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Pensions Law

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Federal Budget Proposes Changes Related To Pension Plans

Temporary Solvency Funding Regime for Federally Regulated Plans

The latest federal budget proposes temporary relief for companies sponsoring defined benefit pension plans that are faced with significant pension solvency funding obligations. However, this temporary relief will only be available to pension plans that are registered under the federal *Pension Benefits Standards Act*. Federally registered plans cover employees who are employed in a business that is subject to the legislative authority of the federal government, including banks, interprovincial and international transportation (including railway, shipping and airlines) and radio broadcasting. Pension plans registered in a province, such as those subject to Ontario's *Pension Benefits Act*, will not be covered by the proposed change.

Under the federal government's pension regulatory regime, a pension plan must be valued on two bases. The first basis, which is a going concern valuation, is done on the assumption that the plan will continue indefinitely, whereas the second basis, which is a solvency valuation, assumes that the plan is being wound up. If the plan has a solvency deficit, it must be fully funded over a period of five years. A going concern deficit can be funded over fifteen years. Many plan sponsors are of the view that the current five year solvency funding requirement is overly conservative and places an undue financial burden on companies.

The new budget proposal, if passed, will permit solvency deficits in federally regulated pension plans to be amortized over a period of 10 years, if

(i) after being fully informed, no more than one-third of plan members and retirees object to the change, or

(ii) the plan sponsor secures the difference between the required five-year payments and the ten-year payments with a letter of credit.

Agent Federal Crown corporations will also be permitted to extend the solvency funding payments to ten years subject to conditions that will ensure a level playing field. Additionally, current solvency obligations arising out of prior valuations may be consolidated and amortized over a new five-year period.

The proposed relief will only be available for pension plans whose funding payments are current and for the first actuarial valuation report in respect of the plan filed with the Office of the Superintendent of Financial Institutions before 2008. The budget paper provides that the details of this proposed temporary funding relief will be contained in regulations, which will be released shortly.

Increase to Pension Income Credit

The budget also proposes to increase the pension credit from $1,000 to $2,000, effectively making the first $2,000 of pension income exempt from income tax.

Canada Pension Plan

Under the proposed budget, the government will examine mechanisms for allocating unplanned budget surpluses at the end of a fiscal year. One option to be discussed is the allocation of a portion of unplanned surpluses above $3 billion a year to the funds of the Canada Pension Plan and the Quebec Pension Plan. The government has said it will talk with the provinces and the territories to examine this option.

Please contact any member of our Pensions, Benefits and Compensation Group if you would like further information on these proposes changes.

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