private members' bills.

No property rights for common-law relationships

Common-law partners cannot claim an equal division of matrimonial property on separation, the Supreme Court says.

A December 20, 2002 decision by the nation's highest court ruled against a Nova Scotia woman who sought to overturn that province's definition of a spouse because it did not include common-law partnerships in its Matrimonial Property Act. The woman, who had lived for 10 years in a common-law relationship, wanted a share of the value of property assets that were held in her partner's name.

In its ruling, the Court said, *"People who marry can be said to freely accept mutual rights and obligations. A decision not to marry should be respected because it also stems from a conscious choice of the parties. If they have chosen not to marry, is it the state's task to impose a marriage-like regime on them retroactively?"*

For plan sponsors, the new ruling may be a mixed blessing. While the decision confirms the distinction between traditional marriages and common-law relationships, it does create an element of confusion, especially in light of recent judgments and legislation that have recognized common-law relationships, including same sex partnerships. While this ruling was restricted to property rights, plan sponsors and administrators could face questions from those in common-law relationships experiencing break-up or separation. As well, the Court's verdict is expected to increase pressure from those in same sex relationships who wish to "freely accept mutual rights and responsibilities" of property ownership through traditional marriage contracts. As a result, spousal definitions in benefits contracts may, once again, be either adjusted or open to question.

(See the September 2002 edition of the *Coughlin Courier* for related information on recent court rulings on spousal definitions.)

More information will be provided as it becomes available.

Manitoba launches palliative at-home drug care program

The province of Manitoba has introduced a new drug care program that will cover the cost of drugs for terminally ill patients who choose to die at home rather than in a hospital or nursing home.

Launched on December 9, 2002, the new Palliative Care Drug Access Program (PCDAP) will ensure that the same drug coverage will be available to all terminally ill patients, regardless of where they choose to spend their final days.

Open to all residents of the province with a Manitoba Health registration number, the program requires the patient and the attending physician to jointly complete an application for PCDAP coverage. If the application is approved by a provincial palliative care co-ordinator, the patient will be able to receive eligible prescription drugs free of charge from his/her pharmacy choice for as long as necessary.

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large employers to close their defined benefit plans to new employees, resulting in a public outcry. Ultimately, the country's regulators recanted, suspending the new rules until they were adopted internationally.

The fallout from the Enron, WorldCom and other accounting scandals has sparked worldwide calls for a single and transparent accounting standard where the calculation of income and expenses are clearly shown throughout balance sheets. In 2002, auditing practices went under the microscope. With eroding pension assets being used to support the reported earnings of large and public organizations, experts are predicting that pension plan valuation and reporting will be "the big accounting issue of 2003."

Watch for more information in the *Coughlin Courier* as it becomes available.

New year heralds new marginal tax rates*

The new year also rings in a new tax year for Canadians. While federal personal income tax rates have been reduced, Canada Pension Plan (CPP) premiums have increased. Meanwhile, provincial tax rates have also varied by province.

The following table outlines the marginal tax rates for both the federal and provincial levels across Canada.

Jurisdiction	Marginal tax rate as a percentage of taxable income		Surtax
Federal	16.00	up to $32,182	
	22.00	$32,182.01 - $64,367	
	26.00	$64,367.01 - $104,647	
	29.00	$104,647.01 and over	
Alberta	10 per cent at all levels		
British Columbia**	6.05	up to $31,653	
	9.15	$31,653.01 - $63,308	
	11.70	$63,308.01 - $72,685	
	13.70	$72.685.01 - $88,260	
	14.70	$88,260.01 and over	
Manitoba	10.90	up to $30,544	
	14.90	$30,545 - $65,000	
	17.40	$65,001 and over	
New Brunswick	9.68	up to $32,183	
	14.82	$32,183.01 - $64,368	
	16.52	$64,368.01 - $104,648	
	17.84	$104,648 and over	
Newfoundland and Labrador	10.57	up to $29,590	nine per cent in excess of $7,032
	16.16	$29,591 - $59,180	
	18.02	$59,181 and over	
Nova Scotia	9.77	up to $29,590	10 per cent in excess of $10,000
	14.95	$29,591 - $59,180	
	16.67	$59,181 and over	
Ontario	6.05	up to $32,435	20 per cent in excess of $3,747 plus
	9.15	$32,435.01 - $64,871	36 per cent in excess of $4,727
	11.16	$64,871.01 and over	
PEI	9.80	up to $30,754	10 per cent in excess of $5,200
	13.80	$30,755 - $61,509	
	16.70	$61,510 and over	
Quebec**	16.0	up to $27,095	
	20.0	$27,095.01 - $54,195	
	24.0	$54,195.01 and over	
Saskatchewan**	11.00	up to $35,000	
	13.00	$35,000.01 - $100,000	
	15.00	$100,000.01 and over	

* *Marginal tax rate* is the combination of the federal marginal tax rate and that of an individual's province of residence • ** Tax rates are applied on a cumulative basis.

Dialysis: For-profit centres have more deaths, study says

A study released by the Journal of the American Medical Association (JAMA) suggests that, when it comes to hemodialysis treatment, not-for-profit facilities experience fewer deaths than for-profit dialysis centres.

The study, headed by representatives from the departments of medicine at universities in Hamilton, Toronto, Buffalo and London, Ontario, indicated that for-profit institutions had a relative mortality risk factor that was eight per cent higher than non-profit dialysis centres. In the US, which allows for-profit dialysis centres, this translates into approximately 2,500 premature deaths every year, the report says.

The program involved eight different observational studies conducted over 500,000 patient-years from 1973 to 1997.

The report is published in JAMA's November 20, 2002 edition. The JAMA web site can be found at http://jama.ama-assn.org.

Welfare not a right, Supreme Court says

The Supreme Court of Canada has ruled that social benefits such as health care and social assistance are not rights guaranteed by the constitution.

The Court was responding to a class action suit filed by a Quebec woman who argued that the province's $170 per month payment to social assistance recipients under the age of 30 deprived them of as much as $389 million in income benefits and violated the equality provisions of the Canadian Charter of Rights and Freedoms.

Despite the December 20, 2002 ruling, the issue may not be completely settled, the Court conceded. In its decision, the Court noted that *"the right to social assistance may be recognized in the future."*

Fast facts

- The province of Newfoundland & Labrador has revised its Income Support Program to allow social assistance recipients to retain up to $10,000 in their registered retirement savings plans (RRSPs) during the first 90 consecutive days they receive benefits. The reforms are designed to ensure that those facing a short-term employment or financial crisis will not have to first liquidate their retirement savings to receive income assistance from the province.

  More information on the reforms can be found at www.gov.nf.ca/releases/2002/hre/1119n09.htm.

- Effective January 1, 2003, the maximum pensionable earnings for the Quebec Pension Plan (QPP) will increase to $39,900 from $39,100. The individual employee and employer contribution rates will increase to 4.95 per cent of pensionable earnings while the combined employee-employer contribution rate will be 9.9 per cent of pensionable earnings. The maximum individual contribution level will be capped at $1,801.80. The combined employee-employer contribution, which is also capped, will be $3,346.40. The changes mirror those announced by the CPP in November 2002.

- Old Age Security benefits increased to $453.36 per month on January 1 while the CPP monthly benefit jumped to $801.25. The CPP death benefit remains unchanged at $2,500. The QPP monthly income and death benefits are the same as those provided by the CPP.

- Britain's plan to change its old age security qualification limit to age 70 from age 65 has been scrapped. According to news reports, the government attempted to address a looming pension crisis brought on by the expected mass retirement of the baby boom generation. However, it faced a strong backlash from voters suddenly having to work an extra five years before qualifying to receive government retirement benefits. As an alternative, Britain is expected to liberalize its retirement laws to encourage workers to continue their employment past age 65.

- The government of Alberta has introduced an omnibus bill amending 68 provincial acts that recognizes adult interdependent relationships, including those involving same sex partners. Under Bill 30-2, adult *interdependent partners,* those involved in personal interdependent relationships for over three years or relationships involving children, will have the same legal rights and responsibilities as those in traditional conjugal relationships. However, under the Alberta bill, the term *spouse* will continue to be defined as a partner of a traditional marriage involving a man and a woman.

- Statistics Canada reports that total registered retirement savings plan (RRSP) contributions declined in 2001 by almost $1 billion. According to the government agency, contributions for 2001 amounted to $28.4 billion, down from $29.3 billion in 2000. The median RRSP contribution declined to $2,600 from $2,700. As well, the number of contributors slumped by almost 50,000. The largest declines occurred in the four Atlantic provinces, each of which reported contribution declines ranging from eight to 10 per cent.

- Corporate income tax rates were cut by two per cent on January 1, from 25 per cent to 23 per cent. The rate will be further reduced to 21 per cent on January 1, 2004.