YMPE and tax limits jump by nearly five per cent for 2021

The Canada Revenue Agency (CRA) has released the year’s maximum pensionable earnings (YMPE) under the Canada Pension Plan (CPP) for 2021. The YMPE will be $61,600, which is up from $58,700 in 2020. The YMPE is calculated in accordance with a CPP legislated formula which accounts for the growth in average weekly wages and salaries in Canada every June 30th. Earnings above the YMPE for 2021 will not result in additional contributions to the CPP or QPP.

1 The Quebec Pension Plan (QPP) version of the YMPE, the maximum pensionable earnings (MPE), is usually set at the same amount as the YMPE.
Quebec introduces target benefit pension legislation

On October 7, 2020, the Quebec legislature introduced Bill 68, An Act mainly to allow the establishment of target benefit pension plans. The proposed legislation would amend the Supplemental Pension Plans Act to allow for the establishment of target benefit pension plans registered in the province of Quebec. Bill 68 was summarized in detail in a recent Special Communiqué.

Bill 68 will also allow pension plans with defined contribution provisions and voluntary retirement savings plans (VRSPs) to establish variable payment life annuity (VPLA) funds. This will expand the decumulation options available to such plans and allow them to offer retirees the option of a variable payment life annuity paid from the plan itself.

VPLAs were introduced in the 2019 federal budget, as discussed in the March 2019 News & Views, but were not yet permitted as of October 2020.

Comment

The introduction of target benefit plan legislation in Quebec will be a welcome development for Quebec employers looking to provide alternatives to traditional defined benefit and defined contribution pension plans. Quebec will join Alberta, British Columbia, New Brunswick and Nova Scotia in permitting the establishment of target benefit or shared risk pension plans. Ontario’s legislation to permit target benefit multi-employer pension plans is pending the introduction of supporting regulations.

The CRA has also released its annual limits for various retirement plans, including money purchase (MP) and defined benefit (DB) pension plans. The 2021 MP contribution limit will be $29,210 and the 2021 DB limit will be $3,245.56. The 2021 Deferred Profit Sharing Plan (DPSP) contribution limit will be $14,605. The RRSP contribution limit lags the MP limit by one year, so the 2022 RRSP contribution limit will be $29,210.

Notably, the YMPE and the limits for pension plans and DPSPs have jumped by 4.9%, which is higher than usual.

In addition, employee and employer CPP contribution rates will increase to 5.45% in 2021 as a result of CPP enhancement, which is up from 5.25% in 2020. Contribution rates for the self-employed will also increase to 10.9% in 2021 from 10.5% in 2020. 2021 contribution rates for the QPP have not yet been announced; for 2020, the employee and employer QPP contribution rate is 5.7% and the rate for the self-employed is 11.4%.

Comment

The updated figures released by the CRA reflect the fact that the COVID-19 pandemic has apparently resulted in greater relative unemployment for lower-income Canadians. The higher than normal increase reflects the higher average earnings of those who remained employed. Although the YMPE is not permitted to decrease in future years, it can be expected that future increases will lag as the wage profile for the Canadian workforce returns to normal.

These updated figures will result in higher contributions to the CPP and QPP for employees with incomes high enough to reach these limits. In addition, all employees and employers will pay more because of the increase in the contribution rate.

Some employer pension plan contributions and benefit formulas will also be affected by the updated figures.
Update: New Brunswick pension plan funding rules

On October 22, 2020, New Brunswick amended its defined benefit (DB) funding framework in line with the changes proposed earlier this year and discussed in the July 2020 News & Views. The only difference between the proposed changes and those that were ultimately adopted is that solvency exempt pension plans (i.e., municipal and university pension plans that have made an election to be solvency exempt in accordance with regulations) will not be subject to the new DB funding framework.

All of the changes are now in effect, except for the requirement for pension plans to include provisions respecting the funding, by employers, of the normal cost, and of any going concern unfunded liability or solvency deficiency. This requirement comes into force on December 31, 2020.

For a more detailed summary of the changes, please see the July 2020 News & Views article.

Proposed rules under the New Brunswick Unclaimed Property Act to affect wound up pension plans

On September 22, 2020, the New Brunswick Financial and Consumer Services Commission (FCNB) published proposed rules to govern its Unclaimed Property Program, which will be established pursuant to the New Brunswick Unclaimed Property Act (the Act) that received royal assent in March. The program will potentially affect wound-up pension plans where entitlements remain with the plan for three years after the wind up report has been approved by the Superintendent of Pensions.

The FCNB will administer the Unclaimed Property Program and maintain an online registry of unclaimed property, which will be searchable free of charge.

A holder of unclaimed property will be required to give written notice to the apparent owner of the property between October 1 and December 31 of the year the property is presumed “unclaimed” under the proposed rules. It will then be required to submit a report along with the property itself to the director of the Unclaimed Property Program within 90 days following the end of said year.

Under the proposed rule, pension benefits resulting from the wind-up of a pension plan are presumed to be “unclaimed” three years after the approval of the wind-up report, at which point administrators of pension plans that have been wound up would be able to transfer liabilities associated with any missing members to the Unclaimed Property Program.

Administrators of ongoing plans will not be able to transfer liabilities held in respect of missing members to the Unclaimed Property Program.

Comment

The proposed rules will enable plan administrators of wound up pension plans with un-located former members to transfer the missing members’ liabilities to the Unclaimed Property Program. The rules will also impose a duty to report and deliver unclaimed property within prescribed timelines, at the risk of being subject to late fees and interest. Any comments on the proposed rules must be provided to the FCNB in writing by no later than November 23, 2020.

Ontario: FSRA sets pension priorities and service standards

The Financial Services Regulatory Authority of Ontario (FSRA) has issued two draft documents providing insight into its regulation of the pension sector in Ontario. The first document sets out FSRA’s service standards for pension plan regulation and the second sets out FSRA’s priorities for the next fiscal year.
FSRA releases draft service standards

On September 24, 2020, FSRA released a guidance document, Approach No. GR0009APP, which sets out its proposed service standards for evaluating its performance against measurable expectations and targets.

Three service standards apply directly to pension plan regulation, while several enterprise-wide standards affect pensions, as well. FSRA says its service standards were created based on principles of internal and external accountability, efficiency, consistency, actionability and transparency. The service standards applicable to pension plans are reproduced below.

Commencing October 1, 2020, FSRA will collect data on its performance in respect of each standard relative to its target, and report its performance on a quarterly basis.

FSRA accepted comments on the proposed service standards guidance until October 23, 2020.

FSRA sets pension priorities for upcoming fiscal year

On October 13, 2020, FSRA published a draft Proposed FY2021-2022 Statement of Priorities document, describing its priorities for the coming year. FSRA continues to emphasize its aims of burden reduction and improving regulatory effectiveness across sectors.

With respect to the pension industry, FSRA has identified three priorities on which to focus in the coming year:

1. Support plan flexibility, evolution and principles-based applications within the existing regulatory and legislative regime;
2. Develop and consult on a prudential supervision framework; and
3. Refocus pension regulation to improve regulatory efficiency and effectiveness.

These priorities will see FSRA undertake a number of new initiatives.

- Towards the end of the 2021-2022 fiscal year, FSRA plans to engage the pension sector through a specialized Technical Advisory Committee on member communication and engagement strategies with the goal of achieving better outcomes for members.

- Building on the previous year’s priorities, FSRA will continue to develop its prudential framework. In an effort to promote the long-term viability and financial sustainability of the Pension Benefit Guarantee Fund (PBGF), FSRA will add stochastic modeling to its predictive analysis and supplement the expertise of its risk analytics team.

### Pension service standards

<table>
<thead>
<tr>
<th>Service</th>
<th>Standard</th>
<th>Target %</th>
<th>Stretch Target %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inquiries</td>
<td>Inquiries (plan specific, non-plan specific and general) will be responded to within 45 business days.</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>Application</td>
<td>Defined benefit plan wind up applications will be reviewed and a decision will be made within 120 business days.</td>
<td>90%</td>
<td>95%</td>
</tr>
<tr>
<td>Application</td>
<td>Defined contribution plan wind up applications will be reviewed and a decision will be made within 90 business days.</td>
<td>90%</td>
<td>95%</td>
</tr>
</tbody>
</table>

### Enterprise-wide service standards

<table>
<thead>
<tr>
<th>Service</th>
<th>Standard</th>
<th>Target %</th>
<th>Stretch Target %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone General Inquiries</td>
<td>FSRA will respond to general questions when calls are received. Complex questions and complaints will be forwarded to the appropriate area to log, investigate, and respond.</td>
<td>90%</td>
<td>98%</td>
</tr>
<tr>
<td>Phone General Inquiries Contact Centre</td>
<td>Calls that are received through voicemail will be acknowledged within 1 business day.</td>
<td>90%</td>
<td>98%</td>
</tr>
<tr>
<td>Email General Inquiries Contact Centre</td>
<td>Emails received through the contact centre will be acknowledged within 1 business day and a response sent within 3 business days. For complex matters, FSRA may request additional information and these requests may take longer for a formal response.</td>
<td>90%</td>
<td>98%</td>
</tr>
</tbody>
</table>
• As chair of the CAPSA leverage committee, FSRA will also develop a leverage risk governance framework.

• FSRA will continue to focus its resources on large plans and “high-value” regulatory activities.

• The Technical Advisory Committees set up over the previous fiscal year will continue to operate, including the committee on defined contribution pension plans (set up jointly with the Office of the Superintendent of Financial Institutions) and committee on the pension division resulting from marriage breakdowns. FSRA advises that the latter will result in the production of a plain-language guide for plan members, and may lead to the publication of a new rule on family law matters.

Comments were accepted until November 3, 2020.

Saskatchewan loosens restrictions on DB transfers

On October 5, 2020, the Saskatchewan Superintendent of Pensions announced modifications to the province’s temporary freeze on transfers from defined benefit (DB) pension plans to provide automatic consent for most such transfers from Saskatchewan-registered DB plans.

Such transfers are now permitted subject to the following conditions:

• If a transfer deficiency “holdback” or employer contribution to the plan is required under the regulations, the transfer must reflect a solvency ratio which is the lesser of:
  - The solvency ratio determined in the most recently filed actuarial valuation report; and
  - The solvency ratio projected to a date no earlier than March 31, 2020; and

• Administrators must obtain the prior written consent of the Superintendent if a life annuity is to be purchased using funds from a DB pension plan.

The Superintendent had previously indicated that consent was required for all such transfers, and that most such applications would be declined (as discussed in the April 2020 News & Views).

The remaining restrictions on transfers and payments are temporary measures that may be modified further depending on financial market conditions.
Tracking the funded status of pension plans as at October 31, 2020

This graph shows the changes in the financial position of a typical defined benefit plan with an average duration since December 31, 2019. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2019. The estimate of the solvency liabilities reflects the Preliminary CIA guidance for valuations effective September 30, 2020 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, 2019

During the month of October, 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 negative returns. With a return of -1.9%, the highly diversified portfolio (HD) outperformed the 60/40 portfolio (-2.2%) and the low volatility portfolio (LDI) (-2.2%).

The prescribed CIA annuity purchase rates increased while the commuted value rates used in the calculation of solvency liabilities decreased during the month. As a result, the solvency liabilities increased for a medium duration plan. For this type of plan, an investment in the HD, in the 60/40 and in the LDI portfolio resulted in a decrease 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, 2019. The graph shows the asset allocation of the three typical portfolios.

### Table: Evolution of the solvency ratio as at October 31, 2020 for three different portfolios

<table>
<thead>
<tr>
<th>Initial solvency ratio as at December 31, 2019</th>
<th>Evolution of the solvency ratio as at October 31, 2020 for three different portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60/40 portfolio</td>
</tr>
<tr>
<td>100%</td>
<td>92.4%</td>
</tr>
<tr>
<td>90%</td>
<td>83.2%</td>
</tr>
<tr>
<td>80%</td>
<td>73.9%</td>
</tr>
<tr>
<td>70%</td>
<td>64.7%</td>
</tr>
<tr>
<td>60%</td>
<td>55.5%</td>
</tr>
</tbody>
</table>

Since the beginning of the year, driven by positive returns in the Canadian universe bonds, Canadian long-term bonds, Canadian long-term provincial bonds and global equities, the LDI portfolio, the 60/40 portfolio and the HD portfolio returned 4.9%, 2.0% and 1.9% respectively. The solvency liabilities fluctuated over that same period by 10.3% regardless of the duration of the group of retirees. The variation in the plan’s solvency ratio as at October 31, 2020 stands between -7.7% and -3.0%.

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.
Impact on pension expense under international accounting as at October 31, 2020

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, 2019

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

<table>
<thead>
<tr>
<th>Duration</th>
<th>December 2019</th>
<th>October 2020</th>
<th>Change in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>3.06%</td>
<td>2.67%</td>
<td>-39 bps</td>
</tr>
<tr>
<td>14</td>
<td>3.13%</td>
<td>2.83%</td>
<td>-30 bps</td>
</tr>
<tr>
<td>17</td>
<td>3.17%</td>
<td>2.93%</td>
<td>-24 bps</td>
</tr>
<tr>
<td>20</td>
<td>3.20%</td>
<td>2.99%</td>
<td>-21 bps</td>
</tr>
</tbody>
</table>

Since the beginning of the year, the pension expense has increased by 8% (for a contributory plan) mainly due to the decrease in the discount rates.

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

Comments

1. The expense is established as at December 31, 2019, based on the average financial position of the pension plans used in our 2019 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, 2018).

2. The return on assets corresponds to the return on the Morneau Shepell benchmark portfolio (50% equities and 50% fixed income), which reflects the average asset mix in our 2019 Survey.

3. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions).
Morneau Shepell is the leading provider of technology-enabled HR services that deliver an integrated approach to employee well-being through our cloud-based platform. Our focus is providing world-class solutions to our clients to support the mental, physical, social and financial well-being of their people. By improving lives, we improve business. Our approach spans services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement consulting, actuarial and investment services.

Morneau Shepell employs approximately 6,000 employees who work with some 24,000 client organizations that use our services in 162 countries. Morneau Shepell is a publicly traded company on the Toronto Stock Exchange (TSX: MSI). For more information, visit morneaushepell.com.