Client Advisory

Highlights of the 2022 federal budget

April 8, 2022

Summary

The 2022 federal budget was tabled on April 7, 2022. It sets out several important items and changes that are of interest to employers, and sponsors of pension and benefit plans. These include further details on the public dental benefits and national Pharmacare announced earlier as part of the Liberal government's agreement with the New Democratic Party, as well as an announcement that solvency reserve accounts will be introduced for federally regulated pension plans.

Introduction

On April 7, 2022, the Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance, presented the federal Budget 2022, the first budget since the Liberals were re-elected in September 2021. Although the Liberals are a minority in Parliament, the recent Supply and Confidence Agreement with the New Democratic Party means that it is expected that Budget 2022 will pass.

The following Budget proposals will be of interest to employers, and sponsors of group benefit and pension plans.

Measures affecting benefit plans

Dental care

As announced earlier in the agreement with the New Democrats, Budget 2022 includes funding for a new national public dental care program. When fully implemented, families whose annual income is less than $90,000 will be eligible for coverage under the public plan. Families with annual income less than $70,000 will not be required to make any co-payments for this coverage.

The program will be introduced in phases beginning with coverage of children under 12 later this year. In 2023, coverage will be extended to those under 18, seniors, and people with disabilities. The program will be fully implemented in 2025. Plan sponsors will need to review the implications of this new program on their plans, if any.

National Pharmacare

The federal government states it will continue to work towards a universal national pharmacare program. As it previously announced in its agreement with the New Democrats, it will introduce Canada Pharmacare legislation which is expected to pass by the end of 2023. It will then ask the National Drug Agency to develop a national formulary of essential medicines and bulk purchasing plan.

We will continue to monitor developments related to National Pharmacare and will keep you informed.

Employment Insurance reform

Budget 2022 reaffirms that the government intends to increase the length of Employment Insurance (EI) sickness benefits from 15 to 26 weeks as of summer 2022, though the actual date has not been provided. It is still unclear how this change will affect employers eligible for the EI Premium Reduction Program.

Also, as already announced in the 2021 budget, the government is consulting with Canadians on how to reform the EI system to meet the current and future needs of workers and employers. There are no more details on these reforms, but the government will release its long-term plan after the consultations.

10 days of paid medical leave

Minor additional amendments are proposed to the *Canada Labour Code* to support the implementation of the 10 days of paid medical leave for workers in the federally regulated private sector. The additional changes will support the timely and effective implementation of this leave. No more details are provided on these minor amendments, nor is there information as to when the paid leave will be effective.

Medical Expense Tax Credit for surrogacy and related expenses

Beginning in 2022, the Medical Expense Tax Credit (METC) will allow a taxpayer to claim as an eligible expense under the METC expenses with respect to a surrogate mother or a donor of sperm, ova, or embryos. For example, fees paid to fertility clinics and donor banks in order to obtain donor sperm or ova would also be eligible expenses.

The expenses would have to be in accordance with the *Assisted Human Reproduction Act* and associated regulations. So, for example, because it is illegal to pay consideration to a surrogate mother or donor, these payments would not be eligible.

Because, under income tax rules, all or substantially all of the benefits paid to employees under a private health services plan (PHSP) must be eligible medical expenses under a METC, PHSPs will also be able to pay for these expenses.

Measures affecting retirement and pensions

Solvency reserve accounts

Budget 2022 proposes amendments to the *Pension Benefits Standards Act, 1985* (PBSA) to allow solvency reserve accounts (SRAs). An SRA is an account within a defined benefit pension plan into which an employer sponsoring such a plan could remit solvency special payments to eliminate a pension deficit. Once the deficit is eliminated and the plan is in surplus, the employer would be permitted to recover portions of their special payments from the SRA, in the form of plan surplus, that are no longer required to secure pension benefits.

Sponsors of federal plans have been requesting the ability to implement SRAs for some time now. SRAs will provide greater flexibility for employers when meeting their pension funding obligations by permitting access to the portion of a plan's surplus within the SRA.

Variable payment life annuities

Budget 2022 also proposes amending the PBSA to accommodate variable payment life annuities (VPLAs). The *Income Tax Act* was amended as of January 1, 2020 to allow for VPLAs but changes to pension standards legislation are also needed before they can be implemented.

Borrowing by defined benefit pension plans

Budget 2022 proposes, effective April 7, 2022, amendments to the *Income Tax Regulations* that will give administrators of defined benefit plans (except individual pension plans) more flexibility to borrow. The current borrowing rule for real property acquisitions would be maintained. However, the current 90-day term limit on borrowing other than for the purpose of acquiring real estate would be replaced. Instead, the amount of additional money that a pension plan can borrow (other than for acquiring real property) will be limited to the lesser of:

- 20% of the value of the plan's assets (net of unpaid borrowed amounts), and
- The amount, if any, by which 125% of the plan's actuarial liabilities exceeds the value of the plan's assets (net of unpaid borrowed amounts)

This limit would be redetermined as of the first day of each fiscal year of the plan and would apply to any new borrowing undertaken in that year. A redetermined limit would not apply to any amounts borrowed in a prior year. The limit for a year would be based on the asset value and outstanding borrowed amounts at the beginning of that year and the actuarial liabilities as shown in the plan's most recent actuarial valuation report. This new limit would not displace other considerations in respect of borrowing since plan administrators must still comply with pension standards legislation on duty of care, prudential and reasonable investments, and funding rules.

Climate disclosures by federally regulated pension plans

The government will require federally regulated pension plans to disclose environmental, social and governance (ESG) considerations, including climate-related risks. Last year, the Office of the Superintendent of Financial Institutions (OSFI) consulted on this issue and further developments are expected later this year. The Canadian Association of Pension Supervisory Authorities (CAPSA) has also established a Committee to develop principles based guidance on the integration of ESG factors in pension fund investment and risk management. OSFI will be collaborating with CAPSA to develop further guidance related to the integration of ESG considerations for federally regulated pension plans.

For more information

This Advisory is not intended to constitute or serve as a substitute for legal, accounting, actuarial or other professional advice. For information on how this issue may affect your organization, please contact your WTW consultant, or:

Christiane Bourassa, +1 514 982 2666
christiane.bourassa@willistowerswatson.com

Carole Goyette, +1 514 360 4800
carole.goyette@willistowerswatson.com

Simon Laxon, +1 416 960 2621
simon.laxon@willistowerswatson.com

Jane Meyer, + 416 960 7520
jane.meyer@willistowerswatson.com

Karen Millard, +1 416 960 4460
karen.millard@willistowerswatson.com

Evan Shapiro, +1 416 960 2846
evan.shapiro@willistowerswatson.com

Paul Timmins, +1 416 960 7400
paul.timmins@willistowerswatson.com

Gus Van Helden, +1 403 261 1459
gus.van.helden@willistowerswatson.com

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