The 2015 Federal Budget: the View from a Pension and Benefits Perspective

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The Federal Budget, tabled on April 21, 2015, introduced several measures in the area of pension and benefits that are of interest to employers. The Government of Canada introduced several measures and proposals aimed at encouraging Canadians to save for retirement. Some of the more significant features of the Budget include the following:

Tax Free Savings Accounts ("TFSA")

The annual TFSA contribution limits will increase to $10,000, up from $5,500, beginning in 2015. The contribution limit will no longer be indexed to inflation. Any future increases to the contribution limit must be legislated.

Registered Retirement Income Funds ("RRIF")

The Federal Budget has introduced lower minimum withdrawal rates for RRIFs. With seniors living longer, the lower rates have been implemented to reduce the risk of seniors outliving their savings. The federal government has estimated that a 90 year old will have approximately 50% more capital under the new withdrawal rates.

Voting Share Limits

The federal government has announced that it will conduct a review of the rule that currently prohibits federal pension funds from holding more than 30% of the voting shares of an individual company. To this end, the Government of Canada will hold public consultations to explore the utility of the “30% rule”. The impetus behind the change, according to the Budget, is to “reduce red tape and improve the investment climate in Canada”. Future changes to the rule would apply to federally registered pension plans in addition to provincially registered plans that have adopted the federal investment rules.

Target Benefits Plans ("TBS")

In light of the number of provinces moving to develop TBPs, the federal government affirmed that it will consider changes to the *Income Tax Act* rules to include TBPs in the rules and limits for registered pension plans. TBPs can place limits on employer contributions. If there is a funding deficit, part or all of the deficit can be compensated by reducing accrued benefits. For this reason, TBPs are often referred to as “shared risk” plans.

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In addition, the federal government continues to assess a voluntary TBP option for federal Crown corporations and federally-regulated private sector pension plans. In the event that there are changes to the federal pension regime, the new regime will protect earned benefits by requiring pension plan members and retirees to consent to the treatment of the accrued benefits at the time of a plan conversion.

Pooled Registered Pension Plans ("PRPP")

The federal government is implementing a framework for PRPPs. The intent of the initiative is to provide a low-cost, large-scale retirement savings option for Canadians who do not have a workplace pension plan. Presently, federal PRPPs are available to employers and employees in federally regulated industries, and individuals living in the Northwest Territories, Yukon, and Nunavut. Several provinces have proposed legislation allowing for PRPPs. The federal government is leading an initiative “to harmonize the supervision of PRPPs across Canada to achieve lower costs through a multilateral agreement”.

At this point, the results of the fall federal election will likely determine the extent to which these initiatives will be implemented into the pension landscape in Canada.

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