Ontario delays ORPP

On February 16, 2016, the Ontario Government announced that it would delay implementation of the Ontario Retirement Pension Plan (ORPP) for one year. Accordingly, the first employers would be enrolled in early 2017 and the first contributions would be made as of January 1, 2018. It is expected that there will be no delays for employers in later waves, so the ORPP will reach full implementation as scheduled January 1, 2020. In conjunction with the delay, the governments of Canada and Ontario intend to work with other provinces and territories to develop options for Canada Pension Plan (CPP) enhancements by the end of May, in time for the Federal-Provincial-Territorial Finance Ministers meeting in June 2016.
If provincial agreement on CPP enhancement is not reached, the federal government acknowledges the Government of Ontario’s objective to move forward with the ORPP. As such, the federal government has agreed to facilitate plan registration and data sharing arrangements, and will work with Ontario to ensure that key elements of plan administration, such as the collection of employer and employee contributions, are completed efficiently and cost-effectively.

Ontario Budget 2016: pension and benefits related measures

On February 25, 2016, the Ontario government released the 2016 Budget (the “Budget”). The Budget was fairly light on new pension-related measures, with the most significant announcements relating to the timing of temporary solvency relief regulations and the solvency funding consultation.

The Budget included a number of initiatives related to group benefit plans but none that would materially impact group benefit plans imminently. The most significant one is the introduction of the Patients First Drug Program, which is targeted for 2019, and some changes to the Ontario Drug Benefit program for those over age 65.

Pension issues

Solvency funding consultation

As announced in the Fall 2015 Economic Outlook, the government has initiated a review of the current solvency funding framework.

The government has appointed David Marshall, former president and CEO of the WSIB, to lead the solvency funding review. He will provide advice and recommendations to the Minister, with a view to assisting the Ministry of Finance in developing a balanced set of solvency funding reforms that would focus on plan sustainability, affordability and benefit security, and take into account the interests of pension stakeholders — including sponsors, unions, members and retirees.

A stakeholder reference group is being established to ensure that reforms to the existing solvency funding framework are informed by a broad range of stakeholder opinions. A consultation paper, outlining possible reform measures, will be released in spring 2016.

Temporary solvency relief regulations

As announced in the Fall 2015 Economic Outlook, the government plans to extend temporary solvency funding relief measures introduced in 2009 and 2012 for private-sector plan sponsors. Draft regulations will be posted for consultation in spring 2016.

Update on target benefit Multi-Employer Pension Plans

In summer 2015, Ontario released a consultation paper seeking input from affected stakeholders on a proposed regulatory framework for target benefit multi-employer pension plans (MEPPs), including a permanent exemption from solvency funding requirements. The consultation paper also proposed a transition period of three years for eligible MEPPs to allow such plans to make necessary adjustments to comply with any new target benefit MEPP

Comment

The announcement will be of immediate relief to large employers who do not sponsor workplace pension plans and were expecting to be required to commence ORPP contributions as of January 1, 2017. Furthermore, it is possible that ORPP implementation could be further delayed or even shelved if there is movement towards CPP expansion in 2016. If there is no agreement on CPP expansion or the Ontario Government chooses to continue with ORPP implementation despite CPP expansion, then ORPP administration will be facilitated by using CPP administrative support.

It is still not known whether the cooperation of the Federal government will go as far as permitting ORPP to cover employees in federal sectors (such as banking, telecommunication and transportation). The inclusion of self-employed workers is also uncertain.
framework. Feedback was received from a variety of stakeholders.

While submissions were supportive of a new framework, including a solvency funding exemption, some concerns were raised that certain MEPPs may face challenges transitioning to a new framework and implementing changes in funding rules.

The government will continue to consult with affected stakeholders on all aspects of a target benefit MEPP framework, including funding rules, and is committed to providing a transition period that allows sufficient time and ensures minimal disruption to the collective bargaining process.

**Ontario Retirement Pension Plan**

There were a couple of minor new details on the Ontario Retirement Pension Plan (ORPP).

In spring 2016, the government intends to introduce proposed legislation setting out the requirements of the ORPP, rules relating to plan funding, and the compliance and enforcement regime.

To evaluate and report on plan sustainability and prepare funding valuations, the government is proposing to establish an independent provincial Office of the Chief Actuary (OCA) by legislation in 2016. Modelled on the Office of the Chief Actuary of Canada, Ontario’s Chief Actuary would provide the Province and the Administration Corporation with impartial and expert actuarial advice and guidance. All valuations would be peer-reviewed and made public.

**Pension Advisory Committees**

Draft regulations under the *Pension Benefits Act* intended to facilitate the establishment of Pension Advisory Committees (PACs) were posted for public consultation in fall 2015. The role of PACs would be to monitor plan administration, make recommendations to the administrator regarding the pension plan, and promote awareness and understanding of the pension plan.

The government is proposing additional legislative changes to enable implementation of PACs. Regulations incorporating stakeholder feedback will be finalized later this year.

**Pooled Registered Pension Plans**

The government is introducing amendments to the *Pooled Registered Pension Plans Act, 2015*, to further facilitate harmonization with other jurisdictions and ensure the efficient operation of Pooled Registered Pension Plans (PRPPs). Regulations to support the implementation of PRPPs in the province are under development. The government will also be developing an appropriate test to determine comparability for the purposes of the ORPP.

**Review of the mandate of the Financial Services Commission of Ontario**

The final report of the expert panel on the mandate of the Financial Services Commission of Ontario and other financial regulators will be released in the spring.

**Group benefit issues**

**New Patients First Drug Program**

The government intends to introduce a redesigned public drug program by 2019, the Patients First Drug Program. The Budget states that this redesigned drug program would coordinate with individuals’ private insurance benefits and increase equitable access to medications. However, the Budget did not elaborate on how this would be achieved. The government plans to release a vision paper and launch public consultations in spring 2016 concerning the design of this new drug program.

**Changes to Ontario Drug Benefit (ODB) Program**

Before implementing the Patients First Drug Program, the government will update the current ODB program by increasing the income-eligibility thresholds for the low-income seniors’ benefit, and making changes to co-payments and deductibles for other seniors. Effective August 1, 2016:

- the low-income seniors’ benefit threshold will be increased from $16,018 to $19,300 for single seniors and from $24,175 to $32,300 for senior couples;
- the co-payment per prescription will be increased from $6.11 to $7.11 per prescription; and
- the annual deductible for seniors will be increased from $100 to $170.
Expanded scope of practice for pharmacists and nurses

Proposed initiatives expanding the scope of practice for pharmacists and nurses include:

• the government is working to allow the administration of travel vaccines in their local pharmacies;

• the government proposes to authorize pharmacists to administer a wider range of vaccines;

• the government will explore the benefits of further expanding pharmacists’ scope of practice; and

• the government is also planning to expand the scope of practice of registered nurses to allow them to prescribe some medications directly to patients.

Free shingles vaccine

The government aims to make the shingles vaccine available to seniors between the ages of 65 and 70, free of charge.

More access to fertility services

The government is expanding access to treatment for infertility. The government is contributing to the cost of one in vitro fertilization cycle per eligible patient, at more than 50 clinics across the province.

BC: changes to health premiums

In the 2016 budget, the British Columbia government announced the following changes to health premiums for the Medical Services Plan (MSP), effective January 1, 2017:

• The number of children in a family will no longer be considered in the calculation of MSP premiums. Currently, different premium levels apply for families of one, two, and three or more. Beginning in 2017, premiums will be based on whether there are one or two adults in the household, regardless of the number of children.

<table>
<thead>
<tr>
<th>Monthly MSP Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2016</td>
</tr>
<tr>
<td>One person</td>
</tr>
<tr>
<td>Family of two</td>
</tr>
<tr>
<td>Family of three or more</td>
</tr>
<tr>
<td>One adult</td>
</tr>
<tr>
<td>Two or more adults</td>
</tr>
</tbody>
</table>

• Premiums for couples will increase to twice the single premium.

• The income thresholds at which a household will receive full premium assistance and not have to pay any MSP will increase by $2,000 over 2016 levels. The income threshold at which household will qualify for partial premium assistance will increase by $12,000.

• MSP premiums will increase by 4% ($3 per month, per adult), which is consistent with the rate of change over the past several years.

• These changes redistribute the burden of health care premiums to different types of households. Those with children, particularly single parent households, will pay significantly less.

Many employers pay part or all of MSP premiums on behalf of their BC employees. Similar to the price escalation of group benefit plans, MSP premiums have risen above the rate of inflation for many years now. Given the increase in the thresholds at which individuals may qualify for premium assistance, employers paying MSP premiums on employees’ behalf may look to encourage employees to investigate whether they qualify, as this may reduce employers’ costs.

Before the budget was released, the prospect of changing MSP to more closely align premiums with income received media attention. BC is one of only three provinces that require health care premium payments from individuals and the only one of those three not to collect premiums through income tax. MSP premiums have been criticized as regressive, and by comparison, Ontario and Quebec’s premiums are more closely tied to income and are generally less costly than British Columbia’s. In 2015, the previous
Alberta government announced the introduction of a health care premium, but the new provincial government cancelled the implementation.

Four other provinces (Manitoba, Ontario, Quebec, and Newfoundland & Labrador) require employer health care premiums in the form of payroll taxes. The remaining provinces and territories fund health care from general revenue instead of specific premiums. The table above summarizes the arrangement in each province.

### Ontario: New form for waiving survivor benefit after retirement

On March 1, 2016, the Financial Services Commission of Ontario (FSCO) released Form 8: “Post-retirement Waiver of Joint and Survivor Pension by the Former Spouse of a Retired Member on Spousal Relationship Breakdown”. Form 8 can be used by the former spouse of a retired member to waive their right to a survivor benefit.

#### Background

Under a DB pension plan, in Ontario, the spouse at the date of pension commencement has the right to at least a 60% lifetime survivor pension upon the member’s death, unless waived prior to pension commencement. This right, although conditional on the member’s death, accrues at the date of pension commencement and is not changed by subsequent changes in marital status.

In some cases, the spouse may receive a survivor pension less than 60% or the member may elect a life-only pension, possibly with a guarantee period ranging from 5 to 15 years. A spousal waiver is required for this form of pension.

Ontario changed its rules for pension division effective January 1, 2012. As part of that change, a new provision of the Pension Benefits Act, s. 67.4(8), allows the former spouse of a retired member to waive his or her rights to any survivor benefit. As of March 1, 2016, Form 8 is one of the requirements to waive the former spouse’s survivor benefit.

#### Requirements to validly waive the former spouse’s survivor benefit

In addition to completing Form 8, the following requirements must all be satisfied:

- The former spouse was the spouse of the retired member on the date when the first instalment of his or her pension was due.
- The pension valuation and division rules that came into effect on January 1, 2012 apply.
- The former spouse received a Statement of Family Law Value (FSCO Family Law Form 4E) and was identified as the spouse in Part D (Spouse/Former Spouse of Retired Member Information).
• The waiver is included in the final court order or separation agreement.

• The pension has not already been divided.

Form 8 must be sent to the administrator of the pension plan, not FSCO. Upon receipt of Form 8, the administrator must satisfy itself that all requirements have been met.

Form 8 can apply to both the lifetime survivor benefit and any guarantee period offered to the former spouse. It does not affect the former spouse’s right to a division of the former member’s pension.

**Impact on retired member’s pension**

Upon the removal of the spouse as beneficiary under a lifetime survivor benefit, the pension must be changed to another form of pension. This will result in the pension reverting to the normal form (i.e., a pension payable to the member for the rest of his or her lifetime, possibly with a guarantee period).

It is important to note that a lifetime survivor benefit can only be paid to a spouse or former spouse. Therefore, the survivor benefit cannot be “re-assigned” to a third party. Furthermore, a subsequent spouse can only be designated as a survivor if the pension plan terms allow for such a designation.

It is also important to note that the pension payable to the retired member can only revert to the normal form of pension, as it would have been at pension commencement, on a go-forward basis.

If the normal form of pension has a remaining guarantee period, a beneficiary can be named for the remaining guarantee period. A guarantee period can only begin at the date of pension commencement and does not “refresh” as a result of the former spouse’s waiver.

**Conclusion**

It is relatively common for a retired member to ask that the former spouse be removed as the survivor under a DB pension plan, sometimes based on a general waiver of the spouse’s claims in a court order or separation agreement. Unless Form 8 and the other requirements are met, this is not possible for an Ontario DB pension. The spouse’s rights as a survivor are considered to accrue as of the date of pension commencement and can only be removed by clear direction.

Form 8 and the supporting materials issued by FSCO are helpful in that they provide clear direction on how the survivor pension can be waived. However, it is still important that counsel for a retired member and former spouse understand the implications of waiving the survivor benefit. Limitations imposed by the pension plan text and income tax legislation may mean that some of the value of the survivor benefit may be lost through the waiver.

The pension plan administrator can provide information to both parties, but should be careful to provide accurate information and to maintain neutrality between the parties.
Market indices as at February 29, 2016

The following table shows the Morneau Shepell monthly summary of returns from various market indices. It also includes returns from benchmark portfolios used by pension funds.

<table>
<thead>
<tr>
<th>Monthly</th>
<th>Quarter to date</th>
<th>Year to date</th>
<th>1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE TMX Bond Indices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTSE TMX Canada Universe Bond</td>
<td>0.2 %</td>
<td>0.6 %</td>
<td>0.6 %</td>
</tr>
<tr>
<td>FTSE TMX Canada 91 Day Treasury Bill</td>
<td>0.0 %</td>
<td>0.1 %</td>
<td>0.1 %</td>
</tr>
<tr>
<td>FTSE TMX Canada Short Term Bond</td>
<td>-0.1 %</td>
<td>0.1 %</td>
<td>0.1 %</td>
</tr>
<tr>
<td>FTSE TMX Canada Mid Term Bond</td>
<td>0.1 %</td>
<td>0.7 %</td>
<td>0.7 %</td>
</tr>
<tr>
<td>FTSE TMX Canada Long Term Bond</td>
<td>0.8 %</td>
<td>1.3 %</td>
<td>1.3 %</td>
</tr>
<tr>
<td>FTSE TMX Canada High Yield Bond</td>
<td>-0.1 %</td>
<td>-2.1 %</td>
<td>-2.1 %</td>
</tr>
<tr>
<td>FTSE TMX Canada Real Return Bond</td>
<td>0.4 %</td>
<td>0.0 %</td>
<td>0.0 %</td>
</tr>
<tr>
<td>Canadian Equity Indices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S&amp;P/TSX Composite (Total Return)</td>
<td>0.5 %</td>
<td>-0.7 %</td>
<td>-0.7 %</td>
</tr>
<tr>
<td>S&amp;P/TSX Composite Capped</td>
<td>0.5 %</td>
<td>-0.7 %</td>
<td>-0.7 %</td>
</tr>
<tr>
<td>S&amp;P/TSX 60 (Total Return)</td>
<td>0.2 %</td>
<td>-0.8 %</td>
<td>-0.8 %</td>
</tr>
<tr>
<td>S&amp;P/TSX Completion</td>
<td>1.3 %</td>
<td>-0.5 %</td>
<td>-0.5 %</td>
</tr>
<tr>
<td>S&amp;P/TSX Small Cap</td>
<td>5.3 %</td>
<td>1.0 %</td>
<td>1.0 %</td>
</tr>
<tr>
<td>BMO Small Cap Unweighted</td>
<td>6.1 %</td>
<td>1.3 %</td>
<td>1.3 %</td>
</tr>
<tr>
<td>BMO Small Cap Weighted</td>
<td>5.0 %</td>
<td>0.9 %</td>
<td>0.9 %</td>
</tr>
<tr>
<td>U.S. Equity Indices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500 (US$)</td>
<td>-0.1 %</td>
<td>-5.1 %</td>
<td>-5.1 %</td>
</tr>
<tr>
<td>S&amp;P 500 (C$)</td>
<td>-3.5 %</td>
<td>-7.2 %</td>
<td>-7.2 %</td>
</tr>
<tr>
<td>Foreign Equity Indices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSCI ACWI (C$)</td>
<td>-4.4 %</td>
<td>-9.0 %</td>
<td>-9.0 %</td>
</tr>
<tr>
<td>MSCI World (C$)</td>
<td>-4.5 %</td>
<td>-9.0 %</td>
<td>-9.0 %</td>
</tr>
<tr>
<td>MSCI EAFE (C$)</td>
<td>-5.5 %</td>
<td>-11.2 %</td>
<td>-11.2 %</td>
</tr>
<tr>
<td>MSCI Europe (C$)</td>
<td>-5.5 %</td>
<td>-10.5 %</td>
<td>-10.5 %</td>
</tr>
<tr>
<td>MSCI Pacific (C$)</td>
<td>-5.6 %</td>
<td>-12.4 %</td>
<td>-12.4 %</td>
</tr>
<tr>
<td>MSCI Emerging Markets (C$)</td>
<td>-3.9 %</td>
<td>-8.9 %</td>
<td>-8.9 %</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Price Index (Canada. January 2016)</td>
<td>0.2 %</td>
<td>0.2 %</td>
<td>0.2 %</td>
</tr>
<tr>
<td>Exchange Rate US$/C$</td>
<td>-3.4 %</td>
<td>-2.2 %</td>
<td>-2.2 %</td>
</tr>
</tbody>
</table>

Morneau Shepell Benchmark Portfolios

| 60% Equity/40% Bonds | 1.0 % | -2.6 % | -2.6 % | -5.8 % |
| 55% Equity/45% Bonds | -0.9 % | -2.3 % | -2.3 % | -5.5 % |
| 50% Equity/50% Bonds | -0.7 % | -2.0 % | -2.0 % | -5.1 % |
| 45% Equity/55% Bonds | -0.6 % | -1.7 % | -1.7 % | -4.7 % |
| 40% Equity/60% Bonds | -0.5 % | -1.4 % | -1.4 % | -4.3 % |

Notes:
2. The returns are compounded monthly.
Tracking the funded status of pension plans as at February 29, 2016

This graph shows the changes in the financial position of a typical defined benefit plan with an average duration since December 31, 2015. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2015. The estimate of the solvency liabilities reflects the new CIA guidance published in January 2016 for valuations effective December 31, 2015 or later. The following graph shows the impact of three typical portfolios on plan assets and the effect of interest rate changes on solvency liabilities of medium duration.

The evolution of the financial situation of pension plans since December 31, 2015

During the month of February, Canadian universe bonds, Canadian long term bonds, Canadian long-term provincial bonds and Canadian equity market showed positive returns, while Global equity markets (CAD) and alternative investments showed negative returns. With a return of -0.5%, the low volatility portfolio (LDI) outperformed the 60/40 (-1.0%) portfolio and the highly diversified portfolio (-1.4%). The outperformance of the low volatility portfolio is explained by a larger weight in bonds and the absence of alternative investments in the portfolio. Annuity purchase rates and the rates used in the calculation of solvency liabilities decreased during the month, increasing the solvency liabilities by 1.1% for the medium duration plan. In all cases, the combined effect decreased the solvency ratio.

The tables below shows the impact of past returns on plan assets and the effect of interest rate changes on solvency liabilities, based on the plan’s initial solvency ratio as at December 31, 2015 as well as the asset allocation of the three typical portfolios.

<table>
<thead>
<tr>
<th>Initial solvency ratio as at December 31, 2015</th>
<th>Evolution of the solvency ratio as at February 29, 2016 for three different portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>60/40 portfolio</td>
</tr>
<tr>
<td>93.8%</td>
<td>93.3%</td>
</tr>
<tr>
<td>90%</td>
<td>84.4%</td>
</tr>
<tr>
<td>80%</td>
<td>75.0%</td>
</tr>
<tr>
<td>70%</td>
<td>65.7%</td>
</tr>
<tr>
<td>60%</td>
<td>56.3%</td>
</tr>
</tbody>
</table>

Since the beginning of the year, driven by negative returns within the equities and alternative investments markets, the 60/40 portfolio, the LDI portfolio and the HD portfolio returned -2.6 %, -1.9 % and -3.1% respectively. The solvency liabilities increased over that same period between 3.5% and 4.1% depending on the duration of the group of retirees. The decrease in the plan’s solvency ratio as at February 29, 2016 depends on the plan’s initial ratio, but stands between 3.3% and 6.7%.

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

Comments
1. No consideration has been made for contributions paid to the plan or for benefits paid out of the plan.
2. Solvency liabilities are projected using the rates prescribed by the Canadian Institute of Actuaries (CIA) for the purpose of determining pension commuted values.
3. This estimate of solvency reflects the new CIA guidance published in January 2016.
4. The underlying typical defined benefit plan is a final average plan with no pension indexing, including active and inactive participants representing 60% and 40% of liabilities, respectively.
5. Assets are shown at full market value. Returns on assets are based on three typical benchmark portfolios.
Impact on pension expense under international accounting as at February 29, 2016

Every year, companies must establish an expense for their defined benefit pension plans.

The graph shows the expense impact for a typical pension plan that starts the year at an arbitrary value of 100 (expense index). The expense is influenced by changes in the discount rate based on high quality corporate and provincial (adjusted) bonds and the median return of pension fund assets.

Expense Index from December 31, 2015

<table>
<thead>
<tr>
<th>Non-contributory plan</th>
<th>Contributory plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td>115</td>
<td>115</td>
</tr>
<tr>
<td>120</td>
<td>120</td>
</tr>
</tbody>
</table>

The table below shows the discount rates for varying durations and the change since the beginning of the year. A plan’s duration generally varies between 10 (mature plan) and 20 (young plan).

Discount rate

<table>
<thead>
<tr>
<th>Duration</th>
<th>December 2015</th>
<th>February 2016</th>
<th>Change in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>3.71%</td>
<td>3.72%</td>
<td>1 bps</td>
</tr>
<tr>
<td>14</td>
<td>3.91%</td>
<td>3.86%</td>
<td>-5 bps</td>
</tr>
<tr>
<td>17</td>
<td>4.04%</td>
<td>3.95%</td>
<td>-9 bps</td>
</tr>
<tr>
<td>20</td>
<td>4.12%</td>
<td>4.00%</td>
<td>-12 bps</td>
</tr>
</tbody>
</table>

Since the beginning of the year, the pension expense has increased by 10% (for a contributory plan) due to the decrease in the discount rate and to the poor returns on plan assets (relative to the discount rate).

Comments

1. The expense is established as at December 31, 2015, based on the average financial position of the pension plans used in our 2015 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits report (i.e. a ratio of assets to obligation value of 91% as at December 31, 2014).

2. The return on assets corresponds to the return on the Morneau Shepell benchmark portfolio (60% equities and 40% fixed income).

3. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions).

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.
Morneau Shepell is the only human resources consulting and technology company that takes an integrative approach to employee assistance, health, benefits and retirement needs. The Company is the leading provider of employee and family assistance programs, as well as the largest administrator of retirement and benefits plans and the largest provider of integrated absence management solutions in Canada. Through health and productivity, administrative, and retirement solutions, Morneau Shepell helps clients reduce costs, increase employee productivity and improve their competitive position. Established in 1966, Morneau Shepell serves approximately 20,000 clients, ranging from small businesses to some of the largest corporations and associations in North America. With almost 4,000 employees in offices across North America, Morneau Shepell provides services to organizations across Canada, in the United States, and around the globe. Morneau Shepell is a publicly-traded company on the Toronto Stock Exchange (TSX: MSI).