Legislation matters

The Standard Life newsletter on legislation and governance

STANDARD LIFE

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Federal budget
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1 Pension Reform

Pooled Registered Pension Plans (PRPPs)

As explained in our January 2011 issue of *Legislation matters*, in December 2010, Canada's Finance ministers agreed on a new PRPP framework in the hopes of offering Canadians an accessible, low cost savings plan to help meet their retirement objectives. Federal, provincial and territorial officials are working together to implement PRPPs as soon as possible. In fact, Quebec's Minister of Finance, Mr. Raymond Bachand, announced, in his budget of March 17, 2011, that the Quebec government will make the necessary amendments to Quebec's legislative and regulatory frameworks to allow the development of new voluntary retirement savings plans (VRSPs) in Quebec based on the proposed PRPPs. We will cover this subject again in our April 2011 issue of *Legislation matters*.

Financial Literacy

The Government remains committed to improving financial literacy for Canadians. In February 2011, the Government received recommendations from the Task Force on Financial Literacy, and a Financial Literacy Leader will soon be appointed to promote national efforts. Budget 2011 proposes to provide $3 million per year to undertake financial literacy initiatives.

Canada Pension Plan (CPP)

Canada's Finance ministers are continuing to work on modest enhancements to the CPP and will discuss any options and concerns at their next meeting.

2 Supporting Canada's Seniors

Eliminating the mandatory retirement age

Amendments to the *Canadian Human Rights Act* and the *Canada Labour Code* have been proposed to prohibit federally regulated employers from setting a mandatory retirement age unless there is a bona fide occupational requirement.

Enhancing the Guaranteed Income Supplement for low-income seniors

Effective July 1, 2011, seniors with little or no income other than Old Age Security and the Guaranteed Income Supplement will receive additional annual benefits of up to $600 for single seniors and $840 for couples. Single recipients with an annual income (other than Old Age Security and the Guaranteed Income Supplement) of $2,000 or less, and couples with an annual income of $4,000 or less, will receive the full amount of the benefit. For those above these income thresholds, the amount of the top-up will be gradually reduced and will be completely phased out at an income level of $4,400 for singles and $7,360 for couples.

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Other Measures

The 2011 Federal budget also proposes measures, rather technical in some instances, that could have an impact on retirement plans in Canada. The following measures, among others, are proposed:

RRSP/RRIF

Anti-avoidance rules – Anti-avoidance rules will be introduced for Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) based largely on the rules governing Tax-Free Savings Account. The new rules will address self-dealing arrangements and schemes undertaken by a small number of taxpayers to withdraw amounts from RRSPs/RRIFs without paying tax. The anti-avoidance rules that will be introduced are the advantage rules, the prohibited investment rules and the non-qualified investment rules.

Individual Pension Plans (IPPs)

Budget 2011 proposes two new tax measures that will apply to IPPs. These measures are the following:

- annual minimum amounts will be required to be withdrawn from IPPs, similar to current minimum withdrawal requirements from Registered Retirement Income Funds (RRIFs), once a plan member attains the age of 72; and
- contributions made to an IPP that relate to past years of employment will, in effect, be required to be funded first out of a plan member's existing RRSP assets (including the individual's account balances under defined contribution pension plans, where the context requires) or by reducing the individual's accumulated RRSP contribution room before new deductible contributions in relation to past service may be made.

Employee Profit Sharing Plans (EPSPs)

In recent years, these plans have increasingly been used as a means for some business owners to direct profit participation to members of their families with the intent of reducing or deferring taxes on these profits. Some employers are also using EPSPs to avoid making Canada Pension Plan contributions and to avoid paying Employment Insurance premiums on employee compensation.

To ensure that EPSPs continue to be a useful vehicle for employers and that they are used for their intended purpose, the Government will review the existing rules for EPSPs to determine whether improvements are required in this area.

Before proceeding with any EPSP proposals, the Government will consult with stakeholders, and ensure that any amendments to the tax rules applicable continue to allow for appropriate plan use.

You can contact us

Your feedback is important to us. If you have any comments about our publication, or if you would like us to address a particular issue or subject in a subsequent edition, please feel free to drop us a line at the following address: **legislation.matters@standardlife.ca**

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