

# Ready

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TODAY. TOMORROW. **READY.**

## Ontario 2010 Budget

On March 25, 2010, the Ontario government released its 2010 Budget, which focuses on restraint measures and wage freezes for the public sector.

The budget forecasts a deficit of \$21.3 billion for 2009-10, down from the \$24.7 billion projected in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. The deficit is projected to be \$19.7 billion in 2010-11. The budget lays out a plan to cut the deficit in half in five years and eliminate it by 2017-18.

Among other things, the budget indicates that the government intends to create jobs, invest in education and infrastructure, and continue the process of pension reform.

### Pension Systems

In spite of the tough fiscal challenges ahead of it, Ontario appears determined to deliver on its previous commitment to pension reform, with the budget indicating that the government intends to continue with the reform of pension standards legislation and to participate in the dialogue on the broader retirement income system.

### Pension Standards

Regarding standards reform, the budget builds on the consultation process that was put in place by the establishment of an advisory council in July 2009, and Bill 236, which was introduced into first reading in December 2009 and focused on easily implemented and non-confrontational issues.

The government is proposing to:

- Consult on regulations to Bill 133 regarding new rules for the division of pension on marriage breakdown.
- Provide single-employer defined benefit (DB) pension plans in the public sector and broader public sector with greater funding flexibility (e.g., relief from solvency funding), on both a permanent and/or temporary basis, provided the plans are restructured to provide for joint risk-sharing and joint decision-making.
- Proceed on the next stage of reforms based on the following principles:
  - funding should be required for all benefits that a plan provides;
  - risk and responsibility should be shared among stakeholders; and
  - funding rules should match benefit and governance structures.
- Explore (with no promises made) reforms that would entail:
  - encouraging innovative plan designs (although they appear to be restricted to "flexible pension plans" as allowed by the *Income Tax Act* (Canada) for over a decade);
  - permitting letters of credit to be used to partially satisfy solvency funding requirements;
  - clarify procedures for determining surplus entitlement when a pension plan winds up (be careful what you wish for); and
  - setting thresholds for annual valuations.

- Update funding and governance regulations for multi-employer pension plans (MEPPs) and jointly sponsored pension plans (JSPPs).
- Examine the appropriateness of changes to pension investment rules proposed by the federal government in October 2009.
- Revisit the future of the Pension Benefits Guarantee Fund (PBGF) following the upcoming delivery of the results of an independent actuarial study of the PBGF that was commissioned in 2009. This will be timely as the facts have shown the PBGF to be unsustainable, with a continual influx of taxpayer money necessary to keep it afloat.

Bottom line, going forward we can expect: a multi-step process for reforming standards, ongoing consultation on draft legislation, a focused balance between providing plan sponsors with more flexibility/relief and plan members with more security, and a clear preference by this government for larger multi-employer type pension arrangements.

### Retirement Income System

In preparation for the next meeting of federal, provincial and territorial finance ministers on Canada's retirement income system, which is scheduled for May 2010, Ontario joins a number of the other provinces in committing to reach out to its residents regarding how retirement income security should be improved for tomorrow's seniors. The real question is whether there's anything new to add to the dialogue that, in Ontario's case, started as far back as November 2006.

### Health Care Costs

According to the government, current health care expenditures account for 46% of government spending. This is projected to increase to 70% in the next 12 years. Over the next three years, provincial spending is anticipated to increase but at a decreasing rate. The budget not only fails to explain how the rate of increase in spending is anticipated to decline but, with the exception of the following, does not introduce substantial measures to offset rising costs:

- introduce changes to statutes that will result in lower generic drug prices; and
- recover some costs to the Ontario health care system from accidents that are covered by auto insurance policies.

### Harmonized Sales Tax (HST)

The government intends to proceed with the Harmonized Sales Tax (HST) introduced in its 2009 budget. Effective July 1, 2010, the provincial Retail Sales Tax will be combined with the Federal Goods and Services Tax to create a federally administered HST. The government has proposed changes to the *Retail Sales Tax Act* (Ontario) that would provide an RST exemption for certain costs and fees related to insurance. More impact information will be provided as further details are made available by the government.

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