Legislation Matters

April 2016

In this first quarterly edition of 2016, we've included highlights from the 2016 Federal Budget in addition to relevant and current legislative information for Canadian plan sponsors and advisors for their group benefits and group retirement savings plans.

2016 Federal Budget

On March 22, 2016, the Finance Minister, tabled the 2016 Federal budget. The following represents a summary of measures of interest to group benefits and pension advisors, as well as, plan sponsors.

Group retirement savings related measures

Pension Benefits Standards Act

Budget 2016 proposes changes to the agreement powers of the *Pension Benefits Standards Act* (PBSA). The Government proposes to broaden the scope of its ability to enter into bilateral agreements with provinces under the PBSA, which will better allow the federal and provincial governments to work together to oversee certain pension plans.

30% investment restriction rule

The Budget announced that the federal government will shortly launch a public consultation on the usefulness of the 30 per cent investment restriction, which restricts pension plans from holding more than 30 per cent of the voting shares of a corporation.

A change in the 30 per cent rule, would not only apply to federally registered pension plans, but would also affect pension plans registered in Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Ontario and Saskatchewan because the pension legislation of those provinces incorporates the federal 30 per cent rule, as amended from time to time, by reference.

Pension income splitting unaffected

The budget proposes to eliminate the income splitting tax credit for couples with at least one child under the age of 18 for 2016 and subsequent taxation years. **Pension income splitting will not be affected.**

Enhancing the Canada Pension Plan

In December 2015, the federal Government began discussions on enhancing the Canada Pension Plan with provinces and territories, with the goal of being able to make a collective decision before the end of 2016. In the coming months, the government will launch consultations to give Canadians an opportunity to share their views on enhancing the Canada Pension Plan.

Restoring eligibility for Old Age Security Benefits

The Budget proposes to cancel the provisions of the *Old Age Security Act* that increase the age of eligibility for Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits in Canada. OAS will become available again at age 65 instead of age 67 and Allowance benefits will be available from age 60 instead of age 62. Also, higher GIS and allowance benefits will be provided in certain circumstances. The federal government also states that it is committed to ensuring that OAS and GIS keep pace with the actual costs of living faced by seniors and is looking at ways to develop a new Seniors Price Index.

Group benefits related measures

Health related measures

Generally, medical and assistive devices that are specially designed to assist an individual in treating or coping with a chronic disease or illness or a physical disability are zero-rated under the GST/HST. Budget 2016 proposes to add insulin pens, insulin pen needles and intermittent urinary catheters to the list of zero-rated medical devices, for a supply of such devices made after March 22, 2016, or made before such date if no amount of GST/HST was charged, collected or remitted thereon prior to March 22, 2016.

Other budget announcements of particular interest

Employment Insurance (EI) eligibility

The 910-hour eligibility “penalty” would be eliminated. Formerly, newcomers to the labour market or those returning after an absence of two or more years must work a minimum 910 hours before they are eligible for EI. The 910-hour threshold would be replaced with a regional labour market threshold.

Reducing the Employment Insurance (EI) waiting period

Under the EI program, claimants must wait two weeks before they can start receiving benefits. To help reduce the period of time during which a claimant is without income, Budget 2016 proposes to make legislative changes to reduce the EI waiting period from two weeks to one week effective January 1, 2017.

Renewing financial sector legislation

The federal financial institutions statutes contain sunset provisions mandating renewal of banking and insurance legislation by Parliament every five years, providing an opportunity to examine the legislative and regulatory framework in light of emerging trends and developments, to ensure it remains robust and technically sound.

The Department of Finance will undertake a financial sector legislative review and begin consulting stakeholders in the coming months. Budget 2016 also proposes to extend the current statutory sunset date by two years to March 29, 2019.

Group retirement savings legislation

Federal-PBSR investment rule limits

As stated in our May 2015 edition of Legislation Matters, the federal government has made changes to the *Pension Benefits Standards Act Regulations, 1985* (“PBSR”) that will come into effect on July 1, 2016. Of particular interest is a clarification about the 10 per cent rule set out in Schedule III of the PBSR and its applicability to member choice accounts.

The Regulations provide an exemption for member choice accounts from the 10 per cent rule where investments are made to a segregated fund that complies with the 30 per cent rule (rule that restricts investment in shares that have more than 30 per cent of voting rights of the corporation attached to them). The 10 per cent rule is a concentration limit for plan investments that restrict allocation to an investment option where more than 10 per cent of the total value of plan assets is invested in a single entity or affiliated/associated entity. As the investments in an insurance policy are investments to segregated funds which comply with the 30 per cent rule, the exemption will apply to defined contribution pension plans administered by Manulife. This means that there will no longer be a requirement to monitor investments for defined contribution pensions plans that allow members to choose their own investment options. This applies to federally regulated plans but also to any jurisdiction that has adopted the Quantitative Investment Limits set out in Schedule III of the PBSR.

Ontario

Draft regulations on MEPP asset transfers

On February 2, 2016, the Ontario Ministry of Finance released draft regulations to facilitate asset transfers between multi-employer pension plans ("MEPPs"). Asset transfers between MEPPs are currently prohibited. The amendments would allow the existing rules that apply to single employer pension plans to apply also to MEPPs.

By merging, some smaller MEPPs may benefit from the economies of scale that a larger plan may have, such as access to a larger pool of assets for investment purposes and the potential for reduced administrative costs.

Saskatchewan

Saskatchewan PRPP

On February 25, 2016 *The Pooled Registered Pension Plans (Saskatchewan) Regulations* and *The Pension Benefits (Pooled Registered Pension Plans) Amendment Regulations, 2016* were passed. The Regulations will come into force on proclamation of *The Pooled Registered Pension Plans (Saskatchewan) Act*. A proclamation date for the Act has not been set.

As expected, the Saskatchewan PRPP mirrors in great part the Federal PRPP. The main differences are under the definition of spouse and common-law partner, as well as any related terms, the designation of beneficiaries, transfer and surrender agreements, variable payments, life annuity purchases, fees and prescribed retirement savings plan options.

Some highlights of the Saskatchewan PRPP include:

Plan objective	The PRPP is a deferred income plan with low administrative costs designed to provide retirement income for Saskatchewan employees and self-employed individuals who do not have access to a workplace pension. It is a voluntary option for employers with Saskatchewan employees, as well as, for self-employed workers in the province.
Contributions	Contributions made by a plan member and by a participating employer on behalf of the plan member are credited to the member's account. Contributions made by the employer and the plan member are deductible in calculating their respective incomes, in line with the requirements of the *Income Tax Act*. The funds in the plan member's account accumulate tax-deferred and must be used to provide retirement income. Amounts paid to the plan member must be included in his or her taxable income. The PRPP contribution limit is based on the individual's registered retirement savings plan (RRSP) contribution limit. Contributions to a PRPP reduce RRSP contribution room. PRPP over-contributions are taxed at the same rate as over-contributions to an RRSP.
Transfers	An individual can transfer money from their PRPP account to: • another PRPP account in their name, • a RPP, • a LIRA, • a RRIF, • a Pooled Retirement Income Account contract, or

	• purchase an annuity.
PRPP administrator	The PRPP is set up and administered by a financial institution licensed to act as a PRPP administrator. This means that, unlike most workplace pension plans, the PRPP is not managed by the employer, but by the financial institution.
Enrollment in the plan	Employees will be enrolled by their employer, if the employer chooses to participate in the plan. The plan provides for automatic enrollment with an opt-out provision for employees who prefer not to participate. A self-employed individual and an individual whose employer chooses not to participate can open a PRPP account by contacting the financial institution directly. An individual's participation in a PRPP is not dependent on an employer being involved. This is one of the differences between this plan and other types of pension plans.

Group benefits

Alberta tax increase

On April 1, 2016, the Alberta government is increasing the provincial premium tax by one percent. The increase from two per cent to three per cent applies to all insured benefit plans with plan members in Alberta. It does not apply to Administrative Services Only (ASO) benefit plans.

Manulife includes premium tax in insured premium rates and remits the collected tax to the Government of Alberta; therefore no action from plan sponsors is required.

British Columbia

Budget 2016 proposes changes to the Medical Services Plan (MSP) premium structure, effective January 1, 2017. Children will be exempt from premiums, and couples will pay twice the single rate. Income thresholds and premium assistance programs will be modified as well. These measures will impact payroll and administration systems for MSP Group Plan Administrators.

Saskatchewan residents can pay privately for their MRIs

On February 29, 2016, the *MRI Facilities Licensing Act,* came into force, which allows residents of Saskatchewan to pay privately for their MRIs. Each privately licensed facility will set its own prices which are based on the complexity of the scan, market demand and its own business model: their tariff won't be regulated.

Ontario

Budget 2016 proposes a redesigned public drug program by 2019. No details are available at this time; the government will release a vision paper and launch public consultations in the spring of 2016.

In addition, the income thresholds for entitlement to benefits for low-income seniors will increase starting August 1, 2016, and the annual deductible and co-pay for seniors whose income exceeds the new thresholds will increase as well.

Other measures of interests in Budget 2016:

- Seniors aged 65 to 70 will receive the shingles vaccine free of charge.
- Pharmacists will be authorized to administer travel vaccines.
- Funding criteria for the continuous positive airway pressure (CPAP) machines used for sleep apnea will be examined in 2016.

Stay informed

Manulife is committed to providing relevant information on a timely basis to plan sponsors and market sources as legislative developments occur that have significant importance to the administration, operation and management of group retirement savings and group benefit plans in Canada. More details on a number of the proposals outlined above will be provided in a subsequent edition of Legislation Matters.