

# BENEFITS AND PENSIONS MONITOR

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## **PRPPs Unlikely To Solve Coverage Issue**

Ian Markham, Canadian retirement innovation leader at Towers Watson, is not optimistic that the federal government proposal for Pooled Registered Pension Plans (PRPPs) will do much to solve the pension fund coverage issue in Canada. At a session entitled 'Plan Member Perspectives – What Do Your Employees Think?' at the ACPM Ontario Regional Council's 'impACT 2011: From Family Law to Funding – Key Concerns for Plan Sponsors in Ontario,' he said only about 28 per cent of employees in the private sector currently belong to an employer-sponsored pension plan, with 15 per cent in Defined Benefit, eight per cent in Defined Contribution, and five per cent in mixed plans. However, PRPPs are not the solution as he does not see them as being that attractive to employees. For example, the proposed legislation says they will be locked in until retirement. That denies employees the opportunity to pay down mortgages or retire debt which they can currently do if they have their own registered retirement savings plan or belong to a group registered retirement savings plan which are not locked in. If anything, he suspects most PRPP activity will be from employers moving their Defined Contribution plans to PRPPs. And there is a message in this to employers, he said. Mandatory pension plans are coming if they fail to take action to provide pension plans to their employees which provide adequate retirement savings.

## **Extra Contributions Good Idea Now**

Defined Benefit pension plan sponsors may want to consider making additional contributions to their underfunded plans now, says Andrew Hamilton, of Aon Hewitt. He told the session 'Pension Plan Funding – Are we having fun yet?' at the ACPM Ontario Regional Council's 'impACT 2011: From Family Law to Funding – Key Concerns for Plan Sponsors in Ontario' that companies are doing well now and sitting on record amounts of cash. Besides the benefits of a tax deduction for these extra contributions, there are a number of other considerations. Reaching an 85 per cent solvency funding ratio would take them past the threshold for annual valuations. As well, they could avoid the need to use letters of credit (once they are in place) to cover shortfalls as they can be expensive. Plus, given the current interest rate environment, there is little chance plans will be moving into surplus positions, minimizing the risk of these extra contributions becoming trapped capital.

## **Sponsors Should Keep Records**

Despite new rules for the division of pension assets coming into force in Ontario on January 1, plan sponsors need to keep all records for marital splits that take place before then, says Anne Slivinkas, director, pension law and policy group, at the Ontario Teachers' Pension Plan. In a session on 'Family Law – New Rules for Pensions' at the ACPM Ontario Regional Council's 'impACT 2011: From Family Law to Funding – Key Concerns for Plan Sponsors in Ontario,' she said all orders, awards, and contracts made after January 1 fall under the new rules. However, changes made to orders, awards, and contracts reached before the end of the year fall under the old rules. If these are being changed after the new rules come into effect, the old rules can probably be used if the change is merely a "tweak." But, if the old agreement is, for example, silent on equalization, an agreement on this after January 1 would be considered a new agreement and the new rules would apply. The division of pension asset rules on marital breakdown were designed to simplify the valuation of the pension asset. One significant change is that a lump sum must be paid immediately to a spouse once agreement is reached on the division of these assets. Under the old rules, payment required a triggering event such as the member's retirement, termination, or death.