MORNEAU SHEPELL

30,000 Feet

The biggest stories of the quarter with significant ongoing impact

First quarter, 2016

OAS commencement reverts to 65

The March federal budget announced that the OAS commencement age would remain at 65 and not rise to 67 as had been planned by the previous Conservative government.

Why Plan Sponsors should care

The announcement is at odds with major trends including longer life spans, fewer workers to retirees, employee expectations of delayed retirement, lower interest rates and a global trend toward age 67 or 68 as the age for full pension eligibility. There is nothing magical about age 65. A range of retirement ages makes more sense, perhaps with some implicit encouragement to retire later. It is unlikely we have heard the last on this important issue.

Ontario delays rollout of ORPP

The Ontario government announced it would delay implementation of the Ontario Retirement Pension Plan by one year, meaning the first contributions will not have to be made until 2018. Instead, Ontario has committed to work with others to explore the feasibility of a national approach.

Why Plan Sponsors should care

The one-year delay at least introduces the possibility that Ontario may yet abandon its plans for the ORPP but it is imperative that the federal and provincial finance ministers come to an agreement on expansion of the CPP, probably by the end of this year. "Wait and see" continues to be the best option for most plan sponsors who are considering establishing, modifying or even terminating their workplace pension plans.

60 percent of private sector DB plans are now closed

Within Morneau Shepell's database, the portion of private sector DB plans that are now closed to new hires (and in some cases, to all active employees) has surpassed 60 percent for the first time.

Why Plan Sponsors should care

The percentage of closed DB plans has climbed dramatically in recent years, a trend that will almost certainly continue. We expect that pension de-risking activity (in the form of liability-driven investing, annuity buy-ins, annuity buyouts and other initiatives) will expand as a result. More plan sponsors will consider shared risk pension plans and target benefit plans when the legislation and regulations within their jurisdiction enable them to do so.

Traditional investment approach is being abandoned

Morneau Shepell's database of DB pension plans shows a continuation of the trend in recent years toward diminishing expectations for long-term interest rates and investment returns. This has spurred DB plan sponsors and investment managers to look further afield to seek higher returns. Activity in the most recent quarter included:

- British pension funds are putting more money into private equity, real estate, infrastructure investments, and hedge funds.
- US DB sponsors are looking increasingly to venture capital, buyouts, and selected debt-related and real asset strategies.
- It was reported in the quarter that alternative investments (real estate, infrastructure, private equity and hedge funds) doubled in size in Canada between 2010 and 2014.
- More institutional managers are finding it difficult to diversify using traditional asset classes since many of them believe that stocks and bonds are too highly correlated at present.

Why Plan Sponsors should care

The traditional 60-40 asset mix using conventional, publicly traded equities and fixed income investments is increasingly being questioned. DB plan sponsors need to consider alternative investments.