Canadian Investment Review

Trends and changes for pension plan sponsors heading into 2019

Written by Yaelle Gang on Friday, December 28th, 2018 at 8:41 am

The start of a new year is a time to prepare for changes in the year ahead. For pension plan sponsors, there are some key items to keep top of mind in 2019.

CPP / QPP enhancement

On Jan. 1, 2019, the Canada Pension Plan and Quebec Pension Plan enhancements will begin with the goal of eventually increasing the maximum replacement rate from 25 per cent to about 33 per cent of eligible pre-retirement earnings once fully phased in.

Employer and employee contributions in both plans will each increase by one per cent to 5.95 per cent under CPP and 6.4 per cent under QPP by 2023. The increased contributions will be phased in starting with an increase on Jan. 1 from 4.95 per cent to 5.1 per cent for CPP and from 5.4 per cent to 5.55 per cent for QPP. Starting in 2024, there will be a phased-in second yearly maximum earnings ceiling, with additional contributions for both the employee and employer between the first and second earnings ceilings.

Many defined pension plans are integrated with CPP, but experts say they haven't seen DB plans make changes to their integration formulas.

"We have not seen a lot of sponsors look at making changes for integration purposes," says Jana Steele, partner at Osler, Hoskin and Harcourt LLP. "My expectation is that we won't." She notes that she expects if employers are concerned about costs they'll address this through other elements of the compensation package.

Jason Vary, president at Actuarial Solutions Inc., agrees. "Universally, we've seen [plan sponsors] maintain status quo. Why is that? I'm not exactly sure," he says, noting that it may be because the phase-in is so gradual and doesn't start until next year so people haven't turned their attention to it.

Vary has yet to see a defined benefit or defined contribution plan be amended because of the CPP enhancement. "Is it apathy or are people fundamentally OK with the increase in retirement savings? Hopefully it's the second one. Because the phase-in period is so gradual starting next year it's relatively digestible."

Funding requirements

In 2018, Ontario moved to reduce solvency funding requirements to 85 per cent. For plans to note-effective Jan. 1, 2019, annual and biennial statements for DB plans must include information regarding transfer ratios, specifically the estimated transfer ratio of the plan up to the end of the period covered by the statement.

Changes to pension benefit guarantee fund assessments in Ontario

Effective Jan. 1, 2019, a new formula to calculate the assessments employers must pay into Ontario's pension benefits guarantee fund takes effect, following legislative amendments that increased the maximum benefit guaranteed by the fund from $1,000 per month to $1,500 per month and eliminated the age and service eligibility requirements for PBGF coverage for future windups.

The new formula will be used for assessment dates on or after Jan. 1, 2019.

Trending- Design and delivery changes

Among trends to watch in 2019 are further developments for design changes and changes to delivery options, Steele says.

"I think design innovation changes will continue to be important because there's been a lot of pressure and a lot of discussion around them," she says. "Similarly, I think there will be continued interest by sponsors in new and innovative products for pension retirement savings that are offered by third-party providers, so the employer doesn't have to act as the administrator."

One example of a third-party service is Blue Pier, which is an outsourced pension option that can accommodate various plan designs, including both DB and DC. "We're not OCIO, just with respect to investments, we're outsourced chief compliance officer, we're outsourced trustee, we're outsourced chief investments officer, we're outsourced everything," says James Pierlot, the company's founder and chief executive officer.

Through Blue Pier, the employer gives up responsibility for the investment policy, plan administration or fiduciary responsibility, which is held by the organization's board of trustees. "Really, the employers' obligation, whether it be defined benefit or defined contribution, is to enroll employees and make contributions," he says. "Those are the two key requirements, and everything else, whether it be the asset custody, the asset administration, the creation of the investment policy, the regulatory compliance, the record keeping, etc., We do all of that and the employer essentially doesn't need to be involved in any of that."

Right now, Blue Pier doesn't have DB plan sponsors in its plan, but Pierlot says he's in conversation with a number of organizations about establishing DB provisions.

Another continued design trend to expect in 2019, according to Steele, is consolidation, where several single-employer plans look to merge with established jointly sponsored pension plans.

This was top of mind in 2018, as OPSEU Pension Trust launched OPTrust Select and the Colleges of Applied Arts and Technology pension plan introduced DBPlus.

As well, the CAAT continued to welcome new plans into its portfolio. Since 2016, the Royal Ontario Museum, the Youth Services Bureau of Ottawa and, most recently, Torstar Corp. have merged their pension plans with the CAAT plan.