Knowledge & Insights

# News & Views

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## Survey on compensation and trends in human resources

To support employers in their annual planning for Human Resources, Morneau Shepell conducts an annual *Trends in Human Resources Survey* to canvass Canadian employers on their priorities for the coming year, and to ask HR leaders about the opportunities and challenges they face. In addition, the survey looks at expected changes in compensation and emerging issues that have the potential to impact the Canadian workplace in 2019. Some highlights of the results are provided here, and more information can be found in the summary report.

**Improving business. Improving lives.**

## Salaries expected to increase by 2.6 per cent in 2019

Employers in Canada are expecting salaries to rise by an average of 2.6% in 2019. This is unchanged from a 2.6% average increase in salaries for 2018. The national forecast for salary budget increases for 2019 includes expected salary freezes, with 4.6 per cent of respondents expecting a zero salary increase budget for 2019.

The survey identified some industry sectors that are expecting higher than average salary increases in 2019. They include real estate, rental and leasing at 3.8 per cent, professional, scientific and technical services at 3.0 per cent, educational services at 3.0 per cent and public administration at 2.8 per cent.

Lower than average salary increases are expected in certain industry groups. Information and cultural industries salary increases are among the lowest at 1.5 per cent. Health care and social assistance employers are expected to average 1.7 per cent next year, with arts, entertainment and recreation slightly higher at 2.1 per cent.

The survey highlighted some provinces that are expecting higher than average salary increases in 2019, including British Columbia at 2.8 per cent and Alberta at 2.7 per cent. Quebec and Ontario are expecting salary increases of 2.6 and 2.5 per cent respectively, while salary increases in other provinces ranged from 2.3 to 2.6 per cent.

The expected 2.6 per cent salary increase in 2019 is consistent with the current rate of inflation. In July, the Bank of Canada noted that consumer price index inflation is expected to rise to about 2.5 per cent, before settling back to 2.0 per cent by the second half of 2019.

## Top HR Priorities for 2019

### Improving employee engagement continues to be a priority

Looking to 2019, more than two thirds of HR leaders (67 per cent) said that improving employee engagement was a top priority, while 59 per cent identified attracting and retaining employees with the right skills as the top priority. This remains unchanged from the previous year.

### Improving mental health of employees increased in importance

Improving the mental health of employees (48 per cent) inched above the physical health/wellness of employees (47 per cent) as one of the top five priorities in the coming year. This movement is not surprising given the increase in awareness of the relationship between employee mental health and business objectives.

### Employee turnover is also a top concern

When looking at tactics to reduce organizational costs and improve efficiency, close to half (43 per cent) of HR leaders said that reducing employee turnover was a top priority for 2019.

The focus on engagement, attracting and retaining employees and reducing turnover is linked to a tight labour market. It is important that organizations determine the factors that are keeping employees engaged and committed to their organizations.

## Four Emerging Issues for HR leaders

### The impact of the legalization of cannabis

The legalization of recreational cannabis has brought to the forefront the need to address some foundational issues in workplace policy and practice. This is in addition to the need to review and update existing policies and practices to ensure they specifically address any issues pertaining to cannabis. Organizations need to address impairment, safety, employee health, and substance dependency, in addition to accommodation for medical use.

Regarding the legalization of cannabis in October, 52 per cent of HR leaders indicated they plan to update substance abuse policies to manage cannabis in the workplace at some point over the next 12 to 18 months. Thirty-four per cent of respondents said they already have these policies in place.

### Dealing with increasing health costs

The high cost of specialty drugs continues to be a major cost risk for health plans. Biologics and even biosimilars (which are similar, but not entirely identical copies of reference or original biologics) drive significant and increasing cost. Biologic and biosimilar use is escalating rapidly and is expected to account for a quarter of the pharmaceutical market by 2020.

With the high cost of specialty drugs, more people are reaching limits, such as lifetime maximums. As well, the cost curve for medications overall is likely to increase in step with increased use of biologics and biosimilars, and the increasing number of conditions treated by them.

### Responding to the #MeToo movement

Another issue that has emerged is the growing #MeToo movement and navigating issues around sexual misconduct in the workplace. The majority of employers have existing processes in place to address these concerns. Almost all HR leaders (84 per cent) said they currently have zero tolerance policies implemented to address workplace harassment. Sixty per cent of employers effectively provided managers with tools and resources to address negative behaviours in the workplace and one-quarter (25 per cent) are planning to implement processes in the next 12 to 18 months.

### Optimizing retirement plans

Consistent with the results of the 2018 survey, HR leaders continue to cite concerns about their employees' financial preparedness in retirement (73 per cent) and nearly one-third (32 per cent) are concerned with their employees' level of understanding of the decumulation process in retirement and how they will manage it.

## Comment

Participants in the *Trends in Human Resources Survey* receive a complimentary report with detailed survey findings and benchmarks for their organizations, and further insights on major HR trends. If you would like to participate in the HR Trends survey next year, please email **hrtrends@morneaushepell.com.**

# Quebec Human Rights Tribunal holds that students are entitled to same wages as those of other employees in the same role

The Quebec Human Rights Tribunal (the "Tribunal")[1] recently ruled that offering a wage rate to student employees that is lower than that of casual and regular employees doing the same work is discriminatory.

The Tribunal noted that students are protected by the Quebec *Charter of Human Rights and Freedoms* (the "Charter") with respect to a discriminatory practice based, in this case, on social condition and age. According to the Tribunal, being a student is a social condition – students are generally considered part of a "lower class of workers" – and their social condition is a distinction under the Charter given that the students were a minority of the unionized employees, that negotiations took place outside their periods of hire, and that they were never asked to vote on their wage conditions. Age was also a distinction under the Charter, since students are hired at a younger age than most of the casual employees.

According to the Charter, a difference in salary or wages based on experience, seniority, years of service, merit, productivity or overtime is not considered discriminatory if such criteria are common to all employees. However, that must be demonstrated by the evidence.

Further to its detailed review of the evidence, the Tribunal concluded that the students were carrying out work equivalent to that of the company's casual and regular employees. Furthermore, it was not demonstrated to the Tribunal that the difference in the student's wages was justified pursuant to the Charter, namely by experience, seniority or merit review.

1 *Commission des droits de la personne et des droits de la jeunesse (Beaudry et autres)* c. *Aluminerie de Bécancour inc.*, 2018 QCTDP 12.

The Tribunal noted that:

- The students worked in the same dangerous and potentially toxic environment as the regular and casual employees.
- The students were as competent as the regular and casual employees.
- From the first day of work, casual employees earned more than the students who were on their fourth period of summer work and who may have worked as many times during the holiday season.
- When students worked overtime, they were paid the same rate as casual employees.

## Discussion

Quebec employers subject to the Charter should be careful when establishing the wage conditions of their employees. Note that the Tribunal's decision only addressed wage conditions. Under the Charter, the words "salary" and "wages" include the compensation or benefits of pecuniary value connected with the employment. It remains to be seen if the decision could be applied to pension and benefit plans.

However, with respect to pension plans, it is important to note that the Quebec *Supplemental Pension Plans Act* (SPPA) already provides that employees are entitled to become members of a pension plan, on the same conditions as those applicable to other members, if their employment is similar or identical to that of members belonging to the class of employees for whom the plan is established and if such employees meet the minimum membership requirements of the SPPA (i.e. 700 hours or 35% of the Maximum Pensionable Earnings), unless another plan providing similar benefits in which the employees are eligible for membership is established.

If a pension plan allows membership from the date of hire, students and temporary or casual employees cannot be prevented from joining the plan if they do similar or identical work to that of other members covered by the plan.

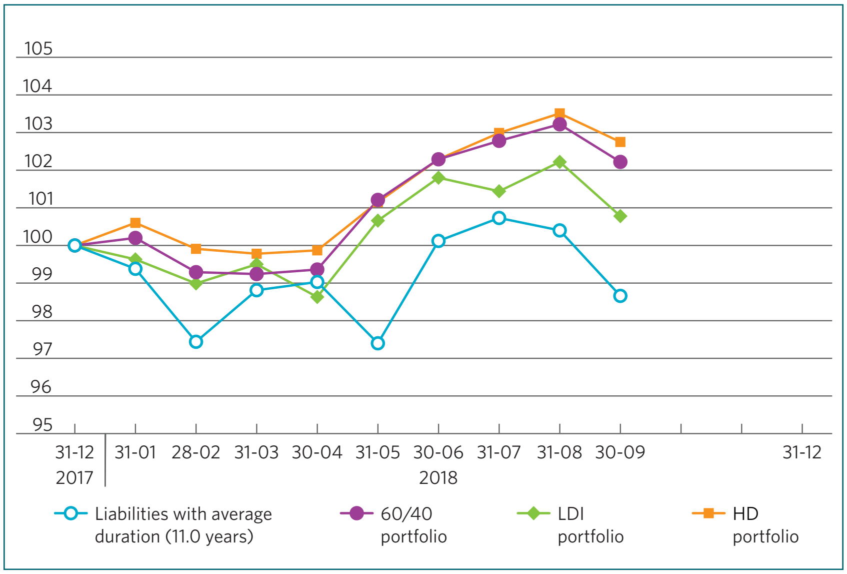
We note also that the *Quebec Labour Standards Act* now prohibits "orphan" clauses, i.e., differences in treatment with respect to pension plans or other employee benefits based solely on the hiring date of employees who perform the same tasks in the same establishment. For more information on this matter, please see our July 2018 issue of *News & Views*.

Leave has been requested to appeal this decision to the Quebec Court of Appeal. Given the important issues the decision raises, we will be following the case with interest.

# Tracking the funded status of pension plans as at September 30, 2018

This graph shows the changes in the financial position of a typical defined benefit plan with an average duration since December 31, 2017. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2017. The estimate of the solvency liabilities reflects the new CIA guidance for valuations effective June 30, 2018 or later. The following graph shows the impact of three typical portfolios on plan assets and the effect of interest rate changes on solvency liabilities of medium duration.

The evolution of the financial situation of pension plans since December 31, 2017



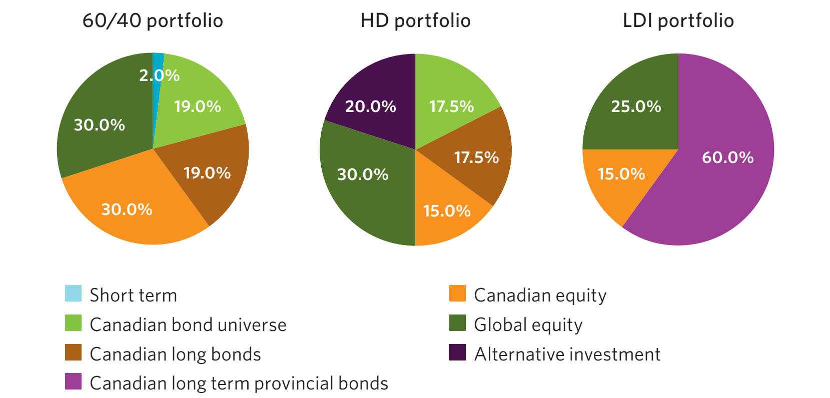

During the month of September, alternative investments showed positives returns while Canadian equity markets, global equity markets (CAD), Canadian universe bonds, Canadian long-term bonds as well as Canadian long-term provincial bonds showed negatives returns. With a return of -0.7%, the highly diversified portfolio (HD) outperformed the 60/40 portfolio (-1.0%) and the low volatility portfolio (LDI[1]) (-1.4%).

The relative outperformance of the HD portfolio is mainly due to its allocation in alternative investments. The prescribed CIA Annuity purchase rates increased as well as the commuted value rates used in the calculation of solvency liabilities. As a result, the solvency liabilities decreased by 1.7% for a medium duration plan. For this type of plan, an investment in the 60/40, the LDI or the HD portfolio resulted in an increase of the solvency ratio.

[1] Liability driven investment

The table shows the impact of past returns on plan assets and the effect of interest rate changes on solvency liabilities of a medium duration plan, based on the plan's initial solvency ratio as at December 31, 2017. The graph shows the asset allocation of the three typical portfolios.

| Initial solvency ratio as at December 31, 2017 | Evolution of the solvency ratio as at September 30, 2018 for three different portfolios | | |
|---|---|---|---|
| | 60/40 portfolio | Low volatility portfolio (LDI) | Highly diversified portfolio |
| 100% | 103.6% | 102.2% | 104.1% |
| 90% | 93.2% | 91.9% | 93.7% |
| 80% | 82.9% | 81.7% | 83.3% |
| 70% | 72.5% | 71.5% | 72.9% |
| 60% | 62.2% | 61.3% | 62.5% |




Since the beginning of the year, driven by positives returns in Canadian equity markets, global equity markets (CAD) as well as alternative investments, the 60/40 portfolio, the LDI portfolio and the HD portfolio returned 2.2%, 0.8% and 2.7% respectively. The solvency liabilities fluctuated over that same period from -1.3% to -1.1% depending on the duration of the group of retirees. The variation in the plan's solvency ratio as at September 30, 2018 stands between 1.3% and 4.1%.

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

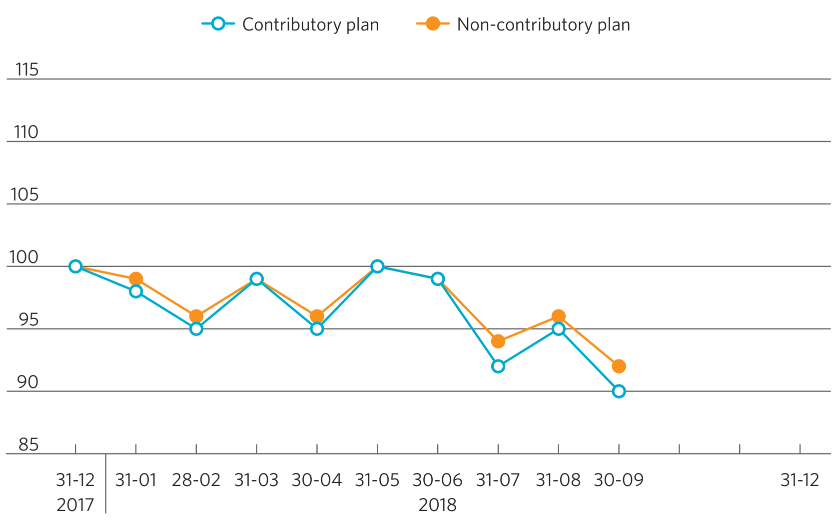
## Comments

1. No consideration has been made for contributions paid to the plan or for benefits paid out of the plan.
2. Solvency liabilities are projected using the rates prescribed by the Canadian Institute of Actuaries (CIA) for the purpose of determining pension commuted values.
3. The underlying typical defined benefit plan is a final average plan with no pension indexing, including active and inactive participants representing 60% and 40% of liabilities, respectively.
4. Assets are shown at full market value. Returns on assets are based on three typical benchmark portfolios.

# Impact on pension expense under international accounting as at September 30, 2018

Every year, companies must establish an expense for their defined benefit pension plans. The graph shows the expense impact for a typical pension plan that starts the year at an arbitrary value of 100 (expense index). The expense is influenced by changes in the discount rate based on high-quality corporate and provincial (adjusted) bonds and the median return of pension fund assets.

Expense Index from December 31, 2017




| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Discount rate** (%) | 3.5 | 3.6 | 3.7 | 3.6 | 3.7 | 3.6 | 3.6 | 3.8 | 3.7 | 3.8 |
| **Return on assets (55% equities)** (%) | 0.0 | 0.1 | -0.8 | 0.1 | 0.0 | 1.8 | 1.0 | 0.3 | 0.5 | -1.0 |

The table below shows the discount rates for varying durations and the change since the beginning of the year. A plan's duration generally varies between 10 (mature plan) and 20 (young plan).

Discount rate

| Duration | December 2017 | September 2018 | Change in 2018 |
|---|---|---|---|
| 11 | 3.39% | 3.75% | +36 pdb |
| 14 | 3.48% | 3.82% | +34 pdb |
| 17 | 3.53% | 3.87% | +34 pdb |
| 20 | 3.57% | 3.90% | +33 pdb |

Since the beginning of the year, the pension expense has decreased by 10% (for a contributory plan) due to an increase in discount rates despite the low returns on assets (relative to the discount rate).

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

## Comments

1. The expense is established as at December 31, 2017, based on the average financial position of the pension plans used in our *2017 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits report* (i.e. a ratio of assets to obligation value of 93% as at December 31, 2016).
2. The return on assets corresponds to the return on the Morneau Shepell benchmark portfolio (55% equities and 45% fixed income), which reflects the average asset mix in our 2017 Survey.
3. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions).

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## About Morneau Shepell

Morneau Shepell is the only human resources consulting and technology company that takes an integrated approach to employee well-being to meet health, benefits and retirement needs. The Company is the largest administrator of retirement and benefits plans and the largest provider of integrated absence management solutions in Canada. LifeWorks by Morneau Shepell is the leading total well-being solution that combines employee assistance, wellness, recognition and incentive programs. As a leader in strategic HR consulting and innovative pension design, the Company also helps clients solve complex workforce problems and provides integrated productivity, health and retirement solutions.

Established in 1966, Morneau Shepell serves approximately 24,000 clients, ranging from small businesses to some of the largest corporations and associations. With more than 4,500 employees in offices across North America, the United Kingdom and Australia, Morneau Shepell provides services to organizations around the globe. Morneau Shepell is a publicly-traded company on the Toronto Stock Exchange (TSX:MSI). For more information, visit morneaushepell.com.

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