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In this issue

Cannabis: Employer considerations in a changing landscape

On October 17, 2018, Canada will legalize the distribution, access to and use of recreational cannabis. This significant change brings with it uncertainty for the general public, as well as some employers. This article addresses some aspects of what this change means to employers in Canada, as well as addressing emerging developments related to medical cannabis, which has been legal since 2001 but is getting increased attention due to the pending legalization of recreational cannabis.[1]

1 Although the terms "cannabis" and "marijuana" are commonly used interchangeably, the term "cannabis" is more likely to be used in formal contexts. "Cannabis" is also gaining popularity due to it being seen as less stigmatized than "marijuana".

How did cannabis become legal?

The federal *Cannabis Act* (Bill C-45) received Royal Proclamation earlier this year and the federal government subsequently announced October 17th as the official date of legalization. The federal *Cannabis Act* sets out the general standards to be applied in the manufacture, distribution, access to and use of cannabis. All of the provinces, which are responsible for the particular rules in their individual jurisdictions, have introduced legislation that addresses how cannabis will be made available to the public. Most provinces are following similar standards to those established in their province for the sale of alcohol.

What is legal?

The provincial rules vary but generally speaking:

- Legal age for cannabis use will be 19 (18 in Alberta and Quebec)
- Able to legally purchase fresh or dried cannabis, cannabis oil, and seeds and plants for cultivation. Other products, such as edible cannabis, will be permitted for legal sale within one year
- Permitted to grow up to 4 cannabis plants in home
- Possess and share (with other adults) up to 30 grams
- Consumption prohibited in most public places (for example, public parks and sidewalks)

Recreational versus medical

The legalization of recreational cannabis provides adults with the option to legally consume cannabis for non-medical reasons. This is a personal choice similar to the choice to consume alcohol, which is readily accessible and the recreational use of which is culturally accepted. The fact that cannabis has been illegal, and yet still available in most areas, means its legal use will likely continue to carry some stigma.

Onus on employers to ensure a safe workplace

It is important to recognize that while medical cannabis has been legal since 2001, the issue of recreational access and use brings with it uncertainty for both employees and employers. This requires employers to place a strong focus on using workplace policies to control cannabis use, as they can no longer rely on the argument that it is an illegal substance. However, it is important to recognize that the underlying issues that recreational cannabis use may bring to the workplace are not new. Employers have been dealing with the implications of alcohol, cocaine, opioid and amphetamine use for years. Although recreational cannabis will become legal to access and use, recreational (and medical) cannabis in the workplace should be subject to workplace policies and require employee support like any other substance that can cause impairment. Legal does not mean acceptable in the workplace.

No accommodation required for recreational cannabis

Legalization of recreational cannabis does not change the status quo; there is no requirement for employers to accommodate the use of recreational cannabis by employees. Employees who choose to use recreational cannabis, much like those who use alcohol, need to consider the impact of this use on their fitness for duty in the workplace.

Employers should review their existing workplace policies and procedures to ensure they are prepared for potential issues which may arise pursuant to legalization of recreational cannabis. For example, a policy that relies on a prohibition against “illegal drugs” in the workplace may need revision to ensure it accurately addresses cannabis once it is legal. Further, the definition of “workplace” may also need to be examined, to reflect employees who drive company vehicles, work remotely, or who do not report to a work location.

Accommodation for medical cannabis

Medical cannabis has been legal in Canada since 2001 and is currently regulated under the federal *Access to Cannabis for Medical Purposes Regulations* (ACMPR). For employers, there is an established duty to accommodate, to the point of undue hardship, an employee’s use of medical cannabis when it has been authorized by a medical practitioner to treat an illness or disability.

By adopting, communicating and following a proper drug and alcohol policy, employers can give themselves a better chance of demonstrating that they have met the requirement to accommodate the use of medical cannabis to the point of undue hardship. Workplace policies should require employees to inform the employer of medical cannabis usage and to request accommodation. Once informed of an employee's use of medical cannabis, the employer may request medical documentation that speaks to the employee's ability to safely carry out assigned duties. This is the same approach which should be in place for the use of any prescribed medication (such as opiates for pain) that is mood-altering or has an impact on the individual's capacity to fully or safely complete their duties.

Employers should review their drug and alcohol, disability management, and accommodation policies to ensure they are consistent in how they address disclosure requirements.

Testing for impairment

There is no consensus on safe limits for consuming cannabis. Unlike with alcohol, there is no general agreement on what constitutes 'impairment'. Further, it is possible for the active ingredient in cannabis (THC) to be detectible in an employee's system many days after use.

Human rights and arbitration case law in Canada deals with testing for impairment in the workplace in the context of safety-sensitive positions and dangerous work environments. Generally, due to the potential to intrude on an employee's privacy, drug and alcohol testing will only be justified where there are health and safety concerns in dangerous work environments in which people are doing safety-sensitive work.

It is generally acceptable for employers to require testing following a workplace incident or accident where impairment is suspected. Post-incident or 'reasonable cause' testing is not to be confused with 'random' testing.

Random testing by employers in the workplace in Canada is controversial and the source of continuing legal action. The TTC in Ontario successfully initiated a random testing program for safety sensitive positions in 2017, after the union was denied a temporary injunction pending resolution of the arbitration. Suncor in Alberta was initially successful in launching a random testing program but the union was successful in obtaining a temporary injunction to prevent the introduction of testing pending resolution of the arbitration.

Substance abuse

With the legalization of recreational cannabis, more employees may be at risk of abusing or becoming dependent. Absenteeism, lost productivity, accidents, turnover, recruitment and training are only a few of the costs organizations might bear if substance abuse is not identified and treated. Additionally, employers remain responsible for the safety of all employees in the workplace, so it is even more important than ever, to have clear substance abuse policies and processes, along with supportive employee-focused programs.

Employees may require access to addiction treatment programs, post-treatment recovery programs and other programs focusing on awareness and skill development related to psychological, emotional and situational triggers that lead to relapse. Employers will need to ensure availability of programs supporting recovery, accommodation and return to work. Motivated employees may seek out confidential support through an Employee and Family Assistance Program (EFAP). There are also options that involve employer referral and monitoring, which can be important tools when an employee is not motivated to make changes and the workplace is impacted by the employee's substance use.

Benefit plan coverage

The legalization of recreational cannabis in October 2018 is a 'hot topic' but it is important to remember that medical cannabis has been legal since 2001. It was also added to the Medical Expense Tax Credit (METC) list in 2015 and became eligible under Health Care Spending Accounts (HCSAs). Although there is no requirement for a benefit plan to include coverage for medical cannabis, carriers are beginning to provide product offerings under the extended health benefit, usually subject to prior authorization and for limited conditions.

Organizations should determine if adding medial cannabis aligns with their human resources philosophy and objectives. As part of this determination, employers may also wish to consider:

- the cost of adding medical cannabis to a benefits plan
- the appropriate policies and processes which will be required
- the insurer offerings which match the organizational needs, and
- how the organization will communicate decisions about medical cannabis to employees.

Comment

Employers continue to grapple with the issues arising from medical cannabis and now the legalization of recreational cannabis. Employers should review their human resources policies and communications with both employees and people managers to ensure that they are adequate to cover these emerging issues. With continuing moves by insurers to offer medical cannabis coverage, employers will have to consider whether to include such coverage in their benefit offerings. Finally, employers should review their employee support solutions and consider whether they are adequate to deal with all of the issues from both legal and illegal substance use. Morneau Shepell's legal, benefits consulting, absence and disability management and LifeWorks teams will continue to work to support our clients with a full spectrum of services and solutions relating to these issues.

Morneau Shepell launches internet-based cognitive behavioural therapy

Morneau Shepell has recently launched Internet-based Cognitive Behavioural Therapy (iCBT). By delivering mental health services through a digital platform, iCBT responds to the growing need for expanding the reach of mental health resources in Canada.

Growing needs for mental health solutions

The statistics on mental health cannot be ignored. According to the Journal of Anxiety Disorders, last year alone, 7.5 million Canadians struggled with a mental health or addiction problem. It is also estimated that in any given week approximately 500,000 Canadians miss work due to a mental health problem. The Mental Health Commission of Canada has estimated that absenteeism and presentism as a result of mental health issues costs the Canadian economy more than fifty billion dollars annually.

Current private and public resources are not able to keep up with the volume of care needed. As a result, many people struggling with a mental health issue are either not receiving support, or worse, using negative habits such as drug or alcohol use in a misguided attempt to cope. This gap in care stunts individual potential and strains Canadian workplaces, families and communities.

Although the some governments have recently announced mental health initiatives, public mental health resources are always strained. Refer to the 2017 Federal Budget, summarized in the April 2017 *News & Views*, and the 2018 Ontario Budget, summarized in the April 2018 *News & Views*, for more details on recent public mental health initiatives.

Digital mental health management

Although many private medical plans provide some mental health coverage for psychological therapy, such coverage is typically limited in scope due to the high cost of in-person therapy. Attention is now turning to alternative methods of care that can work in tandem with those already in place and can service a wider range of people.

Over the past decade, many digital health platforms have been developed in response to interest in personal health management. For example, many employers are offering health platforms online where employees can enter biometric data and lifestyle behaviours throughout the year and receive detailed reports about their physical, mental, workplace and social health levels.

Due to the fact that physical contact is typically not required to deliver mental health solutions, mental health is a prime category for digital health management. Studies have shown that digital mental health management is as effective as traditional methods in treating mental health issues.

Internet-based cognitive behavioural therapy

Cognitive Behavioural Therapy (CBT) is a form of therapy that focuses on how your thoughts, beliefs and attitudes affect your feelings and behaviour. CBT gives new ways of understanding and thinking about problems and provides exercises for skill building to help effectively deal with issues. CBT has been proven effective for dealing with mental health problems including depression, chronic pain, eating disorders, anger, addiction and low self-esteem. Furthermore, it is an approach that a person can do with a counselor or independently. CBT is intended to be time-limited and solution-oriented approach to individual problems.

Morneau Shepell's iCBT program is a blended approach that is delivered with both the support of a counsellor and online platform. iCBT provides convenient online access as well as support from a counselor available on both an urgent and non-urgent basis. The convenience of iCBT means a better user experience, and an increased likelihood that the user continues their treatment plan.

iCBT allows users to access counseling in real-time as well as refer back to and reinforce their learning and skill-building at any time. Counsellors are trained to provide clinical expertise and tailor an individual program to suit the needs of each individual.

iCBT delivers value for both employers and employees

iCBT targets gaps in treatment available from public and private sources, which in turn reduces absenteeism and shortens return to work time frames. It can reduce wait times for care and can also reduce the stigma for seeking support that some employees may feel.

iCBT is suitable for employees who are absent from work due to a mental health condition and employees who are actively at work while managing chronic mental health concerns. It should be noted that iCBT is not suitable for all mental health conditions, and an assessment is done to determine whether iCBT is suitable for the employee before the program begins.

How to access iCBT

Morneau Shepell's iCBT program is delivered as part of the firm's LifeWorks line of business, which delivers solutions aimed at supporting employee wellbeing and engagement. It is a program that aligns with other employee support services that organizations arrange for their employees, such as Employee and Family Assistance, Absence Management and Workplace Support. Organizations who do not use other employee support services can also purchase access to iCBT on a standalone basis. The individual receiving support does not pay for the program, as the cost of the program is paid for by the employer.

National pharmacare discussion paper released

On June 20, 2018, the Advisory Council on the Implementation of National Pharmacare (the "Advisory Council") released a discussion paper on options for a national pharmacare model. The Advisory Council is seeking input from Canadians to be used in preparing a report for the Minister of Finance and Minister of Health in 2019.

The 2018 federal budget announced the creation of the Advisory Council and appointed Dr. Eric Hoskins as chair. Dr. Hoskins is the former Ontario provincial Minister of Health and Long Term Care and was involved in the creation of that province's OHIP+ program covering all individuals up to the age of 25.

Pharmacare is defined as a system of health insurance that provides people with access to necessary prescription drugs. Only prescription drugs administered in hospital are part of basic medicare coverage. Accordingly, there are gaps in coverage or high costs for many Canadians, particularly the self-employed, part-time employees and those with low incomes. It is also argued that a national pharmacare program would provide cost savings through lower prescription drug prices.

The report discusses three main issues for which public input is requested, summarized below.

Who will be covered and under what circumstances?

There are several potential models for a national pharmacare program:

- Comprehensive universal coverage for all individuals, including those covered by private drug plans today;
- Providing a basic safety net so that individuals do not need to go into debt or sell their house to cover the cost of drugs. Public coverage would be provided for drug costs above a certain threshold, such as 3% of household income; or
- Leaving the existing structure of public and private drug plans intact, but putting more rules and public funding in place to close the gaps. This could involve requiring employers above a certain size to provide coverage to employees, or requiring all Canadians to obtain private or public coverage.

Deciding what drugs get covered

Public and private plans currently each have their own lists of drugs that are eligible for coverage. The decision to cover a drug is based on a wide range of factors include the objective of the plan, needs of the plan members, drug efficacy and cost relative to other treatment options.

Options for a national pharmacare program would include the following:

- Covering essential medicines only, with private and public top-ups for additional medicines. Essential medicines are defined by the World Health Organization as a few hundred drugs that meet the priority health care needs of the population. This approach would not cover the full complement of drugs normally used in the health care system, or newer, high cost drugs;
- Covering the most frequently prescribed drugs across a broad range of common medical conditions, with public and private top ups available. This approach would also not address higher cost prescription drugs; or
- Provide a comprehensive approach to cover a large list of drugs equivalent to some of the more generous provincial formularies, but not an open formulary where all drugs for sale are included.

Figuring out who pays

The discussion paper suggests that Canadians could receive better value for money, but a national pharmacare model would shift significant costs from individuals and employers to governments. In addition to government funding, a national pharmacare model could require contributions from individual patients, for example through deductibles, co-payments or annual premiums. It could also require employers to contribute, either through contributions to a private plan or to a public plan.

Comment

At this time, there is no clarity as to the details of a future pharmacare program nor an expected timeline. While there is significant public interest in the idea of pharmacare, it is difficult to assess the ability of various governments to find and implement a manageable program.

The complexity of creating a national pharmacare model cannot be understated. Challenges include finding a sufficient, equitable and sustainable funding model, the potential shift of costs from the private to public sector, cooperation between the federal and provincial governments, managing the interests of a wide range of stakeholders and the difficulty of administering such a large plan.

As the cost of extended health care and prescription drugs in particular have risen significantly over the last number of years, plan sponsors have had to wrestle with managing costs and make difficult decisions about the coverage they provide. Assuming pharmacare does not end up covering all drugs for all Canadians, private plans could continue to exist in something similar to their current form, or be modified to address shortcomings or gaps in a public program. Employers may also be required to contribute to a public program. However, it is possible that a national pharmacare program could reduce costs compared to what private plans have borne in recent years.

Canadians' retirement perceptions and behaviours examined by new studies

The Canadian Institute of Actuaries (CIA) and the Ontario Securities Commission (OSC) recently released studies regarding perceptions and behaviours of Canadians when it comes to the financial aspects of planning for retirement. The key findings of the CIA study indicate that many Canadians misunderstand certain aspects of retirement planning, potentially leading to a damaging impact on their financial well-being for the later parts of their lives. The OSC study applies behavioural insights to offer many potentially useful initiatives and tactics that plan sponsors could use to encourage employees to take charge of their retirement planning.

CIA study discovers common misperceptions among current and nearly retired Canadians

A CIA study titled Report on Retirement Consumption, Risk Perception, and Planning Objectives presents the results of a survey by Canadians, aged 50 to 80, who are either close to retirement or already retired, examining their anticipated concerns and risk preferences with respect to retirement.

Key findings presented in the report include:

- Pre-retirees expect to retire at a later age than retirees have experienced. The expected median retirement age is 65 for pre-retirees versus the actual median retirement age of 60 experienced by current retirees who responded to the survey.
- Sixty-one percent of survey respondents have or expect to have relatively low liquid retirement assets. Ten percent have or expect to have less than $25,000 of liquid retirement assets and do not own their home or other properties.

- Ninety-two percent of survey respondents think they will die sooner than the most recent life expectancy tables suggest.
- Respondents profoundly undervalue life annuities. Eighty-four percent of respondents estimated the price of an annuity at less than half of the actual market price. Furthermore, respondents showed low interest in purchasing annuities at any price due primarily to their views of the associated credit risk and the loss of flexibility, control and financial security.
- In general, respondents lack the understanding of the long-term cumulative impact of inflation on the cost of living. However, there is a dramatic change in their preferences when cumulative inflation impact is depicted, and they become willing to "pay" more in exchange for inflation protection.
- Bequest (i.e., providing an inheritance) is generally viewed as fairly unimportant.
- The overall attitude towards seeking professional financial advice is positive. Behaviour, however, is found to be strongly related to liquid retirement assets: respondents with low liquid assets show little interest in seeking advice, mainly due to affordability. In general, respondents show high concerns over potential issues such as accessing quality service, conflicts of interest, and fraud.

The findings of the CIA study suggest that Canadians would benefit from plan sponsors implementing interventions or behavioural "nudges" to encourage plan members to engage in retirement education and planning. The study also demonstrates that there are a number of prevalent misperceptions that can lead to damaging results for imminent retirees.

OSC study presents four key challenges and thirty implementable tactics

On July 27, 2018, the OSC published a research study entitled Encouraging Retirement Planning through Behavioural Insights. The study was prepared by the Behavioural Insights Team (BIT) in collaboration with the OSC. The BIT is a private organization that conducts research in using behavioural insights to influence behaviour, sometimes called "nudges".

The study identifies and presents thirty different initiatives and tactics in which pension and savings plan sponsors can apply behavioural insights to promote retirement planning and help their plan members overcome challenges people experience in creating personal financial plans for their retirement. The initiatives presented are organized around four primary challenges people face in their retirement planning:

- Difficulty in starting.
- Procrastination.
- People can feel overwhelmed and quit the process.
- Difficulty in obtaining good advice.

Some examples of the thirty initiatives recommended to deal with these challenges include:

- Integrating retirement planning into the onboarding process for new employees.
- Prompting people to make a retirement plan at times when they are likely to feel positive about their financial situation (e.g. after a raise, bonus or tax refund).
- Capitalizing on moments that people tend to think about the future (e.g. birthdays, when drawing from children's registered education savings plans).
- Emphasizing the short-term benefits of retirement planning by creating a near-term incentive.
- Combating optimism bias by providing relevant benchmarks.
- Helping people build confidence and comfort talking about their finances by providing a structure for conversations.

Three of the thirty recommended initiatives were tested using a randomized control trial experiment, in which over 70,000 Ontario Public Service employees were provided with different newsletter messages prompting them to use an employer-sponsored online retirement income calculator. The experiment found that messages that help people to imagine their social selves in retirement by evoking thoughts of time spent with friends and family can be highly effective in getting people to engage in retirement planning. The experiment also found that messages expressing that retirement planning can be a simple and easy process can be quite effective in moving people from an initial spark of interest into a more concrete action.

Comment

For employers and organizations who sponsor pension and savings plans for their employees, it is crucial to stay abreast of current trends in employee perceptions and behaviours when it comes to planning and saving for retirement. Doing so can allow plan sponsors to provide more effective plans and communication strategies that maximize employee perceived value and financial well-being.

Although the information and insights presented in the CIA and OSC reports should be of interest to most employers and organizations in general, they will be of particular value for employers and organizations who are reviewing the following:

- Pension and savings plan design;
- Employee communications strategies with respect to pension and savings plans; and
- Retirement planning and education programs for employees.

CAPSA releases Draft Revised Guideline No. 8 - Defined Contribution Pension Plans Guideline

On July 26, 2018, the Canadian Association of Pension Supervisory Authorities (CAPSA) released for public comment a draft revised Guideline No.8 - Defined Contribution Pension Plans Guideline (the Draft Revised Guideline).

Background

Guideline No. 8 (the Guideline) was first published in March 2014. The Guideline reflects the expectations of regulators regarding the operation of a defined contribution (DC) pension plan. It outlines the responsibilities of stakeholders in a DC plan and also provides administrators with guidance respecting the tools and information that should be provided to DC members.

Various stakeholders have raised several issues regarding the Guideline. In light of these issues, CAPSA has reviewed and revised the Guideline with emphasis on the following three areas:

- Communication to members regarding variable benefits;
- Assumptions used in retirement projections; and
- Disclosure of fees.

Key changes in the Draft Revised Guideline

The key changes in the Draft Revised Guideline are as follows:

- The Draft Revised Guideline now indicates that the reasonableness of fees should be considered in choosing investment options.
- There is more detailed discussion of the risk factors and other relevant factors to be used in choosing investment options.

- The Draft Revised Guideline suggests that fees (including asset based fees for investment options and indirect fees) should be disclosed on each annual statement and termination statement, as well as whenever fees change.
- The Guideline previously stated that plan administrators **should consider** providing an estimated account balance at retirement. The Draft Revised Guideline now states that plan administrators **should** provide an estimated account balance at retirement.
- The Draft Revised Guideline now indicates that plan administrators who offer a variable benefit option (i.e., direct withdrawals from the pension plan in retirement) should consider providing information on sustainable withdrawal rates, income estimates and projections.
- The Draft Revised Guideline suggests that increased fees applicable to members could constitute an adverse amendment in some jurisdictions.

Although the Draft Revised Guideline does not replace legislative or regulatory requirements, stakeholders should be aware of the Guideline and the Draft Revised Guideline to ensure their continued compliance with expectations set out by CAPSA.

CAPSA has invited the submission of comments on the Draft Revised Guideline by September 6, 2018.

Canadian Institute of Actuaries announces delay in new commuted value standard

On July 26, 2018, the Canadian Institute of Actuaries (CIA) announced a delay in its new commuted value standard. The CIA stated that the earliest possible implementation date is sometime in the second calendar quarter of 2019.

The CIA noted a move towards increased focus on the long-term sustainability of defined benefit pension arrangements with less emphasis on short-term benefit security (i.e., solvency funding). This move poses many challenges in defining what may be a fair transfer value for terminating pension plan members while at the same time taking into account the risk to remaining plan members and other stakeholders.

Based on a review of the over 30 responses received to the initial draft proposals, the CIA working group will submit a revised draft to the Actuarial Standards Board for review. It is expected that the nature of the changes proposed will require additional consultations among CIA members.

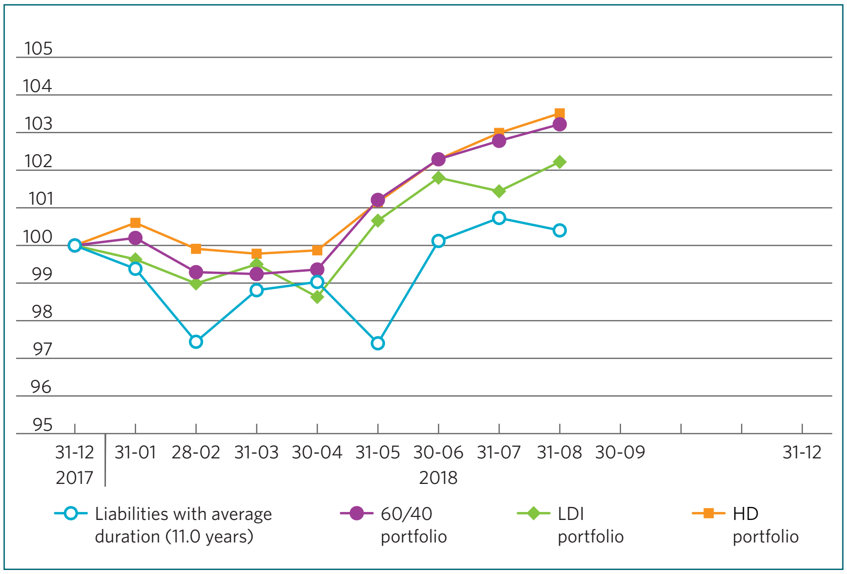
Comment

The delay in implementing a revised standard for calculating commuted values will be a disappointment to pension plan administrators who are hoping for reduced commuted value payouts under the new standard. We will continue to keep you updated with new developments.

Tracking the funded status of pension plans as at August 31, 2018

This graph shows the changes in the financial position of a typical defined benefit plan with an average duration since December 31, 2017. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2017. The estimate of the solvency liabilities reflects the new CIA guidance for valuations effective June 30, 2018 or later. The following graph shows the impact of three typical portfolios on plan assets and the effect of interest rate changes on solvency liabilities of medium duration.

The evolution of the financial situation of pension plans since December 31, 2017



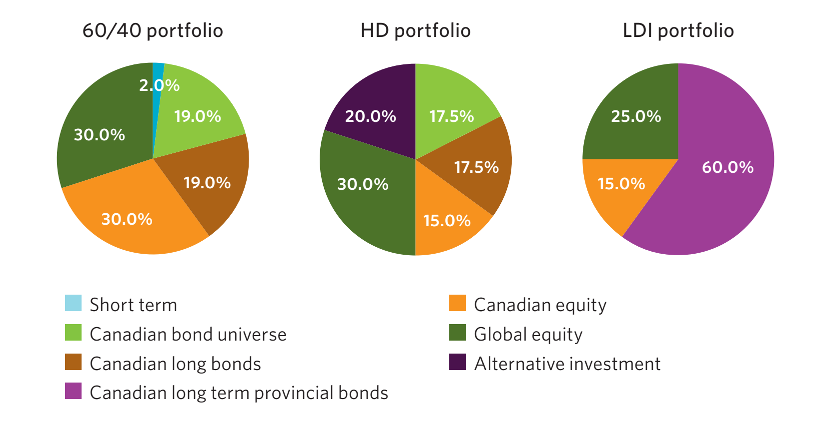
During the month of August, global equity markets (CAD), Canadian universe bonds, Canadian long-term bonds as well as Canadian long-term provincial bonds showed positives returns while the Canadian equity markets and alternative investments showed negatives returns. With a return of 0.8%, the low volatility portfolio (LDI[1]) outperformed the highly diversified portfolio (HD) (0.5%) and the 60/40 portfolio (0.4%).

The relative outperformance of the LDI portfolio is mainly due to a bigger allocation in Canadian long-term provincial bonds. The prescribed CIA Annuity purchase rates decreased while the commuted value rates used in the calculation of solvency liabilities increased during the month. As a result, the solvency liabilities decreased by 0.3% for a medium duration plan. For this type of plan, an investment in the 60/40, the LDI or the HD portfolio resulted in an increase of the solvency ratio.

[1] Liability driven investment

The graph shows the asset allocation of past returns on plan assets and the effect of interest rate changes on solvency liabilities of a medium duration plan, based on the plan's initial solvency ratio as at December 31, 2017 as well as the asset allocation of the three typical portfolios.

Initial solvency ratio as at December 31, 2017	Evolution of the solvency ratio as at August 31, 2018 for three different portfolios		
	60/40 portfolio	Low volatility portfolio (LDI)	Highly diversified portfolio
100%	102.8%	101.8%	103.1%
90%	92.5%	91.6%	92.8%
80%	82.2%	81.4%	82.5%
70%	72.0%	71.3%	72.2%
60%	61.7%	61.1%	61.9%



Since the beginning of the year, driven by positives returns in Canadian equity markets, global equity markets (CAD) as well as alternative investments, the 60/40 portfolio, the LDI portfolio and the HD portfolio returned 3.2%, 2.2% and 3.5% respectively. The solvency liabilities fluctuated over that same period from 0.4% to 0.7% depending on the duration of the group of retirees. The variation in the plan's solvency ratio as at August 31, 2018 stands between 1.1% and 3.1%.

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

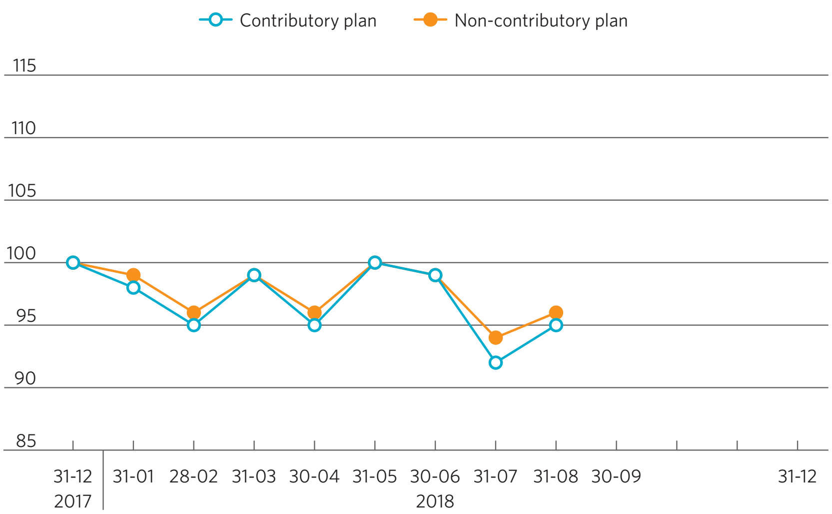
Comments

1. No consideration has been made for contributions paid to the plan or for benefits paid out of the plan.
2. Solvency liabilities are projected using the rates prescribed by the Canadian Institute of Actuaries (CIA) for the purpose of determining pension commuted values.
3. The underlying typical defined benefit plan is a final average plan with no pension indexing, including active and inactive participants representing 60% and 40% of liabilities, respectively.
4. Assets are shown at full market value. Returns on assets are based on three typical benchmark portfolios.

Impact on pension expense under international accounting as at August 31, 2018

Every year, companies must establish an expense for their defined benefit pension plans. The graph shows the expense impact for a typical pension plan that starts the year at an arbitrary value of 100 (expense index). The expense is influenced by changes in the discount rate based on high-quality corporate and provincial (adjusted) bonds and the median return of pension fund assets.

Expense Index from December 31, 2017



Discount rate (%)	3.5	3.6	3.7	3.6	3.7	3.6	3.6	3.8	3.7
Return on assets (55% equities) (%)	0.0	0.1	-0.8	0.1	0.0	1.8	1.0	0.3	0.5

The table below shows the discount rates for varying durations and the change since the beginning of the year. A plan's duration generally varies between 10 (mature plan) and 20 (young plan).

Discount rate

Duration	December 2017	August 2018	Change in 2018
11	3.39%	3.58%	+19 bps
14	3.48%	3.65%	+17 bps
17	3.53%	3.70%	+17 bps
20	3.57%	3.73%	+16 bps

Since the beginning of the year, the pension expense has decreased by 5% (for a contributory plan) due to an increase in discount rates.

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

Comments

1. The expense is established as at December 31, 2017, based on the average financial position of the pension plans used in our *2017 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits report* (i.e. a ratio of assets to obligation value of 93% as at December 31, 2016).
2. The return on assets corresponds to the return on the Morneau Shepell benchmark portfolio (55% equities and 45% fixed income), which reflects the average asset mix in our 2017 Survey.
3. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions).

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Established in 1966, Morneau Shepell serves approximately 24,000 clients, ranging from small businesses to some of the largest corporations and associations. With more than 4,500 employees in offices across North America, the United Kingdom and Australia, Morneau Shepell provides services to organizations around the globe. Morneau Shepell is a publicly-traded company on the Toronto Stock Exchange (TSX:MSI). For more information, visit morneaushepell.com.

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