

MERCER'S RESPONSE: 2019 FEDERAL BUDGET

On March 19, the federal government tabled its 2019 Budget, the last before the expected October general election. The budget emphasized the Government's stated commitment to help the middle class, with several new initiatives in key areas such as skills training, housing, seniors and pharmacare.

The Government hopes many elements of Budget 2019 will appeal to voters, but employers will feel the effects. While some measures require immediate action, the impact of others – and therefore employer reaction – will depend on how such measures are ultimately implemented. Mercer will continue to monitor and provide advice throughout this process.

PHARMACARE: STILL WAITING

Budget 2019 reaffirmed the Government's plan to move forward with a national pharmacare program. As expected, it did not provide specific details beyond what was already announced in the interim report of the Advisory Council on the Implementation of National Pharmacare. This lack of specifics leaves many questions, including whether there will be a universal, single-payer public prescription drug plan or a gap-filling model centered on closer collaboration between public and private plans on prescription drug coverage.

Mercer is pleased to see that the Government has acknowledged that employers consider private drug plans an important tool to attract employees and promote workplace health and productivity. It has also acknowledged our concerns about high-cost drugs and the sustainability of employer plans, as outlined in our white paper [Healthcare at the Crossroads: Mercer's Model for Canadian Pharmacare](#).

In advance of the Advisory Council's final report, due by June 30, the Government has confirmed its intention to create the Canadian Drug Agency to assess the effectiveness of new drugs and negotiate prescription drug prices. It also intends to create a national formulary that would be a comprehensive, evidence-based list of prescribed drugs and, over the longer term, a national strategy for high-cost drugs for rare diseases. The Government says it will work with the provinces, territories and other stakeholders on these initiatives, and Mercer continues to believe that private plan sponsors must be included in this conversation.

STOCK OPTIONS: TAX BENEFIT CAPPED (FOR SOME)

Budget 2019 proposes a change to the tax treatment of some stock options issued by "large, long-established, mature firms" to bring it more in line with current U.S. rules for similar options. This would put an annual cap of \$200,000 on stock options eligible for preferential tax treatment, based on the value of the underlying shares at the time of grant. The changes would apply on a go-forward basis only and not to employee stock options granted prior to the announcement of legislative proposals. Significantly, these changes also would not apply to "start-ups" or "rapidly growing Canadian businesses."

For affected firms, this may result in a rush to issue options before the release of the legislation, along with a postponement of certain unit plan grants in hopes of a (new) corporate tax deduction.

We believe affected firms will also need to explore other ways to mitigate the effect of this change in order to continue to attract and retain key talent.

We note that the increased personal tax revenue may be offset by reduced corporate tax revenue, as corporations will be able to claim a tax deduction on the settlement of options issued over the cap. This may also open the door for corporations to deduct the cost of share-settled unit plans (such as restricted stock units or “RSUs”).

The budget promises further details before summer 2019.

THE FUTURE OF WORK: LIFELONG LEARNING

A new training program announced in Budget 2019 is intended to support workers as they seek to modernize their skills for the [future of work](#) and reinforces the trend of putting employees into the “driver’s seat” of their own careers.

The new, non-taxable Canada Training Credit would provide eligible workers between ages 25 and 64 with a credit balance of \$250 per year (up to a lifetime limit of \$5,000) to refund up to half the costs of taking a course or enrolling in a training program. A new Training Support Benefit, expected to launch in late 2020, would complement the Credit by providing up to four weeks of income support to workers on training leave through the Employment Insurance (EI) system. Provincial governments will need to adjust employment standards to ensure job protection during these training leaves.

Despite program support, taking time off work to re-train will continue to challenge personal budgets for employees and challenge organizations to secure the talent they need. These new training benefits will also add more complexity for employers and increase EI rates, although small businesses will have access to at least a partial rebate.

PENSIONS: ADDRESSING DECUMULATION

Budget 2019 proposes to permit two new types of annuities to provide Canadians with greater flexibility in managing their retirement savings, a move that we welcome.

An Advanced Life Deferred Annuity (ALDA) would be an annuity commencing as late as age 85 instead of age 71 required under current rules. An ALDA could be purchased from plans such as an RRSP, RRIF, DPSP, PRPP and defined contribution RPP, subject to a lifetime dollar limit of \$150,000.

A Variable Payment Life Annuity (VPLA) would be a variable annuity provided from PRPPs and defined contribution RPPs. Payments under a VPLA would vary based on investment performance and mortality experience of annuitants. A separate fund will need to be established under the plan to receive transfers from members’ accounts and provide VPLAs.

ALDAs and VPLAs represent significant enhancements in the decumulation options for retirees. The ALDA will allow members to defer a portion of their retirement income to a time when they need it, while the VPLA will allow them to have a lifetime stream of income through a pooled arrangement without the cost of purchasing an annuity.

As with any defined contribution product, the risk associated with a VPLA remains with the plan member, and administrators will need to be comfortable with taking on the responsibility of managing these pooled assets. Provinces must also be on board as minimum standards pension legislation will need to be amended in order to offer both of these options.

For defined benefit plans, Budget 2019 proposes to introduce a full discharge on the purchase of annuities from federally registered plans, which will be in line with rules already in place for plans registered in most provinces. It also intends to make insolvency proceedings more transparent and give courts the ability to review payments made to executives in the lead up to the insolvency of a defined benefit plan sponsor. We continue to be disappointed, however, that the Government has not acted on two other pressing policy concerns – a review of defined benefit pension plan funding for federally regulated employers and implementing rules for target-benefit pension plans.

HEALTH AND WELFARE TRUSTS: ON COURSE TO END

Budget 2019 confirmed the Government's intention to proceed with the income tax measures announced in [Budget 2018](#) to facilitate the conversion of Health and Welfare Trusts to Employee Life and Health Trusts.

[Contact your Mercer consultant today to discuss what this means for your organization.](#)

ABOUT MERCER

At [Mercer](#), we make a difference in the lives of more than 115 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees – whether we're designing affordable health plans, assuring income for retirement or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigour underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, enabling people around the globe to live, work, and retire well. At Mercer, we say *Make Tomorrow, Today*.

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