Standard Life

Legislation matters

May 2014

1. Pooled Registered Pension Plans in Canada

The jurisdictional landscape related to the introduction of PRPP in Canada hasn't changed much in recent months as provinces are slow to move forward with legislation. However, there have been some important new developments since our last update and they are summarized below.

Quebec

On March 12th, 2014, Quebec published draft Regulations to Bill 39 respecting the Voluntary Retirement Savings Plan (VRSP). The VRSP is Quebec's version of the PRPP. All stakeholders and other interested parties had a 45 day window to provide comments to the Régie des Rentes du Québec concerning the provisions set out in the Regulations. Among other things, the Regulations establish maximum costs for administrators of the VRSP that bring the VRSP in line with Quebec's expectation that the VRSP be offered at low cost to all Quebecers.

The Regulations stipulate that the total of the fees charged directly or indirectly to VRSP members for the management and administration of each investment option, and trailer fees, be expressed as a percentage of the average assets. Such percentage must be less than or equal to:

a) 1.25% for the default investment option; and

b) 1.5% for any other option.

Another item worth mentioning is that if an employer chooses to transfer funds from one VRSP to another before any fixed-term guaranteed investments have matured, the employer will be required to absorb any resulting losses.

Standard Life, together with the Canadian Life and Health Insurance Association, have submitted an industry position on various aspects of the Regulations that require further clarification or precision.

For information about Bill 39, the VRSP Act, please refer to our previous edition of Legislation matters dated January 2014.

Federal

The federal PRPP legislation is in effect and licensed administrators, including Standard Life, are waiting for the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Revenue Agency (CRA) to approve their submissions. The Feds were the lead jurisdiction and were responsible for establishing the framework and model for PRPP's in Canada.

Alberta

Alberta's PRPP legislation, Bill 18, has received Royal Assent but has not yet been proclaimed to be in effect. Before PRPP can be offered in Alberta, Bill 18 must be proclaimed and the Regulations must be created. In addition, the licensing requirements for administrators must also be created and potential administrators must be licensed and have their PRPP submissions approved by Alberta and by CRA.

Saskatchewan

Saskatchewan has also introduced PRPP legislation and, similar to Alberta, further work is required before potential administrators can offer a plan.

British Columbia

British Columbia re-introduced its PRPP legislation in February of this year. Bill 9 is still in first reading and must pass through the usual parliamentary process before it takes effect.

Ontario

In the recent Ontario budget, the Liberal government proposed the introduction of an Ontario Retirement Pension Plan (ORPP) that would work similar to the CPP and that could provide an additional income replacement ratio of 15%. It would be introduced in 2017 and the plan would be mandatory and would require fixed contributions from employees and employers of 1.9% of income up to a$90,000 threshold. They also committed to the introduction of PRPP in the fall of this year. Both P.E.I. and Manitoba have expressed interest in the ORPP and other provinces have begun discussions with Ontario about the ORPP proposal as well. However, the Liberal budget will be opposed by the opposition in government with an election to be called for June 12th, 2014. Accordingly, the fate of the ORPP is still to be determined.

Other Provinces

It's still uncertain what the pension solution will be in other provinces which are slow to introduce PRPP legislation at this time.

2. Canadian Association of Pension Supervisory Authorities publishes Guideline No.8 – Defined Contribution Pension Plans

On March 28th, 2014, the Canadian Association of Pension Supervisory Authorities ("CAPSA") introduced a new Guideline for Defined Contribution Pension Plans as a supplement to their existing guidance related to DC plans.

Guideline No. 8 elaborates on the roles and responsibilities of the various parties to DC plan arrangements that are aligned to the Guideline for Capital Accumulation Plans issued by the Joint Forum of Financial Market Regulators in May 2004 (the "CAP Guidelines"). In addition, Guideline No. 8 establishes guidance related to the tools and information that should be provided to members of a DC plan before and at retirement as well as what constitutes an "adverse" amendment under a DC plan.

It's clear from the Guideline that everyone who is party to a DC plan has an important role to play and with that role comes specific responsibility. Knowing what is expected of you and others will help facilitate day-to-day interactions and ensure that the plan is managed appropriately.

Of particular interest are the following:

- Sponsors need to provide information and tools to plan members that will allow them to understand and estimate their plan benefits at retirement.
- Sponsors are also responsible to inform members who are approaching retirement about the full range of options that are available to them and about the actions they are required to take, the deadline to select an option and the information concerning application of a default option.
- Clarification that an adverse amendment is one that adversely affects the prospective benefits, rights or obligations of members.

Standard Life is proud to offer products and services that assist plan sponsors in meeting their responsibilities in the administration of DC plans and we are currently reviewing Guideline No. 8 in further detail to see what changes are necessary, if any, to our product offer.

i For further information and to review Guideline No. 8 please visit: http://capsa-acor.org/en/init/defined_contributions_plans/DC_Plans_Guideline.pdf

3. Canada signs an Inter-Governmental Agreement with the USA regarding the Foreign Account Tax Compliance Act

As was reported in our February 2014 special budget edition of Legislation matters, Canada has signed an Inter-Governmental Agreement (“IGA”) with the USA on February 5th, 2014. The following brief Q&A provides an overview of what this means to Standard Life and our customers.

Standard Life and the impact of FATCA on Canadian tax legislation

What does FATCA stand for?
FATCA stands for Foreign Account Tax Compliance Act.

What is FATCA?
The goal of FATCA legislation is to help identify US persons who may be holding assets and income overseas. It was enacted in the US in 2010.

What does Canada’s recent signing of an IGA mean to you, your clients and plan members?
It means that Canadian Financial Institutions are required to identify persons who are US citizens or residents of the US for US tax purposes who hold investments at their institutions. The first phase of FATCA changes become effective July 1st, 2014.

What is Standard Life doing?
As a Financial Institution in Canada, Standard Life is responsible for reporting the details of these clients to the Canada Revenue Agency. To meet the new legislative requirements, we will take the steps required to revise our onboarding process and review our book of business. Other financial institutions in Canada will be making similar changes. Registered Plans, such as RRSP, RPP, DPSP, TFSA, etc., are exempt from the reporting requirement under the IGA.

We are not in a position to provide advice related to the legislation or to help our clients determine if they are considered US persons, however, the following links will provide useful information about FATCA legislation and its application in Canada:

- Canada Revenue Agency (CRA) Q&A: http://www.fin.gc.ca/afc/faq/fatca-eng.asp
- CHLIA for advisors (site also contains information for clients): «The industry» tab / «Materials for Financial Advisors»/ Link called «FATCA - Information for Insurance Advisors»
- The Investment Funds Institute of Canada (IFIC) press release regarding signing of IGA: IFIC Commends Government for Exemptions and Relief Secured for Canadian Investors under FATCA
- IRS for information about tax reporting: http://www.irs.gov/Businesses/Corporations/Foreign-Account-Tax-Compliance-Act-(FATCA)
- US Treasury for further information about the FATCA legislation: http://www.treasury.gov/resource-center/tax-policy/treaties/Pages/FATCA.aspx

Stay tuned for further information regarding FATCA legislation in subsequent editions of our newsletter.

4. New compassionate care leave in Alberta

Passage of Bill 203 brought about provisions for compassionate care leave within Alberta's Employment Standards Code.

Since February 1st, 2014, Albertans can take up to eight weeks of unpaid job-protected leave from work to care for gravely ill family members, and return to the same or similar position, just like new mothers after maternity leave.

How it works:

- employees must have worked at least 52 weeks for their employer
- employees must provide their employer with a certificate signed by the attending physician regarding the grave condition of the family member and his need for care
- the eight-week leave may be split into two sections and must be taken within a 26-week period
- six weeks of Employment Insurance benefits are available to some employees for compassionate care.

You'll find more details at:
http://work.alberta.ca/documents/compassionate-care.pdf

5. Alberta introduces compassionate care leave and health care coverage for extended absence out of province

Good news for the longer-term travelers and snowbirds, as the province announced that Albertans can now be out of the country for up to 212 days (seven months) out of the year and remain eligible for health coverage as long as they have not established permanent residence elsewhere.

This extension is effective since December 2013, and applies to those who had already left for the season.

Visit Alberta Health for more information at:
http://www.health.alberta.ca/AHCIP/outside-coverage.html

6. Alberta Pharmacy Services and Funding Model introduced

Alberta pharmacy funding model and services

Since April 1st, 2014, a new agreement between the Alberta Pharmacists' Association, Alberta Blue Cross and the Alberta government provides Albertans with access to an expanded list of services from their local pharmacists and a new funding model.

Funding model

The new funding model replaces the previous three-tiered fee with a unique dispensing fee, set at $12.30 for all drug products except for compounds and diabetic supplies. This fee will apply from April 1st, 2014 to March 31st, 2018.

You will find more information at:
http://www.health.alberta.ca/services/pharmacy-services.html

Pharmacy services

Albertans will now have more choices for where they get their health services – they can still use their family physician or go to their local pharmacist.

Albertans with valid Alberta Health Care Insurance Plan coverage may be eligible for the following services at their local pharmacy, at no charge:

- care plan assessment – known either as a Comprehensive Annual Care Plan or a Standard Medication Management Assessment
- administration of injections
- assessment and modifying prescriptions based upon individual patient needs
- prescription renewals (except for narcotics and controlled substances)
- assessment of prescriptions for emergency needs
- assessment for initiating medication therapy
- medication assessments to ensure safe and appropriate use
- tobacco cessation counselling
- new medication management tools for diabetics.

The province expects this will mean more convenience for Albertans, more timely access to medications and a more efficient use of a health care resource.

You will find more information at:
http://www.health.alberta.ca/services/pharmacy-fee-reimbursement.html

7. Update on the New Brunswick Drug Plan

Once fully implemented, the New Brunswick Drug Plan will cover drugs listed on the New Brunswick Drug Plan formulary. There will be no deductible and coverage won't be denied because of age, gender or pre-existing medical conditions.

It will be implemented in two phases.

1. **Voluntary enrollment – May 1st, 2014**
   New Brunswickers with a valid New Brunswick Medicare Card will have voluntary access to the plan under certain conditions.
2. **Mandatory enrollment – April 1st, 2015**
   All New Brunswickers will have to be insured under a prescription drug plan with benefits equivalent to the government-sponsored plan, or be enrolled in the New Brunswick Drug Plan.

Impact on group plans:

On April 1st, 2015, group plans will have to be compliant to the new minimum standards set for private plans:

- it will cover every drug covered under the New Brunswick Prescription Drug formulary
- it won't be allowed to have annual or lifetime caps on coverage, and
- costs at the pharmacy will be managed in one of two ways depending on plan design:
  - co-payments paid at the pharmacy may not exceed $30 per prescription, or
  - co-payments and/or deductibles paid at the pharmacy for each insured person may not exceed $2,000 per year.

The impact of the new minimum standards on group plans will depend on the coverage currently offer to employees, and what may need to be added so that the plan becomes compliant.

Next steps

Effective immediately, legislation prohibits group plans to amend or to cancel prescription drug coverage with the intent to transfer costs to the provincial plan. This might impact group plans, as all requests for prescription drug coverage modification will have to be tested against this new requirement.

Standard Life has started the analysis of our in-force groups in New Brunswick, and national groups with insured persons in New Brunswick. We will soon contact sponsors if their group plan needs to be amended to meet the new minimum standards. We will also continue to monitor the situation as further details on the New Brunswick Drug Plan are expected to be finalized later on this year.

Stay tuned for information on any further developments.

For more information and to learn about the New Brunswick Drug Plan visit: http://www2.gnb.ca/content/gnb/en/departments/health/MedicarePrescriptionDrugPlan/NBDrugPlan.html

The Standard Life Assurance Company of Canada
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