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Information Bulletin

In this Issue

Federal Budget 2018

Policy Direction Influences Parental Benefit and Drug Strategy

Canada's federal budget and fiscal plan for 2018/19 was tabled on 27 February 2018. Among other things, the government unveiled plans to improve financial supports for new parents and created an advisory council tasked with studying the implementation of a national pharmacare program. The government will also move forward with previously announced Canada Pension Plan changes and new initiatives aimed at protecting pensions in the event of employer insolvency.

Health and Benefit Plans

Employment Insurance - Parental Sharing Benefit

Following last year's budget, new parents can choose to receive either 61 weeks of Employment Insurance (EI) parental benefits over an extended period of 18 months at a lower benefit rate of 33 per cent of average weekly earnings, or 35 weeks at the standard benefit rate of 55 per cent to be paid over a period of 12 months.

Budget 2018 proposes a new five-week EI Parental Sharing Benefit that will be available as a "use it or lose it" benefit when both parents agree to share parental leave. The new benefit is expected to be available in June 2019 for eligible two-parent families including adoptive and same-sex couples. This benefit would increase the duration of EI parental leave by up to five weeks in cases where the second parent agrees to take the standard parental option of 55 per cent of earnings for 12 months. Alternatively, where families have opted for extended parental leave at 33 per cent of earnings for 18 months, the second parent would be able to take up to eight weeks of additional parental leave.

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Budget 2018 proposes to amend the *Canada Labour Code* to ensure that workers in federally regulated industries have the job protection they need while they are receiving EI parental benefits. It remains to be seen whether the provinces will adopt similar changes to their employment standards legislation in order to align related job protected leave with the expanded EI benefit entitlement. Until such time as provincial legislation is amended, time off in alignment with the EI benefit may be available through internal employment policies or during existing parental leave entitlements under applicable provincial employment standards legislation.

This new EI benefit is modeled after benefits offered under the Quebec Parental Insurance Plan (QPIP). Quebec is currently the only province that offers benefits specially targeted to new fathers by providing up to five weeks of paid benefits to new fathers and corresponding job protected leave.

Organizations that currently offer voluntary paid or unpaid time off for a second parent at the birth or adoption of a child may wish to evaluate their programs in light of the EI new benefit options.

Advisory Council on the Implementation of National Pharmacare

Budget 2018 establishes an *Advisory Council on the Implementation of National Pharmacare* that will be tasked with examining options for the implementation of a national, universal pharmacare program. The Advisory Council will report to the federal Minister of Health and the Minister of Finance. In addition to dialogue with stakeholders, the Advisory Council will conduct an economic and social assessment of domestic and international models, and make recommendations on how to move forward on a national pharmacare initiative.

Movement towards a national pharmacare strategy may require a shift in the way employers think about and manage employee drug programs. Private payers are responsible for about one third of the current $28.5 billion annual drug spend in Canada, and as such have an interest in strategic pharmacare discussions. An Aon survey conducted in 2015 -- Pharmacare in Canada Survey Report: the employer perspective -- found that employers recognize the need for adequate prescription drug coverage for Canadians, but understand that any national pharmacare program would need to balance cost-effectiveness against adequate coverage for all Canadians. Aon will take an active role in public discussions arising from Advisory Council activities to ensure employer interests are represented and will provide updates over the coming months.

Health and Welfare Trusts

Health and Welfare Trusts are governed by administrative policies of the Canada Revenue Agency (CRA), while Employee Life and Health Trusts are governed under the Income Tax Act. Budget 2018 proposes that CRA will no longer apply their administrative position with respect to Health and Welfare Trusts after the end of 2020. To facilitate the conversion of existing Health and Welfare Trusts to Employee Life and Health Trusts, transitional rules will be added to the Income Tax Act. Trusts that do not convert (or wind up) to an Employee Life and Health Trust will be subject to the normal income tax rules for trusts.

Cannabis Taxation

Budget 2018 proposes an excise duty framework for cannabis products. The excise duty framework will generally apply to cannabis products that contain Tetrahydrocannabinol (THC), the primary psychoactive compound of cannabis. Recognizing the non-addictive, potentially therapeutic role of low-THC cannabidiol oils, which are sometimes used with children facing certain medical conditions, products that contain low amounts of THC will generally not be subject to the excise duty. Pharmaceutical products derived from cannabis will also be exempt, provided that the cannabis product has a Drug Identification Number and can only be acquired through a prescription.

Expanding the Medical Expense Tax Credit for Psychiatric Service Dogs

The Government recognizes that psychiatric service dogs can play an important role in helping Canadians cope with conditions like post-traumatic stress disorder. Through Budget 2018, the Government proposes to expand the Medical Expense Tax Credit (METC) to recognize costs for these animals for the 2018 and future tax years. As an eligible METC expense, related costs could be covered under a Health Care Spending Account.

Retirement Plans

Canada Pension Plan (CPP) Enhancement

The federal government and the provinces reached an agreement to enhance the CPP in June 2016, and Quebec subsequently agreed to enhance the Quebec Pension Plan (QPP) in a similar manner. These enhancements will be phased in beginning in January 2019.

In December 2017, the federal and provincial governments agreed to introduce some technical amendments to the CPP including:

- Provision to allow "drop-out" years so that years spent out of the workforce to care for young children or periods of severe and prolonged disability will not adversely affect the enhanced CPP benefit. This is similar to the drop-out provision that already exists for the current CPP benefit.
- Raising survivor's pensions to a full survivor's pension for individuals under age 45 who lose their spouse.
- Provide a top-up disability benefit for individuals who are under age 65 and meet the eligibility requirements.
- Increase the death benefit to the maximum of $2,500 for all eligible contributors.

The Budget indicates that legislation will be introduced to implement this agreement, along with technical and consequential amendments. The Budget also indicates that these proposed changes will not change the previously announced contribution rates for the CPP enhancement.

Pensions and Insolvency

There have been a number of high profile cases in which companies have become insolvent with substantial deficits in their pension plans. Members have been faced with financial uncertainty, even where they have contributed to the plan throughout their careers. In these cases, the pension deficits were not granted "superpriority" over other claims.

The Budget indicates that there will be consultations on the issue of protecting pensions in the event of employer insolvency. The government recognizes that this is a difficult issue which requires the balancing of competing interests, acknowledging that providing additional protection for members may create more challenges for companies to access additional lending in times of difficulty.

Unclaimed Pension Property

Unclaimed pension balances for missing pension plan beneficiaries has been an issue for many pension plans across the country. Only a few jurisdictions (such as Alberta, British Columbia and Quebec) have unclaimed property legislation to address the transfer of unclaimed property out of a pension fund.

The Budget proposes consultations on a regime that will address unclaimed pension balances. It is not clear if the consultations will focus only on federally regulated pension assets or if it will include coordination with provincial efforts.

Contact Information

Should you wish additional information on this topic, please contact your local Aon consultant, or send an email to info@aonhewitt.com.

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