FTR Now

Federal Budget 2016

Date: March 23, 2016

On March 22, 2016, the federal government tabled its 2016 Budget, *Growing the Middle Class* (Budget). While certain key legislative initiatives are already underway in respect of reforms to the federal labour regime, the Budget contains a few additional proposals that are of particular interest to employers, human resources professionals and pension plan administrators, which are highlighted in this *FTR Now*. Among other things, these include:

- employment insurance (EI) reforms
- changes to the eligibility age for Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits and increases to GIS benefits
- pension consultations on the “30% rule” for pension investment, and confirmation of the government’s intention to reform the federal pension regime in respect of multi-jurisdictional pension plans
- confirmation of the government’s commitment to exploring flexible work arrangements for federally regulated employees, and a commitment to good faith collective bargaining with federal public sector unions.

EI Reform

The federal government will increase access to EI through changes to eligibility rules for new entrants and re-entrants, temporarily enhancing benefits in certain regions, reducing waiting periods and extending the maximum duration of Work-Sharing Agreement benefits.

Eliminating the New Entrant and Re-Entrant EI Requirements

Under current EI rules, new entrants and re-entrants to the labour market must accumulate 910 hours of insurable employment in the 52 weeks before being eligible for EI regular benefits. Starting in July 2016, this rule will be amended to eliminate the higher EI eligibility criteria for new entrants and re-entrants. All workers will have the same eligibility criteria, based on the region where they live.

Reduction of the EI Waiting Period

Currently, claimants must wait two weeks before they can start receiving EI benefits. Effective January 1, 2017, this two week period will be reduced to a one week period.

Working While on Claim Pilot Project

The Working While on Claim Pilot Project (Project), introduced in 2012, allows eligible claimants to keep EI benefits equaling 50% of every dollar earned while on claim, up to 90% of the weekly insurable earning used to calculate their EI benefit amount. This Project was established to support the proposition that it should always be more beneficial for claimants to accept available work while on EI. The Budget proposes to extend the Project until August 2018.

Extended EI in Affected Regions

In response to the decline in global oil prices and associated job losses, the Budget proposes to extend the duration of EI regular benefits by 5 weeks, up to a maximum of 50 weeks of benefits, for eligible claimants in the 12 EI economic regions

where increases in unemployment are highest. These extended benefits will be available for one year starting in July 2016 and apply retroactively as of January 4, 2015.

The Budget also proposes to offer up to 20 additional weeks of EI regular benefits to long-tenured workers in the same 12 economic regions, for a maximum of 70 weeks of benefits. These extended benefits will also be available for one year starting in July 2016 and apply retroactively as of January 4, 2015.

Extension of the Maximum Duration of Work-Sharing Agreements

Work-Sharing Agreements provide income support to employees eligible for EI benefits when they work a temporarily reduced schedule because their employer is suffering a temporary reduction of its normal level of business activity. The Budget proposes to increase the maximum duration of Work-Sharing Agreements from 38 weeks to 76 weeks across Canada.

GIS/OAS Reform

Eligibility for OAS and GIS Restored to Age 65

The Budget proposes to restore the age of eligibility for OAS and GIS benefits to age 65, and Allowance benefits available to the spouses or common-law partners of GIS recipients to age 60. The eligibility ages for these benefits was set to be increased, to age 67 and age 62, respectively, pursuant to legislation that had been introduced by the prior federal government in 2012, but the Budget proposes that these changes be cancelled.

Increased GIS Benefits

The Budget proposes to increase the annual GIS top-up benefit by $947 for low income single seniors with annual earnings of about $4,600 or less. The increase is proposed to take effect in July 2016. Above this threshold the increased benefit will be gradually reduced and will be completely phased out on annual earnings of about $8,400 and more. Benefits will be adjusted quarterly with increases in the cost of living. The enhancement represents a 10% increase in the total maximum GIS benefits available to the lowest-income single seniors.

The Budget also proposes to enhance GIS and Allowance benefits available to couples who are forced to live apart for reasons beyond their control (such as a requirement for long-term care), by basing benefits on individual rather than joint incomes.

Pension Changes

Pension Investment Consultation

The Budget announces that a consultation on the current limitation on pension fund investing that precludes pension fund administrators from holding more than 30% of the voting shares of any corporation (subject to limited exceptions) will begin shortly. Since the federal *Pension Benefits Standards Regulations* which contain the 30% rule have been adopted by many provinces across Canada, including Ontario, this consultation affects pension plan administrators across the country. The stated goal is to have an investment framework that enhances investment flexibility while protecting retirement savings.

The promise of a consultation into the merits of maintaining the 30% rule was made by the previous federal government in its 2015 federal budget and the Ontario government recently published its consultation paper on this same issue.

Multi-Jurisdictional Pension Plans

The Budget also confirms that legislative changes to the *Pension Benefits Standards Act* will be forthcoming to enhance the federal government's ability to coordinate the regulation of multi-jurisdictional pension plans with its provincial counterparts.

Target Benefit Plans

Notably, the Budget does not mention the consultation into target benefit plans launched in April 2014 by the previous federal government or contain any announcements relating to this alternative pension plan design which has been the subject of much discussion and analysis in the pension community over the last number of years.

Initiatives Related to Labour and Employment

As we previously reported, the federal government has already moved forward with its key labour-related election platform commitments by introducing legislation to:

- repeal prior reforms to the federal union certification and decertification regime under the *Canada Labour Code (Code)* enacted by the previous government in Bill C-525
- eliminate new union financial disclosure obligations under the *Income Tax Act* created by Bill C-377.

Currently, Bill C-4, *An Act to amend the Canada Labour Code, the Parliamentary Employment and Staff Relations Act, the Public Service Labour Relations Act and the Income Tax Act*, is at the Committee stage, at the time of publication.

Given that these proposed measures are in progress, as expected, the Budget contains only a few announcements in the labour and employment arena, as outlined below.

Flexible Work Arrangements for Federally Regulated Employees

Further to one of its campaign announcements, the government has indicated its intention to "explore ways" to ensure that federally regulated employees are "better able to manage the demands of paid work and their personal and family responsibilities outside of work."

Good Faith Bargaining in Public Sector Labour Negotiations

The Budget signals the government's intention to negotiate in good faith to reach agreements that are balanced and fair for all parties in respect of collective bargaining between the government and federal public service bargaining agents that began in 2014.

Youth Training and Employment Initiatives

The government announced a number of measures to enhance youth employment opportunities, in part through funding for the Youth Employment Strategy, and the establishment of an Expert Panel on Youth Employment to improve job outcomes, and support partnerships between employers and willing post-secondary educational institutions that will better align education with the needs of employers in targeted sectors.

Other Budget Announcements

Withholding for Non-Resident Employers

The Budget affirms the government's intention to proceed with legislation which provides an exception to the withholding tax requirements for payments by qualifying non-resident employers to qualifying non-resident employees who are working

temporarily in Canada. Draft legislation was released by the Department of Finance on July 31, 2015, but has not yet been enacted.

Employee Stock Options

As part of its election platform, the federal Liberal party pledged to cap the amount that employees can claim as a stock option deduction. The Budget did not, however, contain new stock option rules, and statements made by the government yesterday indicate that changes to the current stock option tax regime are not in the government's plan.

Pension Income Splitting

While the Budget proposed the elimination of income splitting for couples who have children under the age of 18, the government advised that pension income splitting will not be affected.

Conclusion

We will continue to monitor these Budget initiatives and will keep you informed of any details as they emerge.

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