MORNEAU SHEPELL

30,000 Feet

The biggest stories of the quarter with significant ongoing impact

Second quarter, 2016

Agreement reached on CPP enhancement

In June, the country's finance ministers reached an agreement that would see the CPP benefit rate rise by a third (from 25 to 33.3 percent) and the earnings ceiling increase by 14 percent over and above the regular annual increases. (Quebec may take a somewhat different route.)

Why Plan Sponsors should care

This agreement is historic as it is the first significant change in Canada's 3-pillar retirement income system in half a century. It also takes Ontario's ORPP off the table and avoids balkanization. While this change will not be fully phased in until 2025, it will result in major changes to the structure and benefit levels of both DB and DC pension plans. Among the many side-effects, it brings into question the future of Pooled Registered Pension Plans, an initiative that has already been stalled.

Morneau Shepell will be releasing more information on this important development in September.

"Brexit" may have a lasting impact

Markets reacted adversely to the result of the referendum in which Britons voted to leave the EU. While the full implications will not be known for months, if not years, the decision may ultimately lead to Scottish independence and even the demise of the European Union.

Why Plan Sponsors should care

We can expect increased market volatility ahead and possibly increased downside risk in the equity markets.

The threat of "low for long" is growing

There is an increasing expectation that interest rates will stay low for many years to come. Fresh evidence of this phenomenon, which was already reported in *30,000 Feet* in 2015, continues to surface. Ten-year bond yields have declined further in Canada and the U.S. and have dipped into negative territory in Germany (which joins Switzerland and Japan in this regard).

Why Plan Sponsors should care

Bond yields that are close to zero can translate into lower returns in pension funds and negate the value of pursuing an LDI strategy. Pension plans may need to ratchet down their expectations for long-term investment returns though a more troubling outcome is that pension funds may take on greater risk to achieve the same returns.