

hrreporter.com

12/2/2008

Ottawa provides pension relief

Federally regulated firms could have extra five years to repay shortfalls

By Sarah Dobson

The federal government has announced it will provide some relief for federally regulated pension plans by allowing an extra five years to repay funding shortfalls.

“Based on what has happened so far, and under current rules, the decline in value of these plan assets would trigger substantial payments at the worst possible time for struggling companies,” said Finance Minister Jim Flaherty, in an economic statement released Nov. 27. “The money these companies would need to use for pension top-ups could otherwise be used for further investment and growth.”

The government would allow plans to double the length of time required for solvency payments from five to 10 years if sponsors gain the agreement of pension plan members and retirees by the end of 2009 or a letter of credit to cover the five-year difference to protect pensioners.

The government will also launch consultations on issues facing defined benefit and defined contribution pension plans, said Flaherty, with a view to making permanent changes next year.

“(The) government will co-ordinate our efforts with our provincial and territorial counterparts to create a pension system able to withstand whatever future challenges come its way,” he said.

While the announcement was expected, it’s also a bit disappointing and unclear, said Laura Samaroo, Vancouver-based retirement practice leader for Western Canada at Watson Wyatt Worldwide.

“More clarity is always better for plan sponsors, especially right now as they’re trying to budget their capital expenditures over the next two years,” she said. “Some plan sponsors were asking for an amortization longer than 10 years, even 15, and some suggested a complete moratorium for solvency payments for a temporary period, so clearly that wasn’t granted.”

The move appears similar to temporary relief granted in 2006, said Samaroo, when sponsors could amortize solvency deficiency over an additional five years or amortize the deficiency over 10 years, with approval from members or, without approval, receive a letter of credit to amortize the deficiency over 10 years. But “things are a lot worse now than they were in 2006 and a lot of plan sponsors feel like more drastic measures were warranted,” she said.

This time plans that have an evaluation this year can amortize the solvency deficiency over 10 years as if they’re going to get a letter of credit in place, and not scramble to get it by the end of 2008, said Samaroo.

“It buys some time to get the thing in place and, in fact, for those plans that don’t even intend to get a letter of credit in place or member approval, they could act as if they’re going to, at least for a year, and fix it up later.”

PAID ADVERTISEMENT

Double Bull's eye.
Corporate & Litigation Lawyers Who's Who...
Stewart McKelvey leads.
2008 Lexpert/American Lawyer
Guide to the Leading 500 Lawyers in Canada
STEWART MCKELVEY
When results count.

But the Office of the Superintendent of Financial Institutions doesn't cover that many pension plans and provincial tactics could be different, said James Murta, immediate past president of the Canadian Institute of Actuaries.

A lot can happen to corporations, and the economy, in 10 years, he said. Those corporations rated A or AA probably don't need the relief to begin with but "everyone gets tarred with the same brush," he said. So those corporations on the brink may still not recover and if their pension plans collapse, active members and people on pension suffer.

"I would love to see something in the way of change in bankruptcy proceedings to give greater weight to the pension plan and the position of the pension plan and so on, but it's not there," said Murta. "A lot of those who are consultants to the plans were asking for it because it's a fairly easy solution — they know the government can do it quite easily and the firms are screaming for it as well."

