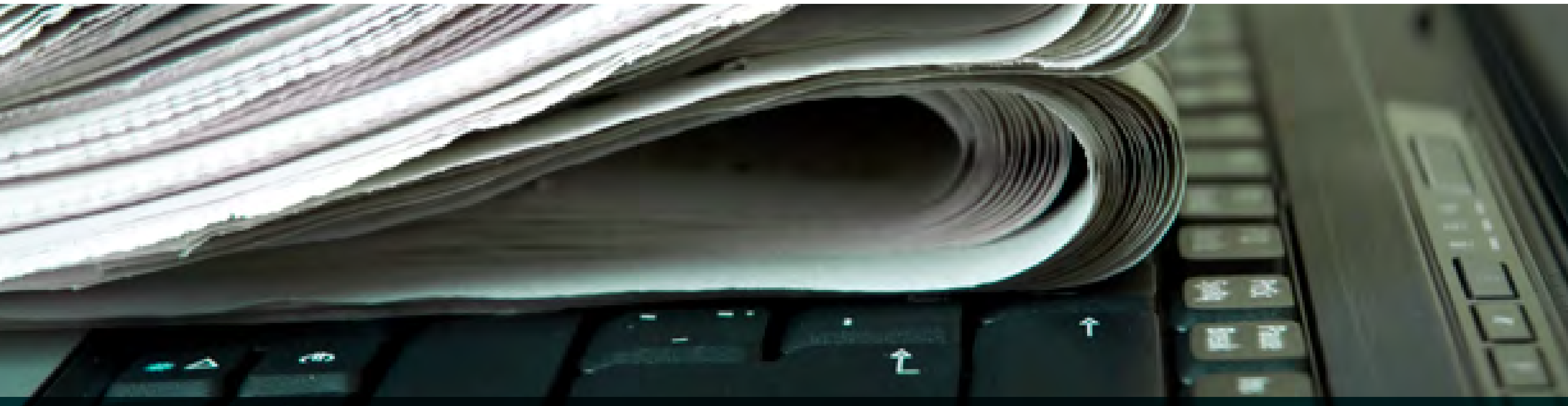


NEWS & VIEWS

QUÉBEC – DRAFT REGULATION FOR VOLUNTARY RETIREMENT SAVINGS PLANS (VRSP)

The *Autorité des marchés financiers du Québec* (AMF) and the *Régie des rentes du Québec* (RRQ) each recently published draft regulations respecting voluntary retirement savings plans (VRSP) in the March 12th *Gazette officielle du Québec* (herein referred to as "draft VRSP Regulations"). Since then, the AMF regulation was approved and comes into effect on April 16. Under the RRQ *Voluntary Retirement Savings Plans Act*, the draft VRSP Regulation should take effect on July 1, 2014 (see the December 2012 issue of *News & Views*).

Whereas the draft AMF regulation defines levels for capital requirements and liability insurance, as well as the fees that apply to eventual VRSP administrators, the draft RRQ regulation sets out the measures that apply to administrators with respect to registering and administering the VRSP, and formulates certain rules that apply to plan members. The following are highlights of provisions that will affect employers and their employees:

FEES

- The total of the basic fees charged to members for the default investment option ("lifecycle" approach) must be less than or equal to 1.25% of the average plan assets.
- The total of the basic fees charged to members for other investment options must be less than or equal to 1.50% of average plan assets.
- However, these two amounts may not exceed the fees charged under the federal *Pooled Registered Pension Plans Act* (see the January 2013 issue of *News & Views*).

- In addition to these investment fees, it will be possible to charge separate fees for a transfer to another plan (maximum $50), a reimbursement of funds, financial planning services, requests for financial advice and a transfer of benefits between spouses.

EMPLOYEE CONTRIBUTIONS

The default contribution rate is set at:

- 2% of gross salary, from July 1, 2014 to December 31, 2017;
- 3% of gross salary, from January 1, 2018 to December 31, 2018;
- 4% of gross salary, as of January 1, 2019.

Note, however, that employees will be allowed to choose another contribution rate and will be permitted to opt-out of participation in a VRSP.

Employee contributions will not be locked in, but the employer's contributions will be locked-in, although the employer is not required to contribute.

TRANSFERS

Following employment termination, as of age 55, or after the introduction by the employer of a new registered retirement savings plan, tax-free savings account or registered pension plan, the member may transfer the balance of his or her locked-in account to one of the following plans:

- a supplemental pension plan;
- a life income fund;
- a locked-in retirement account;
- an annuity contract;
- the locked-in account of another VRSP.

The regulations provide for certain special situations where the member may unlock his or her assets, namely in the event of disability leading to reduced life expectancy, if the member no longer resides in Canada, or if the locked-in balance upon termination of employment is less than 20% of the Year's Maximum Pensionable Earnings as established under the Québec Pension Plan.

As of age 55, a member may also request variable payments, if the plan offered by the administrator permits. If the member has a locked-in account, the variable payment must take into account the tax limits that normally apply to withdrawals from locked-in accounts.

INVESTMENT OPTIONS

All VRSP administrators must offer a default investment option based on a "lifecycle" approach where the degree of risk, based on the member's age, will be adjusted as the member approaches retirement age.

In addition to the default option, administrators must offer all members three to five other investment options, with different levels of risk and returns. The allowable investment options are as follows:

- an insurance product or annuity;
- a money deposit in Canadian funds at an institution that holds a license;
- investment fund securities;
- a bond or other debt security issued or guaranteed by a government in Canada, by one of its agencies, or by a municipality in Canada.

NEXT STEPS

Before administrators can offer a VRSP, they must receive a licence from the AMF and register their plans with the RRQ.

To help employers select a supplier, the RRQ will publish a list of registered VRSP administrators on its website, along with the administration fees for each plan offered.

*Interested parties may send comments in writing **by April 26**. For more information, you may contact the RRQ (nathatlie.paquet@rrq.gouv.qc.ca)*

QUÉBEC – DRAFT REGULATION TO AMEND THE *REGULATION RESPECTING SUPPLEMENTAL PENSION PLANS*

Along with the draft Regulation respecting voluntary retirement savings plans described above, a draft Regulation to amend the *Regulation respecting supplemental pension plans* was published in the March 12th *Gazette officielle du Québec* (herein referred to as the "draft Regulation to amend the SPP Regulation").

The draft Regulation to amend the SPP Regulation provides that:

- the registration fees for a simplified pension plan would change to $1,500 (the current fee is $1,000 + $5.80 per active member);
- the fees for the annual information return (AIR) for a simplified pension plan would change to $1,000 + $5 per active member (the current fee is $1,000 + $4.50 per active member).

Lastly, the draft Regulation to amend the SPP Regulation makes a number of concordance amendments to the *Regulation respecting supplemental pension plans* to take into account new measures proposed in the draft Regulation respecting voluntary retirement savings plans.

If the draft Regulation to amend the SPP Regulation is adopted by the government, most sections will come into force on July 1, 2014.

Interested parties may send comments in writing ***by April 26****. For more information, you may contact the RRQ (nathatlie.paquet@rrq.gouv.qc.ca)*

CAPSA RELEASES DC PENSION PLANS GUIDELINE IN FINAL FORM

On March 28, 2014, the Canadian Association of Pension Supervisory Authorities (CAPSA) released Guideline No. 8 "Defined Contribution Pension Plans Guideline" (DC Guideline) in final form, following the draft DC Guideline that was released in July 2012 for comment (see the August 2012 issue of *News & Views*). The DC Guideline applies to both defined contribution (DC) pension plans and pension plans with DC components (DC Plans).

The DC Guideline builds on the guidelines and documents related to DC Plans (and other types of Capital Accumulation Plans or CAPs) previously released by CAPSA by clarifying:

- the rights and responsibilities of plan administrators, employers, plan sponsors, service providers, fund holders and members; and
- what constitutes an adverse amendment (e.g. reduction of employer contributions, increase in employee contributions, changes in expense allocation, changes in possible member retirement age and lengthening vesting requirements in jurisdictions where vesting is not immediate). Legislation in some jurisdictions requires disclosure of the adverse amendment to certain parties before the amendment can be registered.

A key consideration for DC Plans is the information and tools that should be provided to members during the accumulation phase and as they approach the payout phase at retirement. The DC Guideline provides considerable guidance for both phases. With respect to the accumulation phase, the DC Guideline provides direction on, and examples of, the type of information that should be provided to members in regards to investment choices, contributions and projected account balances at retirement. With respect to the payout phase, the DC Guideline contains an explicit expectation that plan administrators will provide members with information regarding all of the regulated retirement products (e.g., locked-in retirement account, locked-in retirement income fund, life income fund, life annuity contract etc.) and thereby allow them to make informed decisions regarding their retirement benefits. To assist with this obligation, CAPSA has also published a companion reference document titled "Regulated Retirement Products for DC Plan Members", which provides general descriptions and information on the features of the various regulated retirement products available to DC Plan members.

Although CAPSA's guidelines do not have the force of law, they reflect the expectations of regulators regarding the operation of registered pension plans. Accordingly, they could be used as benchmarks by courts and regulators in assessing whether a registered pension plan administrator has satisfied its fiduciary obligations. With the issuance of the DC Guideline, administrators of DC Plans and their service providers are encouraged to review their DC Plan communication, including communication policies and other documentation, and assess whether they are satisfying their fiduciary duties, particularly in terms of member information and decision making tools.

NEW BC *WILLS, ESTATES AND SUCCESSION ACT* AFFECTS BENEFICIARY DESIGNATIONS

On March 31, 2014, the new *Wills, Estates and Succession Act* (the "Act") came into force in British Columbia. The Act helps to simplify and codify the rules affecting wills and estates. Previously, such rules were scattered among various pieces of legislation and, in some cases, unclear or ambiguous.

Among its changes, the Act affects the rules for beneficiary designations in pension and other benefit plans. The Act is consistent with similar legislation outside of BC. Although the practices of most plan administrators are likely consistent with the Act, plan administrators should consider whether their beneficiary designation forms and practices are consistent.

The Act's rules regarding beneficiary designations do not apply to an insurance contract or to a declaration governed by the provisions of the *Insurance Act* respecting life insurance.

The Act sets out the following rules, which many plan administrators may already be following:

- a plan member may designate multiple or alternate beneficiaries;
- a plan member may designate an irrevocable beneficiary, as well as a revocable beneficiary;
- a beneficiary designation must be made in writing and must be signed by the person making it;
- a plan member may make a beneficiary designation in a will, but such designation must relate expressly to that plan;
- a person acting under a power of attorney may make or alter a beneficiary designation only if expressly authorized to do so by the court and the designation is not made in a will; and
- a plan member may make a beneficiary designation even if the plan terms do not provide the member with the right to make such a designation.

Although a plan administrator is required to recognize a beneficiary designation validly made in a will, we believe that it is not required to review wills or seek out confirmation that no such designation has been made. Section 94 of the Act provides a discharge of liability for a plan administrator that transfers a benefit in accordance with a valid beneficiary designation, even if the administrator later receives notice of a change in the designated beneficiary.

In most cases, the Act will be consistent with the practices that plan administrators have been following. However, plan administrators who have applied more restrictive rules for beneficiary designations will be required now to recognize beneficiary designations in accordance with the new rules.

PRICE REDUCTIONS FOR PRESCRIPTION DRUGS

Through the Pan-Canadian Competitive Value Price Initiative for Generic Drugs, the Council of the Federation announced that the prices of four more prescription drugs will be limited to 18% of the brand name price effective April 1, 2014.

While in the past, each province and territory negotiated generic drug prices independently, provincial premiers at the July 2012 Council of the Federation meeting recommended an initiative to reduce generic drug costs. The announcement was made in January 2013 (see the of *February 2013* issue of *News & Views*) that all provinces and territories other than Quebec would work together in a volume purchasing arrangement, resulting at that time in the prices of six specified generics being limited to 18% of the brand name price, effective April 1, 2013.

It was recently announced that the following four commonly used drugs would be added to the volume purchasing arrangement and limited to the same pricing restriction of 18% of the brand equivalent, effective April 1, 2014:

- Rosuvastatin (brand name Crestor®, for high cholesterol),
- Simvastatin (brand name Zocor®, for high cholesterol),
- Pantoprazole (brand name Pantoloc®, for gastrointestinal conditions), and
- Citalopram (brand name Celexa®, for depression).

While the price reductions are designed primarily to benefit the public healthcare system, private health care plans' costs for the specified drugs will be affected as well. However, the degree of savings will vary since existing limitations on generic prices differ by jurisdiction. Quebec, the only non-participant in this arrangement, already has in place a pricing structure that limits its generic drug prices to the lowest price paid by other provincial plans.

This price reduction is further proof that the landscape of prescription drugs is constantly changing. Changes in prescription drug plan management have been frequent, and this trend shows no sign of slowing down. Plan sponsors that do not review regularly their cost controls for prescription drugs risk missing opportunities to offer a sustainable plan to their members and optimize the value of their benefits program for their organization.

AS AT MARCH 31, 2014

MARKET INDICES

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.

	RETURNS			
	Monthly	Quarter to date	Year to date	1 year
TSX GROUP/PC BOND INDICES				
DEX Universe Bond	-0.2%	2.8%	2.8%	0.8%
DEX 91 Day Treasury Bill	0.1%	0.2%	0.2%	1.0%
DEX Short Term Bond	0.0%	1.1%	1.1%	1.9%
DEX Mid Term Bond	-0.2%	3.2%	3.2%	1.2%
DEX Long Term Bond	-0.4%	5.1%	5.1%	-1.1%
DEX High Yield Bond	1.4%	3.9%	3.9%	7.7%
DEX Real Return Bond	0.3%	6.1%	6.1%	-6.0%
CANADIAN EQUITY INDICES				
S&P/TSX Composite (Total Return)	1.2%	6.1%	6.1%	16.0%
S&P/TSX Composite Capped	1.2%	6.1%	6.1%	16.0%
S&P/TSX 60 (Total Return)	1.2%	5.5%	5.5%	15.7%
S&P/TSX Completion	1.2%	7.6%	7.6%	16.6%
S&P/TSX Small Cap	0.3%	7.9%	7.9%	15.4%
BMO Small Cap Unweighted	-1.6%	11.3%	11.3%	11.1%
BMO Small Cap Weighted	-0.1%	8.9%	8.9%	15.9%
U.S. EQUITY INDICES				
S&P 500 (US$)	0.8%	1.8%	1.8%	21.9%
S&P 500 (C$)	0.7%	5.8%	5.8%	32.5%
FOREIGN EQUITY INDICES[1]				
MSCI ACWI (C$)	0.2%	5.0%	5.0%	26.6%
MSCI World (C$)	-0.1%	5.2%	5.2%	29.4%
MSCI EAFE (C$)	-0.9%	4.6%	4.6%	27.7%
MSCI Europe (C$)	-1.3%	6.1%	6.1%	35.3%
MSCI Pacific (C$)	-0.2%	1.3%	1.3%	14.1%
MSCI Emerging Markets (C$)	2.8%	3.5%	3.5%	7.5%
OTHER				
Consumer Price Index (Canada, February 2014)	0.8%	1.1%	1.1%	1.1%
Exchange Rate US$/C$	-0.2%	3.9%	3.9%	8.7%
MORNEAU SHEPELL BENCHMARK PORTFOLIOS[2]				
60% Equity/40% Bonds	0.3%	4.4%	4.4%	13.5%
55% Equity/45% Bonds	0.2%	4.3%	4.3%	12.4%
50% Equity/50% Bonds	0.2%	4.2%	4.2%	11.3%
45% Equity/55% Bonds	0.1%	4.0%	4.0%	10.2%
40% Equity/60% Bonds	0.1%	3.9%	3.9%	9.1%

[1] Returns net of taxes on dividends, except for MSCI Emerging Markets.

[2] The returns are compounded monthly.

ASSET & RISK MANAGEMENT

In **Asset Management**, we provide objective advice on all aspects of asset management for pension funds, including investment policy statements, portfolio manager searches, investment performance measurement and investment strategy.

In **Risk Management**, we provide a structured, comprehensive approach to pension risk management, including implementation of liability-driven investment strategies, advice on allocation of the risk budget within an asset-liability framework and execution of continuous and dynamic processes for risk reduction.

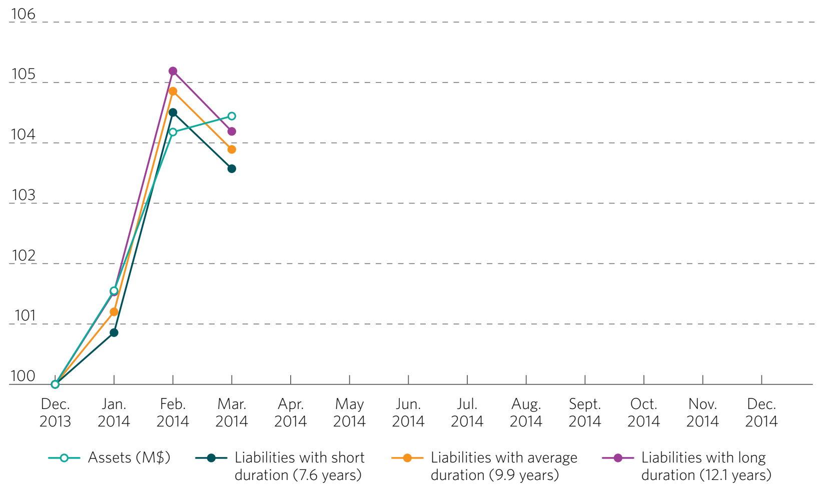
Jean Bergeron, FSA, FCIA, CFA, Partner
Tel.: 514 392-7852
Fax: 514 875-2673
E-mail:
jbergeron@morneaushepell.com

Robert F. Boston, CFA, Partner
Tel.: 416 380-2765
Fax: 416 445-1858
E-mail:
rboston@morneaushepell.com

TRACKING THE FUNDED STATUS OF PENSION PLANS

This graph shows the changes in the financial position of a typical defined benefit plan since December 31, 2013. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2013. This estimate of the solvency liabilities reflects the new CIA guidance published in January 2014 for valuations effective December 31, 2013 or later. Therefore, beginning on December 31, 2013, we present the evolution of liabilities for three groups of retirees, each with a different duration (short, average and long). The following graph shows the impact of past returns on plan assets and the effect of interest rate changes on solvency liabilities.

THE EVOLUTION OF THE FINANCIAL SITUATION OF PENSION PLANS SINCE DECEMBER 31, 2013



In March 2014, Canadian bonds as well as global equity (CAD) markets had negative returns while the Canadian stock market showed a positive return, which caused assets to increase by 0.3%. Annuity purchase rates and the rates used in the calculation of solvency liabilities both increased, the overall effect of which was a decrease of 0.9% in solvency liabilities for the average duration plan. The combined effect of the increased assets and reduced liabilities resulted in an increase of the solvency ratio.

Since the beginning of the year, driven by strong returns in the Canadian bond market and equity markets, the plan's assets increased by 4.4%. The solvency liabilities increased over that same period between 3.6% and 4.2% depending on the duration of the group of retirees. The increase in the plan's solvency ratio as at March 31, 2014 depends on the plan's initial ratio, but stands between 0.1% and 0.8%.

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 for the purpose of determining pension commuted values.
3. This estimate of the solvency reflects the new CIA guidance published in November 2013 for valuations effective September 30, 2013 or later.
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 those of the Morneau Shepell benchmark portfolio (60% equities and 40% fixed income). It should be noted that this benchmark portfolio replaced the one that was previously used, which contained 55% of equities and 45% of fixed income.

The table below shows the impact of past returns on plan assets as well as the effect of interest rate changes on solvency liabilities, based on the plan's initial solvency ratio as at December 31, 2013.

INITIAL SOLVENCY RATIO AS AT 12/31/2013	EVOLUTION OF THE SOLVENCY RATIO AS AT 03/31/2014 FOR THREE DIFFERENT GROUPS OF RETIREES		
	SHORT DURATION (7.6 YEARS)	AVERAGE DURATION (9.9 YEARS)	LONG DURATION (12.1 YEARS)
100%	100.8%	100.5%	100.2%
90%	90.8%	90.5%	90.2%
80%	80.7%	80.4%	80.2%
70%	70.6%	70.4%	70.2%
60%	60.5%	60.3%	60.1%

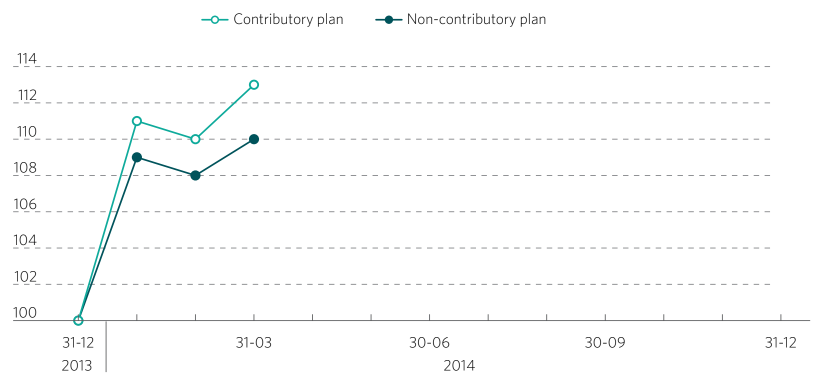
IMPACT ON PENSION EXPENSE UNDER INTERNATIONAL ACCOUNTING

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.

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

EXPENSE INDEX FROM DECEMBER 31, 2013



(In %)				
Discount rate	4.7	4.3	4.3	4.3
Return on assets (55% equities)	0.0	1.6	2.4	0.2

Comments:

1. The expense is established as at December 31, 2013, based on the average financial position of the pension plans used in our *2013 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits* report (i.e. a ratio of assets to obligation value of 83% as at December 31, 2012).
2. The return on assets corresponds to the return on the Morneau Shepell benchmark portfolio (55% equities and 45% fixed income).
3. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions).

The pension expense has increased by 13% (for a contributory plan) since the beginning of the year, due to the decrease in the discount rate.

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

DURATION	DECEMBER 2013	MARCH 2014	CHANGE IN 2014
11	4.52%	4.11%	-41 bps
14	4.81%	4.39%	-42 bps
17	4.96%	4.57%	-39 bps
20	5.06%	4.68%	-38 bps

ABOUT US

Morneau Shepell is the largest company in Canada offering human resources consulting and outsourcing services. The Company is the leading provider of Employee and Family Assistance Programs, as well as the largest administrator of pension and benefits plans. 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 more than 8,000 clients, ranging from small businesses to some of the largest corporations and associations in North America. With approximately 3,000 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).

CALGARY 403 246-5228	FREDERICTON 506 458-9081	HALIFAX 902 429-8013	KITCHENER 519 568-6935
LONDON 519 438-0193	MONTRÉAL 514 878-9090	OTTAWA 613 238-4272	PITTSBURGH 412 919-4800
QUÉBEC 418 529-4536	ST. JOHN'S 709 753-4500	TORONTO 416 445-2700	VANCOUVER 604 642-5200

@

info@morneaushepell.com

morneaushepell.com

CONTRIBUTING EDITORS

Frédéric Brosseau, MBA
Administratives Solutions

Tejash Modi, LL.B.
Pension Legislation

Larry Swartz, LL.B., CFA
Pension Legislation

François Turgeon, LL.L, D.N.L.
Pension Legislation

David White, CEBS
Benefits Consulting

Andrew Zur, LL.B.
Pension Legislation

Please contact your Morneau Shepell consultant for additional information about this newsletter.