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Mercer's response:

2023 federal budget

On March 28, 2023, Finance Minister Chrystia Freeland tabled the 2023 federal budget. Titled *A Made-in-Canada Plan, Strong Middle Class, Affordable Economy, Healthy Future,* it is pitched as a plan to improve affordability and fight mounting inflation. With revenues lower than projected and a ballooning deficit, the government is under real pressure to right the ship.

The government projects that inflation will return to about 2.6% by the second quarter of 2024. Despite this projection, the government states "Canada's near-term economic outlook remains uncertain". The budget includes major investments meant to improve long-term economic capacity and ease affordability challenges for Canadians in the short-term.

From grocery rebates to dental care, organizations across Canada should pay attention – because they may feel the effects.

Public dental care – and private flexibility

The Canadian Dental Care Plan is one of the headline items of the 2023 budget.

Under this program, Canadians who do not have access to dental insurance, and who have a household income of $90,000 or less, will be eligible for public dental care benefits.

As we wrote on Pharmacare in 2018, Canadians are well served by private insurance plans. The status quo gives both employees and employers' flexibility to find the solution that is right for them – but it fails in extending access to care to everyone.

This dental care model will extend dental care to those in Canada who are currently without dental coverage, while allowing this mutually beneficial arrangement to continue for everyone that has insurance, ensuring a minimum of disruption to operating budgets and to Canadians' access to the dental care they need. It ensures that employers will continue to have the flexibility to find dental care arrangements that work for them and for their workforce.

For all that, the government celebrated a new Dental Care program; however, the 2023 budget was silent on details around national Pharmacare. In the last budget, the federal government committed to tabling and passing a Pharmacare Act by the end of 2023. The budget contained no new information around this initiative.

In addition to this landmark investment, the budget contained several other investments of note to Canadian employers.

The budget contained a series of commitments meant to safeguard access to abortion and other sexual and reproductive health care services. In addition to funds meant to renew the Sexual and Reproductive Health Fund, the government also committed to continuing to withhold Canada Health Transfer payments to provinces and territories that allow patients to be charged for abortion services.

The budget also featured a $158 million investment in launching a suicide prevention hotline by November 30, 2023. With mental health such an area of focus for organizations across Canada, especially post-pandemic, this investment is very welcome.

Long-awaited changes to Retirement Compensation Arrangements

Budget 2023 proposes changes to Retirement Compensation Arrangements (RCAs). At present, employers are required to remit a 50% refundable tax on fees paid to obtain a letter of credit to secure retirement benefits that are supplemental to those paid from a registered pension plan. Because in these circumstances the retirement benefits are typically payable from employer revenues, rather than from the RCA trust, the taxes are never refunded.

The budget proposes to amend the *Income Tax Act,* such that fees paid to an RCA trust to secure or renew a letter of credit will not be subject to this tax. These changes will apply to fees paid on or after March 28, 2023.

The budget also proposes to allow employers to request a refund of previously remitted taxes on fees paid to obtain letters of credit. Employers will be eligible for a refund of 50% of the retirement benefits paid, up to the amount of refundable tax previously paid. These changes will apply to retirement benefits paid after 2023.

This reform represents a long-standing policy ask from the pension sector. We are glad to see the government taking action on it.

Pension funds must also take note of new requirements for federally-regulated pension plans to disclose their crypto asset exposure to the Office of the Superintendent of Financial Institutions (OSFI). The federal government will be working with provinces and territories to ensure that Canadians are aware if their pension plan has any exposure to crypto.

Support for struggling workers

Budget 2023 is an inflation-response budget – and it contains critical measures to bolster affordability, from a one-time grocery rebate to a promised crackdown on predatory lending and junk fees by working with regulatory agencies, provinces, and territories. This could include internet overage fees, higher telecom roaming charges, excessive baggage fees, and unjustified shipping and freight fees.

These initiatives foreground Canadians' suffering financial wellness. Our 2022 Inside Employees' Minds survey found that "being able to retire", "covering monthly expenses" and "mental/emotional health" were top concerns for Canadian workers – so employers will welcome government action on this critical file. Employers looking to bolster their employees' financial wellness should consider how these new public initiatives factor into their overall benefits and wellness approach.

The budget carried through on the new tax on share buy-backs originally announced in the 2022 Fall Economic Statement, it would apply as of January 1, 2024. An economic populist measure, this will likely have an effect on executive compensation – as well as overall compensation, for organizations with broad-based equity compensation plans.

The budget did not however have much to say about the skilled labour shortage – which is the number one issue facing employers today. According to the Canadian Chamber of Commerce, there are over 800,000 job vacancies in Canada – pointing to a massive skilled labour gap.

The federal government has many levers to pull to ease the shortage, from prioritizing in-demand skills among economic immigrants to making investments in skills training, to ensure that Canadian workers can compete in tomorrow's economy. This is a massive issue, harming economic growth and competitiveness coast to coast, and we hope to see federal action on it soon. In the meantime, employers will need to really dig into ensuring workforce capacity and capabilities are available to execute the business strategy.

As always, we remain committed to keeping you informed and helping you however we can. If you have questions about the options available to you, please click here to contact us today.

For further information, please visit www.mercer.ca

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