

Communiqué



Ontario Releases 2010 Budget

On March 25, 2010, the Honourable Dwight Duncan, Ontario's Minister of Finance, tabled the government's budget.

This Communiqué summarizes the key items of the budget that will be of interest to Ontario pension plan sponsors and other employers.

Pension Benefits Guarantee Fund

The government is giving a \$500 million grant to the Pension Benefits Guarantee Fund (PBGF) in 2009-2010 to stabilize it in the near term. The future of the PBGF will be assessed by the Ontario government after the completion of the first independent actuarial study of the PBGF which is expected to be finalized in the spring of 2010.

Progress of Pension Reform

Bill 236 (the *Pension Benefits Amendment Act, 2010*) is noted as the first step in a multi-stage process. The pension reform process will continue in 2010, building on recommendations from the Expert Commission, feedback from stakeholder consultations and other sources.

The principles that will inform the next stage are:

- all benefits should be funded;
- stakeholders should share risk and responsibility; and
- funding rules should match benefit and governance structures.

The budget describes a number of funding and solvency measures for defined benefit pension plans that the government intends to explore including:

- additional temporary funding relief for public sector and broader public sector plans if conditions related to greater sharing of risk and governance are met;
- contribution holiday rules that increase benefit security;
- enhanced funding requirements for benefit improvements;
- limits on the extent to which going concern and solvency funding can be based on valuations that exclude benefits, use asset values that differ materially from market asset values, or smooth interest rates;
- updated framework for funding, governance and regulation of plans such as certain multi-employer plans and jointly sponsored plans;
- clarified surplus entitlement procedures on full wind up; and
- letters of credit in solvency funding.

The government also intends to explore ways to encourage innovative plan designs including a framework for flexible pension plans.

Pension Investment Rules

The federal government proposed reforms to its pension investment rules in October 2009, including the 30 per cent rule. This rule prevents plans from owning more than 30 per cent of the voting shares of a company. Ontario will examine the appropriateness of the rules for Ontario registered plans once implemented by the federal government.

Division of Pension Benefits

There will be consultation in 2010 on the regulations that will prescribe calculations for the division of pensions for family law purposes.

Consultation on the Retirement Income System

The government will consult with interested Ontarians in advance of the next meeting of Canadian finance ministers in May, 2010, about measures that could be taken to improve future retirement income security.

Health Care: Drug Pricing

As a spending restraint measure the government will keep drugs affordable and reinvest its savings in health care. There will be changes to the statutes that govern Ontario's drug system to facilitate lower generic drug prices. Supports for rural pharmacies and underserved areas will be increased, and there will be support for expansion of pharmacists' services.

HST and RST

To avoid double taxation of certain costs and fees relating to insurance, such as benefit plan administration fees, the government now proposes a retail sales tax exemption on those costs and fees.

Comment

The list of pension funding measures under consideration shows that the government has embraced the Expert Commission policy recommendation that funding relief is only appropriate for the small number of defined benefit pension plans in which governance and risk is shared.

The majority of other defined benefit pension plans appear likely to face increased funding requirements if the measures under consideration are adopted following the consultation process. With no sign of funding relief and no sign of measures to improve an employer's access to surplus for these plans, there is little to encourage employers to maintain or expand their defined benefit pension plans. Visibly absent is commentary on exploring the use of reserve accounts (pension security funds) as proposed in the Joint Expert Panel Report in Alberta and British Columbia.

There is no mention of improvements in the regulatory regime for defined contribution pension plans. Presumably the government is planning to address this in a later stage of the process.

The government's proposals on generic drug pricing speak to government savings but do not say whether the drug system changes will have wider application. Stakeholders are anticipating further announcements about drug system reforms in the near future.

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