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2021 Federal budget outlines path to recovery

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Budget 2021, *A Recovery Plan for Jobs, Growth and Resilience* (Budget), was tabled by Deputy Prime Minister and Minister of Finance, the Honourable Chrystia Freeland, on April 19, 2021. As the first federal budget issued since 2019, the Budget, despite its focus on the ongoing COVID-19 pandemic, contained a number of measures impacting employers, and pension and benefit plan sponsors, including:

- Simplifying the process for correcting contribution errors in defined contribution (DC) pension plans
- Introducing a new pilot partnership to increase retirement savings coverage for vulnerable workers
- Increasing Old Age Security (OAS) benefits for Canadians 75 and over

This *FYI* provides an overview of these and other Budget measures, and discusses their impact on employers and plan sponsors.

Legislative and regulatory changes impacting pension plans

Despite being focused on COVID-19 and Canada's ongoing efforts to respond to the pandemic, the Budget contained announcements of a number of legislative and regulatory measures impacting registered pension plans and their administrators.

Fixing contribution errors in DC plans

The Budget proposes providing DC administrators with more flexibility to correct errors relating to both over- and under-contributions. Under the proposals, certain types of under-contribution errors could be corrected by way of additional contributions to an employee's DC account, subject to a dollar limit. Over-contribution errors could also be corrected by refunding the excess to the employee and/or employer. Such corrective action is available only for over- or under-contributions made within the five years preceding the correction.

To simplify reporting requirements, administrators would be required to file a prescribed form for each affected plan member, rather than amending each employee's T4 slips for prior years. Note that any additional contributions made to correct an under-contribution will reduce the member's RRSP contribution room for the taxation year following the year in which the retroactive contribution is made. Should this result in negative RRSP room, it would only impact the employee's contributions in future years. Conversely, refunds of over-contributions would generally restore the employee's RRSP contribution room for the taxation year in which the refund is made.

The government plans to have these measures apply to contribution corrections made in 2021 and subsequent taxation years. As the Notice of Ways and Means Motion accompanying the Budget simply states that the *Income Tax Act* will be "modified to give effect to the proposals relating to Fixing Contribution Errors in Defined Contribution Pension Plans as described in the budget documents tabled by the Minister of Finance in the House of Commons on Budget Day," additional information is required on the operation of corrective measures. Such information will hopefully address:

- Whether corrections will always be at the option of the plan sponsor, as implied by the permissive language in the Budget, or whether they will be mandated in certain situations; and
- How interest is to be addressed, both in terms of missing interest on under-contributions, and excess interest earned on over-contributions.

Other retirement measures

- *Allowing electronic delivery of certain information returns:* The Budget proposes amending the Income Tax Regulations to allow issuers of T4A, *Statement of Pension, Retirement, Annuity and Other Income;* and T5, *Statement of Investment Income* information returns to provide them electronically to recipients without either obtaining taxpayer authorization, or requiring issuance of a paper copy. This measure will be available for any T4A and/or T5 information return sent after 2021.

- *Expanding unclaimed asset regime:* The government plans to modernize the federal unclaimed asset regime, most notably by expanding its scope to include unclaimed balances from federally regulated pension plans. Modernization efforts will also increase both the information available and the use of electronic communications to help Canadians locate their unclaimed assets.
- *Revising Framework for negotiated contribution pension plans (NCPPs):* The government proposes to introduce amendments to the *Pension Benefits Standards Act, 1985* (PBSA) to establish a revised framework for multi-employer NCPPs. This framework is intended to strengthen the governance of such plans, while also improving transparency and benefit sustainability.

Expanding retirement savings coverage

The 2020 Fall Economic Statement announced that the government would work with labour and healthcare unions, among others, to seek solutions to improve retention, recruitment, and retirement savings options for low and modest-income workers, particularly those without existing workplace pension coverage. The Budget proposes funding of $27.6 million over three years for my65+, a Group Tax-Free Savings Account offered by the Service Employees International Union (SEIU) Healthcare for SEIU employees and their families. The funding will support incentives for worker participation. The Budget notes that SEIU Healthcare will work with other unions and employers across the country to make this portable savings tool available to other workers in the elder care sector. In addition, the Budget notes that the federal government "remains open to engaging with other interested unions and employer sponsors" who wish to propose targeted options to strengthen retirement security for those in senior care who do not currently have workplace retirement coverage.

It will be interesting to see if the government will expand these efforts outside SEIU and the senior care sector to increase retirement plan coverage among the approximately 56% of Canadians who currently do not have a workplace pension plan.

Changes to government benefits

The Budget contains a number of notable announcements relating to new and increased government benefits and leaves of absence, particularly increases to OAS benefits for Canadians age 75 and older.

OAS increase

The government plans to increase OAS benefits for Canadians age 75 and older in two steps:

- First, a one-time payment of $500 in August 2021 to OAS pensioners who will be 75 or over as of June 2022. This payment will be specifically exempted from the definition of "income" for the purposes of the Guaranteed Income Supplement (GIS), and will therefore not negatively impact recipients' GIS benefits in 2021.
- Second, amend the *Old Age Security Act* to increase regular OAS payments for affected seniors by 10% as of July 2022.

New and expanded leave provisions

The Budget contains a number of changes to leaves of absence available under the *Employment Insurance Act* (EI Act) and the *Canada Labour Code* (Code), as discussed below. While changes to the EI Act affect all Canadian workers, those to the Code only impact federally regulated private sector employees.

- *COVID-19 benefits:* A maximum 12 additional weeks of income support will be provided to claimants who will exhaust their entitlement to the Canada Recovery Benefit (CRB) on June 19, 2021. Benefits for each of the first four additional weeks will be $500, while benefits for each of the remaining eight additional weeks will be $300. All new CRB claimants after July 17, 2021 will receive payments of $300/week. The maximum period for which the Canada Recovery Caregiver Benefit (CRCB) will be available will be extended by four weeks to a total of 42 weeks. Corresponding amendments to the Code are also proposed. The Budget provides that the government will seek legislative authority to make further extensions to COVID-19 benefits until no later than November 20, 2021.
- *EI Sickness Benefits:* The Budget proposes increasing maximum available sickness benefits from 15 to 26 weeks effective summer 2022. While corresponding amendments to the Code's medical leave provisions are also proposed to ensure that this leave is job protected for covered employees, related amendments will be required to provincial employment standards legislation to ensure that leave taken by provincially regulated workers is job protected.
- *Benefits for Parents of Young Victims of Crime:* Since September 2018, up to 104 weeks of income support is available for parents who experience the death or disappearance of a child as a result of a probable criminal offence. The government plans to amend the Code to ensure that this leave is job protected for federally regulated private sector employees.

Other measures

The Budget also included the following announcements, which will be of interest to employers and plan sponsors:

- **Pharmacare update:** The government will continue with its previously announced plan to provide ongoing funding of $500 million for a program for high-cost drugs for rare diseases. The Budget also notes that the government "directly engage with willing partners" on national universal pharmacare. More details, and progress, will presumably be provided once we have turned the corner in our fight against COVID-19.
- **New disability benefit consultations:** Funding of $11.9 million over three years, starting in 2021-22, is provided to Employment and Social Development Canada (ESDC) to undertake consultations to reform the eligibility process for federal disability programs and benefits. Such consultations will lead to the design of a new disability benefit. In addition to stakeholder consultations, ESDC will establish a steering committee to oversee the development of this work, working with the Canada Revenue Agency, the Department of Finance Canada and Veterans Affairs Canada.

- **EI premium reduction consultations:** The government plans to launch consultations on potential improvements to the EI Premium Reduction Program, which provides EI premium reductions to employers who provide short-term disability plans to their employees.

In closing

Some of the highlighted changes are intended to ease the administrative burden of maintaining and administering programs for employees. These are positive developments even in a non-pandemic economy. Other proposed changes to government benefits clearly target certain groups who have been negatively impacted by COVID -19 and aim to further support them through pandemic recovery. The moves to engage with labour and healthcare unions to bolster retirement savings and to enhance OAS benefits for certain seniors are welcome.

For more information on the Budget and the impact of its proposals on your plan, members, and/or organization, talk to your Buck consultant or contact the Knowledge Resource Centre at talktocanada@buck.com or +1 866 355 6647.

For the latest from Buck about the COVID-19 crisis, please refer to:
https://buck.com/ca/expertise/covid-19-key-considerations-for-employers/

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