MORNEAU SHEPELL

30,000 Feet

The biggest stories of the quarter with significant ongoing impact

Fourth quarter, 2016

Trump makes the funding of Canada's pension plans "great again"

Bond yields have soared since Trump's election victory. The yield on long-term Canadas is up over 70 basis points since the end of September. The main reason seems to be expectations of higher spending and inflation in the U.S. with knock-on effects for Canada.

Why Plan Sponsors should care

The higher yields will reduce solvency liabilities by 8 to 12 percent which means DB pension plans that previously had a 10 percent deficit on a solvency basis would now be fully funded (assuming no experience gains or losses on investments). In the case of plans that conduct a formal actuarial valuation at year-end, sponsors can expect significant funding relief. Some sponsors of closed plans that were awaiting a better funded position might use this opportunity to de-risk by purchasing annuities and possibly even winding up their plans. Higher yields may also raise going-concern valuation interest rates which will reduce the normal cost in DB pension plans.

Federal government tables Target Benefit Plan legislation

New federal legislation would allow federally-regulated employers to create both single-employer and multi-employer target benefit plans (TBPs). This follows the public consultation that took place in 2014.

Why Plan Sponsors should care

TBPs represent the "third way" for plan sponsors who wish to eliminate DB risks but do not like traditional DC plans. A key factor is whether accrued benefits are capable of being converted. It is possible that federal TBP legislation could also trigger changes to the Income Tax Act that would make TBPs more attractive (such as having Pension Adjustments based on DC rules rather than DB rules). In addition, it paves the way for TBPs to be introduced within the federal public sector, including Crown corporations. Of course, provincial legislators may wish to follow suit.

Ford of Canada to put new union employees in a DC pension plan

In its contract negotiations with Unifor, Ford reached an agreement that all new union employees would be placed into a DC pension plan rather than a DB plan or hybrid plan. In this regard, Ford joined GM and Fiat Chrysler who had reached a similar agreement two months earlier.

Why Plan Sponsors should care

Collectively bargained pension plans represent one of the last pockets of DB pension plans in the private sector. With continuing low interest rates, such plans continue to come under pressure to convert to DC arrangements. There is no reason to think this trend will be ending anytime soon.

Ontario adopts PRPP regulations

Ontario joins most of the country (BC, Saskatchewan, Quebec, Nova Scotia and federally regulated employers) in allowing employees in the province to join a Pooled Registered Pension Plan (PRPP). Manitoba also announced plans to offer PRPPs but is still some ways off from the regulation-drafting stage.

Why Plan Sponsors should care

Unfortunately for those who would like to see better pension coverage, employers in Ontario who do not provide a pension plan will not be required to offer a PRPP. At this time, the only jurisdiction that is making PRPPs mandatory (from an employer perspective) is Quebec. PRPPs may still become the vehicle of choice for smaller businesses that wish to offer a workplace plan with minimal fuss but their emergence has been agonizingly slow.

Demographic trend intensifies

Over 1,100 Canadians are celebrating their 65th birthday every day.

Why Plan Sponsors should care

Since the majority of those Canadians likely have to rely at least in part on capital accumulations for their retirement security, there is a growing sense of urgency that better decumulation options are needed within DC pension plans.