Knowledge & Insights

MORNEAU SHEPELL

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In this issue

Advisory Council releases interim report on national pharmacare

The Advisory Council on the Implementation of National Pharmacare (the Advisory Council) released an interim report (the Interim Report) on March 6, 2019, which was reflected in the 2019 federal budget. The Interim Report sets the stage for further announcements on the federal government's intentions with respect to pharmacare.

Background

The establishment of the Advisory Council was announced in the 2018 federal budget. The Advisory Council released a discussion paper in June 2018, and has been reviewing public input and developing recommendations since that time. The Advisory Council is considering three key questions regarding the implementation of national pharmacare: who will be covered and under what circumstances, what drugs will be covered, and how it will be funded.

The Interim Report includes a description of major prescription challenges, initial recommendations, and core principles that should underpin the approach to national pharmacare.

Major prescription drug challenges

The Interim Report identifies three major challenges facing Canada with respect to prescription drug coverage:

1. Too many Canadians cannot afford the prescription drugs they need;
2. Access to prescription drug coverage is inconsistent across jurisdictions and populations; and
3. Canada's spending on prescription drugs is unsustainable.

Core principles of national pharmacare

The Interim Report identifies core principles to be considered in the Advisory Council's final report. According to the Interim Report, the federal government's approach to national pharmacare should:

1. Ensure that all Canadian residents have access to prescription drugs based on medical need, without financial or other barriers to access;
2. Ensure that coverage is portable and consistent across all jurisdictions;
3. Provide access to a comprehensive, evidence-based formulary, with special consideration for drugs for rare diseases;
4. Be designed and delivered in partnership with patients and citizens;
5. Be founded on strong partnership between federal, provincial and territorial governments and Indigenous peoples; and
6. Include a robust pharmaceutical management system that promotes safety, innovation, value-for-money and the sustainability of prescription drug costs.

Initial recommendations

Regardless of which approach to national pharmacare is recommended, the Advisory Council believes the following foundational elements, which can be implemented immediately, are the building blocks to ensure the successful implementation of national pharmacare:

1. National drug agency

The Advisory Council recommends the establishment of an arms-length agency to manage and oversee national pharmacare. This national drug agency's responsibilities would include conducting health technology assessments to evaluate the clinical evidence and value-for-money proposition of prescription drugs, conducting negotiations with manufacturers on drug prices and terms of listing, developing and managing a national formulary, and supporting prescribers and patients to maximize best practices and improve health outcomes.

2. Develop a comprehensive, evidence-based national formulary

The Advisory Council recommends the federal government, in partnership with provinces and territories, Indigenous peoples, patients/citizens, and clinical and other experts, begin development of a comprehensive, evidence-based national formulary.

3. Invest in drug data and information technology systems

The Advisory Council recommends the federal government invest the financial and other resources necessary to enable federal, provincial and territorial governments to strengthen drug data collection and enhance their drug-related information technology systems to meet the goals and objectives of national pharmacare.

2019 Federal Budget

As mentioned in the March 2019 *News & Views*, the 2019 federal budget proposes to create a Canadian Drug Agency to review drug efficacy and negotiate drug prices. The Canadian Drug Agency is mandated to develop a national drug formulary in partnership with provinces, territories and other stakeholders.

In light of the creation of the Canadian Drug Agency, the role of the pan-Canadian Pharmaceutical Alliance (pCPA) is unclear going forward. For the past number of years, the pCPA has negotiated prescription drug prices on behalf of the federal, provincial, and territorial governments. Although private insurance companies, who underwrite and administer most private plans, have not been included in the pCPA, plan sponsors have benefited indirectly to some degree from negotiated cost savings.

The federal budget also promises a national strategy for high-cost drugs for rare diseases. The budget proposes new funding of up to $1 billion for two years for drugs that treat rare diseases beginning in 2022-2023, and up to $500 million per year thereafter.

Comment

The Advisory Council's interim report stops well short of recommending universal, single-payer coverage and does not discuss how funding would occur. The initial recommendations are broad enough that they are compatible with many different potential forms of national pharmacare. The Advisory Council's final report will be submitted later this spring and is expected to include a recommendation on a particular model for national pharmacare, along with details on how such a plan would be implemented, managed, and funded.

Private plans have been managing prescription drug costs rising at a rate well above inflation for years. For private plan sponsors, a national pharmacare program could offset or reduce costs but some form of funding for the government program could be mandated for employers.

Though many questions remain regarding national pharmacare, these announcements are an opportunity for private plan sponsors to reassess their plan offering. While many plans have already implemented proactive prescription drug management strategies, many other plans still feature dated, ineffective provisions. Along with reviewing prescription drug plans, leading organizations are increasingly focusing on prevention of health problems and overall employee well being. Many plans also have not been refreshed and modernized to consider the growing younger workforce try to address evolving employee needs. A Morneau Shepell consultant can assist organizations in optimizing their plan and programs for employees.

Update: Ontario amends OHIP+ drug program for children and youth

Effective April 1, 2019, Ontario has made benefit coverage changes to the Ontario Drug Benefit (ODB) program for children and youth aged 24 years and under. The changes to OHIP+ affect children and youth with private prescription drug coverage. A previous announcement of this change was discussed in the February 2019 *News & Views*.

Changes affecting children and youth with private plan coverage

Children and youth aged 24 years and under that do not have private plan coverage will remain eligible for the ODB program through the OHIP+ eligibility stream and will continue to be automatically covered by OHIP+.

Children and youth aged 24 years and under that have private plan coverage are no longer eligible for OHIP+.

A "private plan" is defined to mean an employer, group or individual plan, program or account that could provide coverage for drug products. This includes the provision of funding that could be used to pay for drug products, regardless of whether:

- the private plan covers the particular drug for which coverage is sought;
- the child or youth or another person captured under the private plan is required to pay a co-payment, deductible, or premium; or
- the child or youth has reached their annual maximum under the private plan and no further coverage is available.

A Health Spending Account that provides access to drug coverage will qualify as a private plan, resulting in no access to OHIP+.

Children or youth with private plan coverage may still be eligible for other forms of financial support towards prescription drug coverage, such as the Trillium Drug Program.

Comment

These changes partially retract the OHIP+ program introduced by the previous Ontario government in January 2018. Prior to these most recent amendments, more than 4,400 prescription drugs were free of cost to children and youth under the age of 25, irrespective of whether they were covered under a private prescription drug plan. These costs will once again be placed on Ontario employers and employees who pay for the cost of private drug coverage.

Furthermore, families may face increased out of pocket expenses as well as other private plan limits on coverage for children and youth under the age of 25. At the same time, it should be noted that the ODB does not cover all of the drugs that are covered under private plans.

Pension coverage findings from the Quebec Survey of Total Compensation

On February 7, 2019, the Institut de la statistique du Québec released an analysis of the findings of the Quebec 2017 Survey on Total Compensation with respect to the pension and savings plans offered to employees. The survey was conducted with Quebec private and public sector organizations that have 200 or more employees. The survey universe represents more than one million Quebec employees with permanent full-time jobs, or about one-quarter of the Quebec labour force.

Employee pension and savings plan membership

The analysis shows that 83.1% of the organizations surveyed sponsor at least one savings or pension plan. These plans include non-pension defined contribution savings plans[1] (savings plans), defined contribution pension plans (DC plans) and defined

Figure 1 - Percentage of employees who have a savings or pension plan

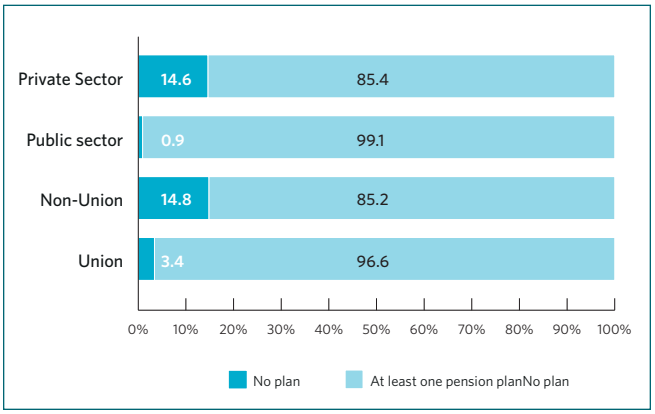
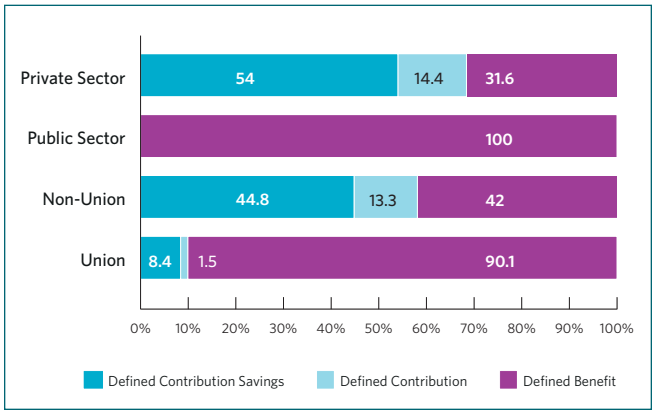


Figure 2 - Percentage of employees by sector



benefit pension plans (DB plans). In the private sector, 81.3% of companies with 200 or more employees offer a pension plan, whereas in the public sector all employers offer at least one savings or pension plan.

The survey also shows that 91.9% of permanent, full-time employees in these major organizations have access to a savings or pension plan. Figure 1 indicates the percentage of employees who have a saving or pension plan, by sector.

Types of pension plans offered

The public sector primarily offers DB plans whereas, in the private sector, fewer DB plans are offered.

Figure 2 shows the percentage of employees who have access to each type of plan, by sector, based on employers who offer just one type of pension plan.

Pension plan employer costs

With respect to total compensation, pension plans account for a significant portion of employee benefit costs. For all Quebec employers surveyed, the average employer cost (as a percentage of salary for participating employees) was 10.8% for DB plans, 3.4% for DC plans and 2.7% for savings plans. In all sectors, DB plan costs are much higher than those of the other two types of plans. Part of the difference is due to deficit amortization payments, which are usually assumed by employers.

In the public sector, the average employer cost for DB plans for their participating employees, is 10.7%, versus 11.1% for DB plans in the private sector, resulting in an overall average of 10.8% for DB plans in all organizations surveyed. As for DC plans, the average employer cost in the public sector is 2.0% versus 3.5% in the private sector, resulting in an overall average of 3.4% for DC plans in all organizations surveyed. Given that DC plans are much more prevalent in the private sector, the average employer cost, for all types of plans combined, in the public sector is 10.7% versus 8.3% in the private sector, resulting in an overall average of 9.6% for all organizations surveyed.

The survey shows a significant cost variation between public sector DB plans. For the public sector, costs range from 8.3% in the provincial sector to 19.5% for municipalities of more than 25,000 citizens.

In the private sector, there is a significant cost difference between union and non-union employees, with DB employer costs of 13.6% and 9.8% respectively. The impact of unionization can also be observed with respect to savings plans, where the average cost assumed by the employer is 3.7% for union employees versus 2.4% for non-union employees. The difference in cost for DC plans is less notable (3.6% vs 3.5% for union versus non-union employees).

1 Defined contribution savings plans include Voluntary Retirement Savings Plans (VRSP – their presence was considered in the survey, but not their costs), group Registered Retirement Savings Plans (group RRSP), Deferred Profit-Sharing Plans (DPSP) and any combination of the latter two.

Comment

The significantly higher cost of DB plans explains why the private sector continues to move away from them. Municipal sector pension plans have undergone major restructuring over the past several years, which means their costs will likely decrease in the years ahead, especially since cost-sharing with members was prescribed going-forward since 2014. It is also worth noting that unions, including unions in the private sector, have managed to negotiate pension plans that require higher employer costs.

Nova Scotia Bill 109 introduces DB funding reforms and discharge for buy-out annuities

On March 12, 2019, Nova Scotia government introduced Bill 109, which includes several measures to help reduce defined benefit (DB) pension plan funding volatility and permits buy-out annuities.

Measures to reduce funding volatility

Bill 109 follows Nova Scotia's consultation on DB pension plan funding (see the October 2017 *News & Views*). Three options had been identified in the consultation paper, including measures affecting solvency funding requirements. Bill 109 does not affect the requirement to fully fund solvency liabilities, but introduces the following measures, which would help reduce funding volatility:

Reserve accounts: administrators of pension plans with a DB provision will be able to create a separate account within the pension plan fund to hold payments in respect of a solvency deficiency or other prescribed contributions. On full wind-up of the pension plan, surplus in a reserve account could be withdrawn by the administrator subject to the requirements of the *Pension Benefits Act* (Act) and Regulations;

Letters of credit (LOCs): currently LOCs obtained from a financial institution can be used to cover solvency special payments for up to 15% of solvency liabilities. Bill 109 removes the 15% cap on LOCs.

Buy-out annuities

Bill 109 also provides DB pension plan administrators with a full discharge of the obligation to pay pensions to former members, retired members, and other persons in receipt of a pension from the plan upon annuity purchase. The annuity purchase must meet the requirements of the Act and Regulations. Individuals for whom an annuity has been purchased would be able to participate in any surplus distribution in the event that the pension plan is wound up within three years of the date of the annuity purchase.

Administrative changes

Bill 109 also revises the "deemed trust" provisions contained in the Act to ensure that the elements required to create a statutory deemed trust are present in order to establish an effective priority in favor of beneficiaries of underfunded pension plans. Finally, Bill 109 clarifies that all information filed, collected by or submitted to the Superintendent in relation to a pension or a pension plan must be kept confidential, and cannot be disclosed except to members and other persons who can request the information pursuant to the Act.

Comment

Nova Scotia sponsors of DB pension plans will welcome the measures to reduce funding volatility, but the measures do not represent comprehensive funding reform that has been seen in provinces such as Ontario and Quebec, and that was contemplated in the consultation paper. Employers with DB members in Nova Scotia will also welcome the opportunity to obtain a discharge upon the purchase of buy-out annuities.

Regulatory amendments to support the measures contained in Bill 109 (e.g., reserve accounts; annuity buy-out discharge) have not yet been released. Except for the administrative changes, which would take effect upon royal assent, Bill 109 would only come into effect upon proclamation, which is not expected until the regulatory amendments are released. Regulatory amendments and proclamation are scheduled approximately for fall 2019.

FSCO gives stakeholders FAQ document on DB funding reform

On March 8, 2019, the Financial Services Commission of Ontario (FSCO) released a Frequently Asked Question (FAQ) document summarizing key points on the new funding rules for single employer defined benefit (DB) pension plans registered in Ontario, which came into effect on May 1, 2018. The FAQ document discusses the new requirements for an asset allocation table in Statements of Investment Policies and Procedures (SIPPs), rules for calculating the provision for adverse deviation (PfAD), and other rules relating to plan text amendments and disclosure to members.

Required amendments to SIPPs

As discussed in the November 2018 *News & Views*, a SIPP must be amended to include the plan's target asset allocation for the investment categories listed in subsection 76(12) of the regulations under the *Pension Benefits Act* (the Regulations).

The SIPP amendment requirements are consistent with the SIPP amendment requirements previously summarized in *News & Views.* However, FSCO has clarified the treatment of pooled funds in the target asset allocation. Despite pooled funds being listed as an investment category in the Regulations, the target asset allocation must "look through" to the underlying investments held in the pooled fund in order to permit the PfAD to be calculated. It is not necessary to include a target asset allocation that lists pooled funds as an investment category.

The FAQ document also provides guidance on a number of investment categories, such as Real Estate Income Trusts (REITs), private equity, commodities and infrastructure investments and how they are to be categorized in the target asset allocation.

FSCO expects SIPPs to be brought into compliance "as soon as is practical", but the SIPP will have to contain the required information by the valuation date of the first valuation report in which the PfAD is calculated based on the target asset allocation. It should be noted that, for valuation reports with a valuation date before December 31, 2019, the PfAD can be calculated using transition rules that permit the PfAD to be based on the pension plan's actual asset allocations in the financial statements rather than the target asset allocation.

Guidance on PfAD calculations

The FAQ document also provides some guidance on calculation of the PfAD.

A SIPP is effective as of the date it is approved or the date it is amended by the administrator. If a SIPP calls for changes in the asset mix after the valuation date, such as a de-risking glide path, those future changes should not be reflected in the calculation of the PfAD until that future date. Furthermore, the target asset allocation of the SIPP in effect at the valuation date of the valuation report should be used to determine the PfAD in that report.

Additionally, for the purpose of going concern valuations, the PfAD should be applied to any provisions for plan expenses payable from the pension fund, including any explicit allowance for expenses.

Other new rules

As discussed in the November 2018 *News & Views*, a DB pension plan registered in Ontario must be amended to comply with the new funding rules. Such amendments must be made within 12 months of filing a valuation report with a valuation date on or after December 31, 2017, whether or not the report used the new funding rules.

Contribution holidays must be disclosed to plan members, former members, retired members, trade unions, and an advisory committee, if any, in the first six months of any plan year where the employer is taking a contribution holiday. The notice of contribution holiday may be included in the annual or biannual statement to members, former members and retired members as long as the deadline for providing such notice is met.

Plan administrators must disclose the plan's estimated transfer ratio as at the end of the statement period (whether annual or biennial) in statements issued on and after January 1, 2019.

Comment

The FAQs relating to SIPPs provide useful and necessary guidance on the preparation of the target asset allocation in a SIPP for an Ontario DB pension plan. With the release of the FAQ document, plan administrators should have sufficient information to amend and update the DB SIPP.

The FAQ document also provides firm guidance on certain calculation issues relating to the PfAD.

The statements provided to Ontario DB plan active and inactive members, and for members of Ontario-registered DB plans in jurisdictions that have signed the multi-jurisdictional pension plans agreement must now reflect the estimated transfer ratio as of the effective date of the statement period. Administrators and sponsors of Ontario-registered DB plans should also be aware of the deadlines applicable to them in relation to SIPP and plan text amendments.

FSCO issues FAQ document on annuity discharge requirements

On March 8, 2019, the Financial Services Commission of Ontario (FSCO) released a Frequently Asked Question (FAQ) document summarizing key points on the new discharge for the purchase of a pension for a former or retired defined benefit (DB) pension plan member where certain conditions under the Ontario *Pension Benefits Act* (the Act) and Regulation 193/18 (the Regulation) have been met.

Who does the new discharge apply to?

As discussed in the May 2018 *News & Views*, section 43 of the Act permits the purchase of annuities in respect of DB pensions provided to former and retired members. Effective July 1, 2018, a new section 43.1 of the Act provides single employer DB pension plans with a full discharge of the obligation to pay pensions to former or retired members for whom a buy-out annuity has been purchased, subject to meeting the requirements of the Act and Regulation.

As the FAQ document points out, only former and retired members are currently eligible for the discharge. FSCO takes the view that an annuity purchased for a former and retired member that includes all the pension benefits payable in respect of the former or retired member (including, for example, any future survivor pension payable to a spouse, a pension for a dependent child, a guarantee period, or a pension payable to a former spouse as a result of a marriage breakdown) can result in a discharge of the full pension if the requirements for a discharge are met. The FAQ suggests that this discharge also applies to the payments made to a spouse, former spouse, child or other beneficiary after the former or retired member passes away, although this is not explicitly stated in the legislation.

In FSCO's view, a surviving spouse's pension, a pension for a dependent child or a guarantee period is not discharged if purchased on a stand-alone basis (i.e., without the underlying pension for the former or retired member being purchased).

As discussed in the December 2018 *News & Views*, Bill 57 will extend the discharge provisions to payments to surviving spouses once it is proclaimed into force and accompanying regulations are adopted. However, other forms of pensions payable to dependent children, beneficiaries and former spouse will still not be subject to the discharge.

The FAQ document points out that, in some cases, a pension plan administrator may wish to purchase a pension for a member whose benefits are frozen under a plan's DB component but who is still active under the defined contribution component of the same pension plan. In such circumstances, the member is still considered an active member of the plan and therefore is not eligible for the discharge.

In some cases, an individual pension plan may be precluded from meeting the funding requirements for the discharge upon purchasing a buy-out annuity due to restrictive funding rules of the Canada evenue Agency. In such circumstances, the discharge is not available.

The FAQ document indicates that, if a plan administrator wishes to purchase annuities for active members as well as former and retired members, these may be purchased through a single transaction under both sections 43 and 43.1. The discharge will not apply to active members, but it can be applied for at a later time after termination or retirement of the active members. The requirements of the Act and Regulation for the discharge would have to be met at that later time.

Filing requirements

In order to obtain a discharge, a certificate of compliance signed by an actuary must be filed with FSCO. FSCO points out that the discharge is gained by operation of law upon meeting the requirements of the Act and Regulation, and that FSCO does not grant the discharge. Nevertheless, FSCO will acknowledge receipt of the certificates and may from time to time, review them for compliance.

The FAQ sets out certain expectations for the certificate. In addition to the requirements specifically mentioned in the Regulation, FSCO states that the certificate should specifically confirm compliance with the notice requirements and the requirements applicable to the annuity under the Regulation. In addition, FSCO states that the certificate should set out the solvency ratio after the annuity purchase, as required under the Regulation, and the work done to support the development of that ratio. It also requests opinion statements on the data, assumptions and method employed in the calculation of the solvency ratio after the annuity purchase.

A copy of the annuity contract and the names and addresses of those covered by the annuity purchase must also be filed with FSCO.

Solvency funding requirements

As discussed in the May 2018 *News & Views*, if the plan was fully funded on a solvency basis in the most recently filed actuarial valuation report (AVR) before the purchase, it must be fully funded on a solvency basis on the day following the annuity purchase. If the plan was less than fully funded on a solvency basis in the most recent AVR, a plan administrator must ensure the plan is at least 85% funded on a solvency basis and funding is not worsened as a result of the annuity purchase. FSCO has confirmed that a top up payment can be made in order to meet the 85% threshold, but such report must be filed prior to the date the actuarial certificate of compliance is filed.

Reporting requirements following discharge

Following a discharge under section 43.1 of the Act, plans no longer need to provide biennial statements to discharged former or retired members beginning in the fiscal year in which the annuity is purchased and discharged. However, outstanding statements for prior fiscal years in which the individual was still a former or retired member at year-end are still required.

Discharged former or retired members will no longer be reflected in the Annual Information Return starting with the fiscal year in which the annuities were discharged. Liabilities of discharged former or retired members do not need to be included in an AVR and Actuarial Information Summary (AIS); however, a record of the annuity purchase and discharge will need to be reflected in the first AVR and AIS that follows the purchase. Pension Benefits Guarantee Fund Assessment Certificates filed in the year of the annuity purchase must include discharged former and retired members for whom annuities were obtained during the year, as the assessment is based on the number of former and retired members at the end of the previous fiscal year.

Other items to consider

FSCO has clarified that, for purposes of the Regulation, per industry practice, the date of purchase of an annuity is the date the administrator enters into a contract with the insurer to purchase a pension. Generally, this will be the date the administrator accepts the winning bid.

FSCO has also clarified that a buy-in can be converted to a buy-out with discharge by following the requirements set out in section 43.1 for former

or retired members. The "date of purchase" in this scenario would be the date of conversion or the date on which both parties enter into a binding commitment to the buy-out annuity.

A discharge under section 43.1 is only applicable to Ontario former and retired members. FSCO indicates that the discharge provisions apply to Ontario members of plans registered in other jurisdictions, but the administrator would need to be able to prove compliance with the Act for the Ontario members. The discharge provisions, however, do not apply to non-Ontario members of a plan registered in Ontario. FSCO does not comment on the provisions of other provinces that may provide a discharge to non-Ontario members of plans registered in Ontario.

FSCO suggests that, although the Act does not specifically require permissive plan language regarding annuity purchases, it is not certain whether a tribunal or court might decide that such language is required. As a result, FSCO suggests that plan sponsors should consider the additional certainty that may be gained by ensuring that the plan text does in fact contemplate and permit annuity purchases in settlement of accrued DB pensions.

Transfer deficiency restrictions do not apply to annuity purchases under section 43.1 of the Act.

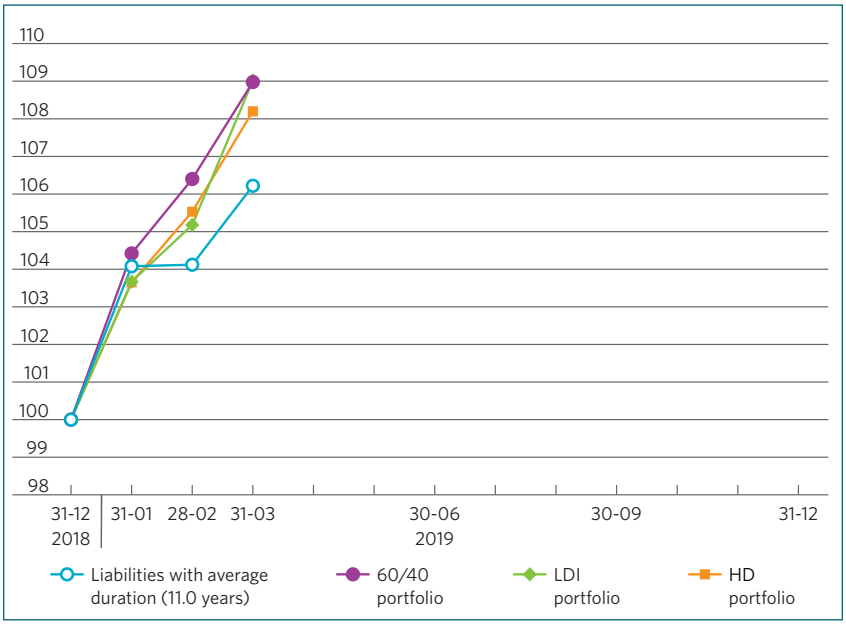
Comment

The FAQs provide useful clarification of FSCO's expectations and beliefs in regards to obtaining the discharge under the Act for buy-out annuity purchases, as well as the impact on required filings with FSCO. Given that the Act's provisions provide the discharge and they have not been interpreted by a court or tribunal, FSCO's guidance does not provide absolute certainty with respect to obtaining a discharge. Plan sponsors considering an annuity purchase should consider whether to amend their plan provisions to explicitly authorize such purchases and how to deal with concerns over members in other jurisdictions, and purchases for surviving spouses, dependent children, beneficiaries, former spouses and suspended active members, if applicable.

Tracking the funded status of pension plans as at March 31, 2019

This graph shows the changes in the financial position of a typical defined benefit plan with an average duration since December 31, 2018. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2018. The estimate of the solvency liabilities reflects the new CIA guidance for valuations effective December 31, 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, 2018



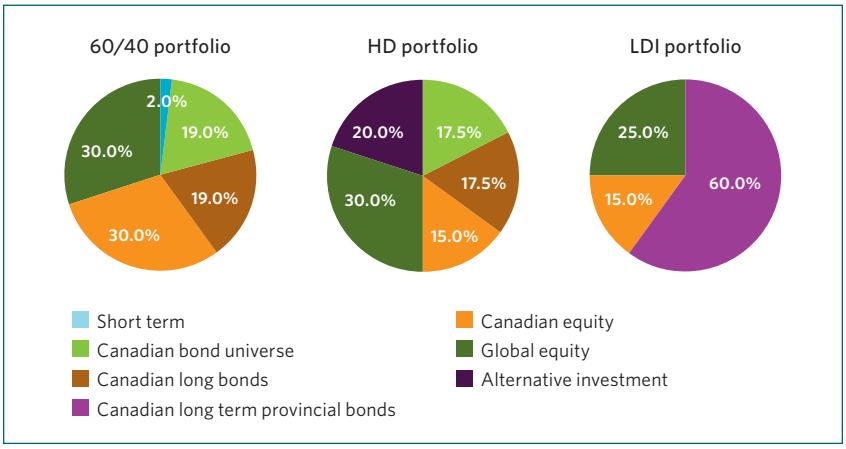
During the month of March, Canadian universe bonds, Canadian long-term bonds, Canadian long-term provincial bonds, Canadian equity markets, global equity markets (CAD) as well as alternative investments showed positive returns. With a return of 3.6%, the low volatility portfolio (LDI[1]) outperformed the highly diversified portfolio (HD) (2.5%) and the 60/40 portfolio (2.4%).

The prescribed CIA Annuity purchase rates and the commuted value rates used in the calculation of solvency liabilities decreased during the month. As a result, the solvency liabilities increased by 2.0% for a medium duration plan. For this type of plan, an investment in the 60/40, in the HD or in the LDI 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, 2018. The graph shows the asset allocation of the three typical portfolios.

Initial solvency ratio as at December 31, 2018	Evolution of the solvency ratio as at March 31, 2019 for three different portfolios		
	60/40 portfolio	Low volatility portfolio (LDI)	Highly diversified portfolio
100%	102.6%	102.6%	101.9%
90%	92.3%	92.4%	91.7%
80%	82.1%	82.1%	81.5%
70%	71.8%	71.8%	71.3%
60%	61.6%	61.6%	61.1%



Since the beginning of the year, driven by positive returns in the Canadian equity markets, Canadian long-term bonds, Canadian long-term provincial bonds, global equity markets as well as the alternative investments, the 60/40 portfolio, the LDI portfolio and the HD portfolio returned 9.0%, 9.0% and 8.2% respectively. The solvency liabilities fluctuated over that same period from 5.9% to 6.5% depending on the duration of the group of retirees. The variation in the plan's solvency ratio as at March 31, 2018 stands between 1.1% and 2.6%.

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

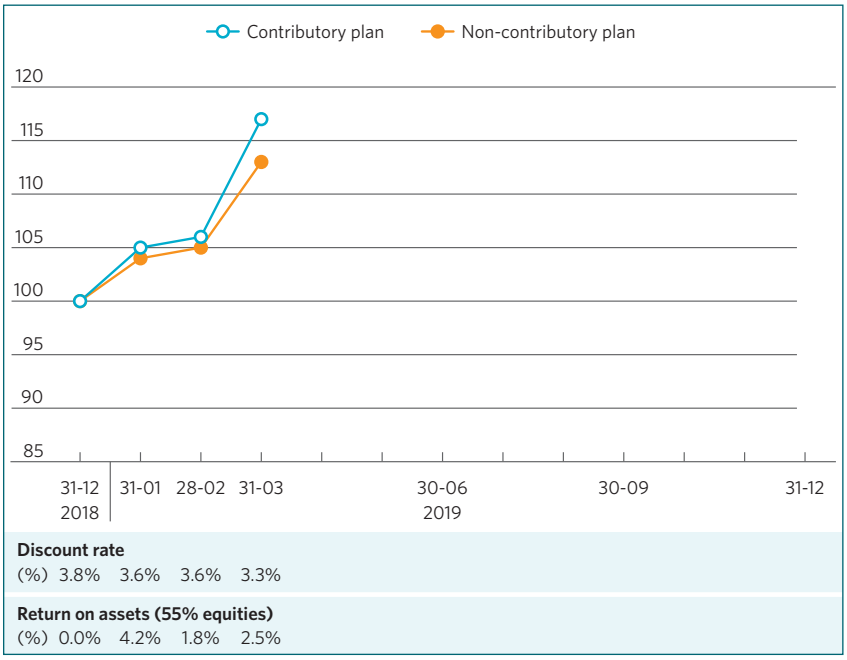
Comments

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 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 March 31, 2019

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, 2018



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 2018	March 2019	Change in 2019
11	3.72%	3.20%	-52 bps
14	3.81%	3.30%	-51 bps
17	3.87%	3.36%	-51 bps
20	3.90%	3.40%	-50 bps

Since the beginning of the year, the pension expense has increased by 17% (for a contributory plan) due to the decrease in the discount rates, despite the good 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, 2018, based on the average financial position of the pension plans used in our 2018 *Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits report* (i.e. a ratio of assets to obligation value of 95% as at December 31, 2017).
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 2018 Survey.
3. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions).

MORNEAU SHEPELL

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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 worldwide, 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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