BUCK

CAN

FYI®

For Your Information®

2022 Federal budget: National dental plan, some pension measures

Volume 04

Issue 1

April 8, 2022

Authors
Karen DeBortoli, BA, LLB
Tom Mudrinic, FCIA, FSA

Budget 2022, *A Plan to Grow Our Economy and Make Life More Affordable* (Budget), was tabled on April 7, 2022 by Deputy Prime Minister and Minister of Finance, the Honourable Chrystia Freeland. Although the Budget's focus on economic growth and reduced spending produced relatively few pension and benefits measures, there were some notable announcements, including:

- A new national dental care plan
- Easing of certain borrowing restrictions for defined benefit (DB) pension plans
- New reporting requirements for administrators of Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs)
- Tax credit eligibility for certain surrogacy expenses

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

National dental care plan

The Budget announces that the federal government will introduce a national dental care plan, available to families with annual incomes of less than $90,000. There will be co-payments for services, the amount/percentage of which is currently unknown, but these will not be payable by those with less than $70,000 in annual income. The Budget provides funding for the plan of $5.3 billion over five years, starting in 2022-23, and $1.7 billion in ongoing funding.

The plan will be phased in as follows:

- 2022: Children under 12
- 2023: Persons under 18, seniors, and persons with disabilities
- 2025: Full implementation for all eligible Canadians

While the Budget notes that the plan is designed to assist the estimated one-third of Canadians who do not have dental insurance, eligibility appears to be tied to income, rather than insurance status. It is therefore not clear whether it will be fully or partially available to those who meet the income threshold but have employer-provided dental coverage. Employers will need to carefully review the details of the plan once they are available, and determine whether adjustments are needed to their own dental plans as a result.

DB plan borrowing

The Income Tax Regulations (ITR) restrict borrowing by registered pension plans except in limited circumstances. One of these allows borrowing where loan's term does not exceed 90 days, and the plan's property is not pledged as security for the loan unless the money is borrowed to avoid the distress sale of plan assets. While temporary rules currently allow borrowing for more than a 90-day term if the loan is repaid by April 30, 2022, the Budget proposes replacing the 90-day term limit with a new limit in order to provide more borrowing flexibility to DB plan administrators. This new limit will be on the total amount of money borrowed for purposes other than acquiring real property, and is equal 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).

The borrowing limit will be re-determined on the first day of each fiscal year of the plan, based on the value of assets and unpaid borrowed amounts on that day and the actuarial liabilities on the effective date of the plan's most recent actuarial valuation report. Further, each re-determined limit will not apply to borrowings entered into before that time.

Despite the new limit, the Budget notes that administrators still must comply with applicable pension standards requirements regarding the administrator's duty of care, investment prudence, and funding requirements.

This measure, which does not apply to individual pension plans, will apply to amounts borrowed by DB plans on or after April 7, 2022.

Reporting requirements for RRSPs and RRIFs

The Budget proposes requiring that financial institutions report annually to the Canada Revenue Agency (CRA) on the total fair market value of the property held in each Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) they administer. The market value will be determined at the end of the calendar year. Currently, institutions are only required to report to CRA on the payments from, and contributions to, each RRSP and RRIF they administer.

This measure, which will apply to 2023 and subsequent tax years, is intended to give CRA information that will assist its risk-assessment activities regarding qualified investments held by RRSPs and RRIFs.

Tax credits for surrogacy expenses

The Budget proposes making certain medical expenses incurred by Canadians wishing to become parents eligible for the Medical Expense Tax Credit (METC). The METC provides a 15% non-refundable tax credit available on qualifying medical expenses in excess of a specific amount (for 2022, the lesser of $2,479 and 3% of an individual's net income). The proposal applies to medical expenses related to a surrogate mother, or sperm, ova, or embryo donor, the reimbursement of medical expenses incurred by such a surrogate or donor, and fees paid to acquire donated human sperm or ova. In order to be eligible for the METC, the expenses must be incurred in Canada, and must be in accordance with the *Assisted Human Reproduction Act* and associated regulations. Once enacted, the new rules will apply to eligible expenses incurred in 2022 and subsequent tax years.

Other measures

The Budget also included a number of other measures of interest to employers and plan sponsors.

Benefits

- *Support for workers experiencing miscarriage or stillbirth:* The government intends to introduce amendments to the *Canada Labour Code* (CLC) to support federally regulated employees who experience a miscarriage or stillbirth. The benefits provided by these amendments will be in addition to the up to eight weeks of bereavement leave added to the Code in 2021, which are available to federally regulated employees who lose a child or experience a stillbirth.

- *Increased Employment Insurance (EI) sickness benefits:* As of Summer 2022, the amount of EI sickness benefits available will increase from 15 weeks to 26 weeks.
- *Paid sick days for federally regulated workers:* The government proposes introducing minor amendments to the *Act to Amend the Criminal Code* and the CLC to support “timely and effective implementation” of 10 days of paid medical leave for workers in the federally-regulated private sector.

Health care

- *Mental health supports*: The federal government plans to engage with provinces and territories on the development of a new Canada Mental Health Transfer, designed to support the expansion and delivery of high quality and accessible mental health services across Canada. The Budget also promises funding of $140 million over two years, starting in 2022-23, to Health Canada for the Wellness Together Canada portal, which was launched in April 2020 in response to the mental health challenges faced by Canadians due to the pandemic.
- *Pharmacare update:* The government is continuing its ongoing work towards a universal national pharmacare program, including tabling a Canada Pharmacare bill and working to have it passed by the end of 2023, and then tasking the Canadian Drug Agency to develop a national formulary of essential medicines and bulk purchasing plan.

Pensions

- *Pension Benefits Standards Act, 1985 (PBSA) amendments:* The government proposes amending the PBSA and the *Pooled Registered Pension Plans Act* to improve the sustainability and long-term security of federally regulated pensions for all plan members and retirees through improved governance and administration and new frameworks for solvency reserve accounts and variable payment life annuities.
- *Environmental, social and governance (ESG) disclosures:* The government will move forward with requirements for the disclosure of ESG considerations, including climate-related risks, for federally regulated pension plans.
- *Public sector pension governance:* Amendments are proposed to the *Public Sector Pension Investment Board Act* to increase the board of directors of the Public Sector Pension Investment Board from 11 to 13 members. The additional seats will be filled by representatives of federal public service bargaining agents. The government will consult all federal bargaining agents in determining an appropriate process for the selection of these new members.
- *Canada Pension Plan (CPP) amendments**:*** Technical amendments are proposed to CPP legislation to ensure the correct calculation of eligibility and benefits for a small number of individuals qualifying for the Post-Retirement Disability Benefit and the child-rearing and disability drop-ins, ensuring that the eligibility for and calculation of these benefits is consistently applied for all individuals.

- *Old Age Security (OAS):* The government proposes amending the OAS Act to clarify that the one-time payment made in August 2021 to seniors age 75 and older will be exempted from the GIS and Allowance income test, thereby correcting an error from the *Budget Implementation Act, 2021, No. 1*.

Miscellaneous

- *Employee Ownership Trusts:* The Budget proposes creating the Employee Ownership Trust—a new, dedicated type of trust under the *Income Tax Act* (ITA) to encourage employee ownership of a business, and facilitate the transition of privately owned businesses to employees. The government will continue to engage with stakeholders to finalize the development of rules for such trusts, and to assess remaining barriers to their creation.
- *Tax-Free First Home Savings Account (FHSA):* The Budget introduces the FHSA to help first-time buyers save up to $8,000 a year (with no carry-forward of unused room), and $40,000 lifetime, to purchase a home. An FHSA can be opened by a Canadian resident at least 18 years of age who has not lived in a home that they owned at any time in the year the account is opened, or during the preceding four calendar years. FHSA contributions will be deductible, and income earned in the account will not be subject to tax. In addition, withdrawals made from a FHSA to purchase a single property in their lifetime will be non-taxable. The government plans to allow contributions to FHSAs starting some time in 2023.
- *Strengthening the General Anti-Avoidance Rule (GAAR)*: In circumstances where abusive tax avoidance is established, the GAAR applies to deny the tax benefit that was unfairly created. The Budget proposes amending the ITA to allow the application of the GAAR to transactions that affect tax attributes that have not yet been used to reduce taxes. The government also intends to release a broader consultation paper on modernizing the GAAR, which will lead to the tabling of legislative proposals by the end of 2022.

In closing

At the moment, there are still many unanswered questions regarding some of the key measures discussed above. For the national dental plan, details on services covered, co-pay amounts and the interaction with private coverage is needed to fully assess both the plan's benefits for eligible Canadians, and any potential cost savings it can bring for plan sponsors. Whether the upcoming PBSA amendments to improve plan sustainability will entail moving to an enhanced going-concern funding model for DB plans, consistent with reforms in other jurisdictions, is not guaranteed. Finally, while federally regulated plans will need to update their policies to address ESG factors, particularly climate risk, it is not currently known how comprehensive the ESG discussion will be, and what disclosures will be required to plan members and beneficiaries.

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.