WentWorth
FINANCIAL SERVICES
Division of Cowan Insurance Group

Employee Benefits Bulletin

September 2010

SERPs: Design and Funding Options

Supplementary Employee Retirement Plans (SERPs) are generally considered one element of a total rewards strategy for senior executives whose contribution levels are limited by the Income Tax Act (ITA). For this reason, providing a SERP can be a key benefit in attracting and retaining high income employees as the workforce ages and retirement income continues to become a higher priority. It is an essential element for Canadian employers who want to offer competitive pension benefits.

SERPs are not registered and therefore are not within the same regulatory environment as registered pension plans. Considerations for employers include funding, accounting, documentation, administration and transparency. Security, adequacy, clarity and understanding are considerations for employees. SERPs can be unfunded, partially funded or fully funded.

Design Considerations

Defined Contribution SERPs (DC SERPs) are non-registered saving plans where the annual DC SERP contribution is typically equal to the company's contribution less the maximum allowed contribution under the company's registered pension plan. Contributions can be handled in a number of ways in a DC SERP. The treatment mainly depends on the company's objectives.

1. ***Cash***
   Contributions may be paid in cash as a pension bonus or contributed to a non-registered savings plan. The practice of paying the member the excess amount as a pension bonus may be advantageous from the organization's perspective as it allows their liability to be discharged annually. However, this is cash compensation to the employee rather than retirement savings and may have negative impacts for the employee based on taxation rates during employment years compared to retirement years. Also, if deposited into a non-registered account then the investment growth is taxable to the employee. The issues of taxation may be partially alleviated through the use of a Tax Free Savings Account (TFSA). Immediate vesting is also required as employees are taxed up front.

2. ***Notional Accounts***
   Notional DC SERPs are closest to matching what could be accumulated in a registered DC pension plan and are often favoured when there are a small number of executives earning large DC SERP benefits or when a company wants to include deferred vesting in the DC SERP.

   In these arrangements the excess contributions are allocated to notional account balances. When companies accumulate notional account balances for employees, a decision must also be made with respect to the notional investment return. Generally, the employer will allow the plan member to choose which investment option, available from a menu of options, to track the account growth.

   The notional account balances are held as a liability in the company's financial statements.

...cont'd on page 2

What's inside

We care about what you care about.

SERPs: Design and Funding Options *(cont'd from page 1)*

Funding Options for SERPs

The tax relief that makes funding registered pension plans attractive is not available when assets are set aside to fund the benefits promised under a supplementary arrangement. Therefore, historically, few SERPs have been funded.

1. *Unfunded SERPs*

SERPs can be based on a promise and be unfunded. Basically the strength of the promise may be detailed in as little as a letter or a Board of Directors' Resolution to the employee.

There are several reasons supporting the decisions by some organizations not to secure their SERPs, including:

- Benefit security is not viewed as an issue for the organization;
- The organization can generate a greater return on the capital within the business;
- The SERP liability is not large enough; and
- Current cost constraints.

2. *Funded SERP*

If the intention is to fund the SERP then CRA will consider the SERP a Retirement Compensation Arrangement (RCA). An RCA is a vehicle used to prefund the portion of the retirement benefit that cannot be paid from a registered pension plan. Contributions to an RCA are not subject to payroll tax. RCA assets are separate from company assets and are protected from the Employer's creditors. Additional features of an RCA:

1. Employer gets a tax deduction for contributions to an RCA.
2. Contributions are subject to a 50% refundable RCA tax. The employer remits the 50% tax to CRA and CRA returns it to the employer when there are distributions from the RCA trust.
3. All distributions from an RCA to a beneficiary (member) are taxable.

Documentation

Although SERPs are not subject to provincial pension benefits legislation which requires formal documentation, a SERP document should be drafted to provide details regarding the plan provisions.

If you are interested in exploring the possibility of implementing a SERP in your organization, please contact your Cowan consultant, or the author of this article: Senior Pension Consultant Olga Knight at olga.knight@cowangroup.ca or 519-650-6363 ext. 51652.

Employers Seeing Value in Corporate Wellness Programs: Survey

Wellness programs are becoming more popular as Canadian employers look for ways to help abate rising group health care costs, according to a new survey by the International Foundation of Employee Benefit Plans (IFEBP).

The proportion of employers offering wellness initiatives rose to 78% in 2010, compared to 61% in 2009. The survey, called *Group Health Care Cost Control in Canada 2010*, also suggests that nearly one in five organizations currently not offering wellness initiatives plan to do so in the future.

The most popular wellness initiatives reported include:

- Flu shot programs (71%)
- Complementary and alternative medicine (52%)
- Smoking cessation programs (48%)
- Wellness competitions (37%)
- Off-site fitness program subsidies (31%)
- Health food choices in cafeterias and vending machines (26%)

"Nearly one in ten plan sponsors offering wellness initiatives report that they measure the return on investment of their programs, and a clear majority (88%) find the results are positive," says the press release from the IFEBP website.

For more information about the study and its results, please visit **www.ifebp.org.**

Cowan Helps Client Manage Benefits During a Lay-off

Pushes for Change at the Ministry of Labour

A Cowan client – an Ontario manufacturer – was recently hit by the recession and decided the only way it could survive was to lay-off employees. Before the lay-offs took place, the employer provided the affected staff with a written letter saying benefits would be extended during this lay-off period. However, they did this without first having confirmation from the insurance carrier.

When they approached Cowan for help in dealing with their group benefits, we quickly realized there was a problem. In any case where coverage is being extended to individuals outside of the normal eligibility guidelines (i.e. retirees, lay-off, etc…), it is required that the insurance carrier be notified and permission granted prior to an offer being made to the employee(s). This is to ensure that the benefits being offered to the employees will actually be covered, and helps protect the employer from potential legal action if they cannot actually provide what was promised to the employee.

For most benefits during a lay-off period, extending the coverage within a certain timeline is generally not an issue. However, the disability benefits will always be terminated (either immediately if no known "return-to-work date" is provided, or after a short period of time if the lay-off extends past contractual allowances) as the employee is not actually collecting any type of salary to be insured through a disability benefit.

Cowan's first step in supporting our client was to ensure that the insurance carrier was immediately notified of the lay-offs and the promises made regarding the benefits. Although carriers normally do not like to provide approval after the fact, Cowan was successful in negotiating for all but the disability benefits to be extended as per the client's promises. A letter of explanation was drafted to the employees affected by the lay-off to advise them that disability benefits would be terminated after a specific period of time.

Cowan Helps Bring Change to the ESA

During this time, we did further research to the Employment Standards Act (ESA) to ensure that all of the transactions were being done according to the law, and this is when we found a surprising issue that had to be dealt with.

According to the section 56.2.b.ii of the ESA, a period of extended layoff (between 13 to 35 weeks) will not be allowed unless either pension contributions or group benefits continue to be provided. The Ontario Ministry of Labour's interpretation of this clause was that ALL group benefits must continue, including disability benefits. As mentioned above, this was a major issue as disability is almost never extended during a period of lay-off, with any group benefits insurance carrier.

Cowan contacted the Ministry of Labour to discuss having this interpretation updated to be in line with the standard contractual limitations put forth by all major insurance carriers. Initially the Ministry was resistant. To prove our case, we provided samples of group benefits contracts from all of the major carriers within Canada and included a suggested change to the wording.

As a result, the Ministry of Labour updated their interpretation of the ESA so that extended periods of lay-off could be allowed even when disability benefits were terminated (provided all other benefits continued).

This was one of the first changes to the interpretation in 20 years and is just an example of how far Cowan will go to ensure that our clients are protected.

Influenza Vaccine Reminder – Flu Season is Coming

The flu season in North America begins in October and can run as late as May. To provide the best protection against the flu, it's best to become vaccinated before the influenza season begins. As an employer, there are a few options you can offer to ensure a healthy workforce.

Off-Site Clinics – The flu shot is available at flu clinics in your region, and through individual health care providers. As an employer, you may choose to provide employees with time off to get the shot.

On-Site Clinics – If you would like to offer an on-site flu clinic, Cowan can manage this for you. We can provide vaccines for any size of office, which will be administered by registered nurses. Cowan can also provide education sessions to employees on influenza and the flu vaccine.

Booking an On-Site Clinic

For more information on booking Cowan for an on-site flu clinic, please contact:

Susan Novo – 1-888-509-7797 ext. 274; susan.novo@cowangroup.ca

**Note: We recommend you contact us as early as possible to ensure you get a clinic date that meets your needs.*

Overage Students and Group Coverage

If you have kids going back to school this fall who are over the age limit for coverage under your group plan, you need to ensure that they continue to be covered under your plan.

Dependants over the age of 21 are eligible for coverage if they are:

- a full-time student, and
- over the age of 21 but under the age of 25 (26 in Quebec), and
- dependent on the plan member for maintenance and support (not working full-time).

Coverage is not automatic. Overage dependants need to be confirmed/enrolled at the start of every school year for most plans. Check your plan administrator manual or online web administration guide for instructions on how to enroll over-age students. If you need help, give your Cowan consultant a call.

This bulletin is produced by the Benefits and Retirement Consulting Division of Cowan Insurance Group and its subsidiary, Wentworth Financial Services. We help public and private-sector clients manage their group benefits, retirement and health and disability management plans.

Wentworth Financial Services
105 Main Street East, Suite 605
Hamilton, ON L8N 1G6
Phone: 905-528-0193
Toll Free: 1-800-463-5386

Cowan Insurance Group
705 Fountain St. N., PO Box 1510
Cambridge, ON N1R 5T2
Phone: 519-650-6360
Toll Free: 1-866-912-6926

700-1420 Blair Place
Ottawa, ON K1J 9L8
Phone: 613-741-3313
Toll free: 1-888-509-7797

www.wentworthfinancial.com