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Question Of Belief

The question of belief also is evident with the pension reports from British Columbia/Alberta and Ontario. Even before they were released to the public, the members of the both committees were telling us that we had to take their reports as a whole, that there would be things we like and things we dislike. However, the balance between the two was the key element, not the specific recommendations. If they believe that will, in fact, happen, someone needs to tell them the truth about Santa. Both reports have some excellent ideas and some startling information.

In the startling information category, the Ontario Expert Commission on Pensions report, ‘A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules,’ dispels perhaps one of the greatest myths in the pension industry – the single employer sponsored pension plan. That report reveals that only around 30 per cent of members of Defined Benefit pension plans in Ontario are in single employer plans. The other 70 per cent are in jointly-sponsored or multi-employer DB plans. Those, for the most part, do not face the same issues as single employer plans.

And the Ontario commission even hints that there isn’t a lot that can be done to save single employer plans. It suggests they might be advised to morph into something it calls the target benefit plan. This plan has benefit and contribution approaches which are much like jointly-sponsored and multi-employer plans.

From the Alberta/BC Joint Expert Panel for Pension Standards report – ‘Getting Our Acts Together,’ we hear the surprising thought that the DB pension promise is for a ‘defined benefit’ to be paid in retirement, not a pension benefit and promise of plan surplus. What a radical idea! The employer promises to pay a pension benefit, and that’s it.

This report even offers a way to get around the legal entanglements of surplus by proposing, for example, the creation and use of pension security funds. These would hold employer contributions to cover under-funded portions of plans and release these funds back to employers when market performance takes pension funds back to a fully-funded position.

Our problem, however, is the one of belief. Do the members of these pension review groups really believe that anyone – other than themselves – will accept the reports as they are? We are now into a public comment period for both. That gives those with vested and special interests an opportunity to champion their own positions and tear apart those they dislike. From there, the reports and the comments will go into the hands of the politicians who will determine the validity of recommendations based on potential votes, not what is best for pensions.

Changes Coming

What will we end up with? If you go through each report and select the recommendations that are most beneficial to plan members and retirees and reject anything that gives plan sponsors a break, you have a good chance of determining the changes coming for pension legislation.

Indeed, the real driving force behind pension reform is likely to come from the private sector. If, for example, any or all of the big three North American automakers really look like they are going to blow up, then you might see meaningful pension reform as part of any government bailout plan. Then, and only then, will you see plan members pushed towards the target benefit type of plan that both pension reform groups seem to believe is the future of single employer DB pension plans in Canada.
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Cordiant

Florian Kohler is a senior project manager at Cordiant. He previously worked as an investment manager for the Swiss Investment Fund for emerging markets.

Sun Life

Brigitte Parent will become senior vice-president, group business, international, at Sun Life Financial as of January 5, 2009. She is currently senior vice-president, group benefits. Stuart Monteith is now senior vice-president, group benefits. For many years, he was leader of Mercer’s group benefits business in Canada.

Teachers’

Neil Petroff will succeed Robert Bertram as executive vice-president, investments, and chief investment officer, at the Ontario Teachers’ Pension Plan at the beginning of 2009. Petroff joined Teachers’ in 1993 and has been a member of the executive management team for 13 years. Bertram plans to retire at the end of the year.

Morneau

Stephen Liptrap is executive vice-president of human resources and organizational development at the Morneau Sobec Income Fund. He has more than 20 years of senior executive business and HR management experience in large Canadian-based organizations. Zahid Salman is executive vice-president responsible for all pension and benefits consulting and outsourcing practices in Ontario, Western Canada, and the U.S. An actuary by background, he has worked in the employee benefits industry for more than 15 years.

Standard Life

Claude Leblanc is senior vice-president, leading the group savings and retirement business, at the Standard Life Assurance Company of Canada. He will be working actively with the division’s sales, member services, and marketing teams to ensure that the company continues to achieve profitable and sustainable growth.

Towers Perrin

Michelle Loder is national business leader of Defined Contribution services for Towers Perrin. Prior to joining the firm, she was with an international human resources consulting firm and practiced as a tax specialist with a large public accounting firm.

CIBC Mellon

David Webster is director, relationship management, based in CIBC Mellon Global Securities Services Company’s Montreal, QC, office. He has more than 12 years of industry experience including nine in the Quebec market providing asset servicing solutions to regional institutions.

PH&N

Damon Williams will become president of Phillips, Hager & North effective February 1, 2009. As well, his current role as head of institutional management will be expanded to include RBC Asset Management.

CPPIB

Rob Spindler is vice-president, head of tax services, at the CPP Investment Board. He was most recently a senior partner at KPMG leading its M&A tax transaction services group. Cheryl Swan is vice-president, head of treasury services, for the CPP Investment Board. She has more than 16 years of experience in the financial services sector and was most recently vice-president, corporate segment finance, at TD Bank Financial Group.

CPBI

Iris Almeida-Côté, chief executive officer of the Canadian Pension and Benefits Institute (CPBI), has been recognized as one of ‘Canada’s Most Powerful Women: Top 100’ by the Women’s Executive Network. She was also awarded the ‘Prix d’Excellence – Femmes d’affaires du Québec 2008’ by the Québec Business Women’s Network.
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Solvency Relief Promised

Solvency funding relief to pension plans and a reduction to minimum withdrawal requirements for RRIF holders are among the proposals directed at the pensions in the federal government’s “Economic and Fiscal Statement.” The statement proposes doubling from five years to 10 years the time required for solvency payments for plans under federal jurisdiction. To get the extension, companies would need the agreement of pension plan members and retirees by the end of 2009 or they can secure a letter of credit to cover the five-year difference. Based on what has happened so far, and under current rules, the decline in value of these plan assets would trigger substantial payments at the worst possible time for struggling companies,” says Finance Minister Jim Flaherty. This will give these companies “one more option they can use to cope with these extraordinary circumstances.” He also says that the government plans to make more permanent changes to pension legislation and plans to soon launch consultations on issues facing Defined Benefit and Defined Contribution pension plans. To help seniors cope with the eroded value of investments, it is proposing a one-time change to allow RRIF holders to reduce their required minimum withdrawal by 25 per cent for this tax year. For example, an individual required to withdraw $10,000 from their RRIF in 2008 would only need to withdraw $7,500.

Proposal Clarifies Pension Division

Ontario’s proposed family law legislation would clarify how and when pensions are divided when marriages break down. The changes would reduce some of the strain of family court proceedings by saving court time and the cost of hiring experts, says Louise J. A. Greig, with the pensions and benefits department at Osler, Hoskin & Harcourt LLP. The proposed legislation would allow for a simple way for separating couples to find out the value of the pension benefits to which they are entitled and allows pension plans to pay out the non-member spouse’s share. The changes follow the general direction of expert advice provided by the Law Commission of Ontario on this issue.

PIAC Calls For Stability Of Retirement System

The Pension Investment Association of Canada (PIAC) has written the finance ministers across the country asking them to take action to ensure the stability of Canada’s retirement system. PIAC is calling on all governments to take a number of steps including, in the short term, providing temporary relief for a five-year period to plan sponsors in the currently unstable and fragile market environment by extending the amortization of solvency deficits to 10 years for all pension plans and using a solvency discount rate based on AA rated corporate bond yields that has a similar duration to that of the pension plan liabilities. In the long term, it suggests that governments ease solvency funding requirements and address risk asymmetry in the rules regarding surplus entitlement by providing plan sponsors the flexibility to use letters of credit, permitting plan sponsors to establish special purpose accounts that are independent from the main pension trust; and researching the feasibility of allowing pension plans to have reduced solvency funding requirements based on the credit worthiness of the plan sponsor.

Caisse Shifts To Index For International Portfolios

The Caisse de dépôt et placement du Québec has adopted index-based management rather than active management of the international equity portfolios managed at its Montréal, QC, office. The Caisse stated that the decision was not related to the current financial crisis or to ABCP, it was the result of an evaluation started several months ago. The returns obtained to date do not justify the greater effort required for active management as opposed to an index-based approach. The value of the in-house international equity portfolios that will now be managed on an index basis represents about nine per cent of the assets managed by the equity markets group and about 2.9 per cent of depositors’ net assets, as at December 31, 2007.

Maturing Of DB Creates Opportunity

The maturing of Defined Benefit pension plans is creating opportunities for Canadian money managers with liability driven investment strategy products, says Rob Vanderhoof, president and CIO of Greystone Managed Investments. Taking part in the ‘President’s Panel’ at the Investment Counsel Association of Canada’s ‘2008 Annual Conference,’ he said extension strategies such as 130/30 are also garnering attention, although the dollars coming in aren’t flowing in as quickly as they are in the U.S. Real estate, infrastructure, and mortgages also offer interesting opportunities for institutional investors, he said.

DB Plans Fared Well

Canadian Defined Benefit pension plans are faring well in volatile markets, says research from Fidelity Investments’ institutional asset manager Pyramidis Global Advisors. Its second annual ‘Canadian Defined Benefit Research’ found that the plans benefited from the strong Canadian equity markets with five-year average returns of 11.7 per cent, as of December 31, 2007. Despite the performance, the research also shows that plan sponsors are growing more concerned about how they will continue to generate returns in today’s low return environment and volatile markets. “Many Canadian pension plan sponsors are at a crossroads on where they are going with their plans. While they have benefited from strong Canadian equity markets over the past few years, they are now faced with challenges and tough choices,” says Peter Chiappinelli, senior vice-president of asset allocation strategies.
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Robin Lacey, Managing Director, TD Asset Management Inc.
Contact Robin at 416-944-6313 robin.lacey@tdam.com

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**Single Fund Better Design For DC**

A single fund approach may be a better design for Defined Contribution pension plans than the traditional multi-fund plan, says Murray Campbell, of Lawson Lundell LLP. Speaking at the CPBI Western Region Fall 2008 Conference, he said the single fund approach may have less legal risk. Since there are fewer “moving parts,” there are fewer things to go wrong. Simply because the value of the assets may go up or down, does not lead to legal liability for a sponsor, he said.

**MJPP Proposal More Detailed**

CAPSA’s ‘Proposed Agreement Respecting Multi-Jurisdictional Pension Plans’ is a significantly more detailed document than the current memorandum, says a Hicks Morley ‘FTR Now.’ If adopted by the various governments, it has the potential to clarify some previously muddy waters with respect to the administration and regulation of MJPPs. However, at this point, it does not represent the official position of any provincial or federal government. Legislative amendments may be required in some jurisdictions if the agreement is to be ratified and implemented. CAPSA has been working for some time towards a revised agreement addressing numerous jurisdictional issues that have arisen for MJPPs in recent years.

**Linking DB To Phased Retirement Difficult**

Linking existing Defined Benefit pension plans to phased retirement programs is difficult, says Gerald Swartz, a professor at the Ryerson University School of Business. Speaking at the ACPM Ontario Regional Council’s ‘impACT 2008: Emerging Pension Issues: Four Easy Pieces,’ he said it is easier to link these programs to Defined Contribution pension plans. Where DB plans exist, he says, formal phased retirement programs may call for the use of a separate DC plan on top of the DB plan. He also reminded plan sponsors that mandatory retirement is rapidly coming to an end and they need to be proactive and develop phased retirement programs.

**Court Puts Reasonable Back Into Duty To Accommodate**

The Supreme Court of Canada may have put ‘reasonable’ back into the duty of employers to accommodate employees in the workplace, says Sarah Crossley, of Ogilvy Renault. Speaking at its ‘Putting the ‘Reasonable’ Back into Reasonable Accommodation’ session, she said the court’s decision in Hydro Quebec v Syndicat des employé-e-s de techniques professionnelles et de bureau d’Hydro Québec, section locate 2000 suggests that the purpose of the duty to accommodate is to ensure that an employee who is able to work can. As well, previously courts often looked at just the details at the time of termination, not at all the efforts by an employer to accommodate. In the Hydro case, the court looked at all the efforts by the employer to accommodate the employee in question. This underlines the importance, said Crossley, of documenting all measures taken to accommodate employees. The court also ruled that while employees had the right to expect to be paid under the employment contract, the employer has the right to expect them to work.

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With workforces in Canada becoming younger and more ethnically diverse, many sponsors are exploring different ways of meeting employee needs—which, in turn, they believe will attract and retain the right talent down the road.

Headquartered in Toronto with branches in Montreal, Edmonton, Calgary, and Vancouver, Transport Action Lease Systems Inc. is one such firm with its own unique benefits program and approach to health and wellness.

Recently changing to an ASO (Administrative Services Only) plan was a smart move, she says. Instead of a traditional insurance plan, an ASO plan allows it to fund the claim payments while paying a service provider to process the claims. “Some months the bill is higher than others, but at least we’re paying for what we’re using,” she says.

Another way of keeping the overall effect of drug costs in check is to try to ensure the health and wellbeing of employees within the workplace. In the past couple of years, the company has enhanced its Employee Assistance Plan (EAP) on various levels which has resonated well with the younger staff especially, she says.

As part of the EAP, it has introduced monthly lunch ’n’ learns to help employees minimize stress and to educate them on a number of health and wellness issues. At first, it was mostly women attending, Redgers says, but popularity has increased significantly as men are now attending more.

Onsite Massage

Onsite registered massage is another wellness initiative employees have come to appreciate, Redgers says. Not only does it tackle various office-related health problems while at work—such as carpel tunnel, headaches, stress, and back and neck pain—but it’s also another simple way of enhancing employee satisfaction and job appreciation.

“It’s amazing to see people smiling and being pampered at work. If it sends someone back to their work area thinking, ‘wow, my company is great, look what they’ve done for me,’ then it’s all worth it.”

Among its 165 workers, the average age is currently 42, but has dropped significantly in the past couple of years, says Denise Redgers, director of human resources.

With its workforce beginning to lean on the younger side, and with a wide range of cultural groups represented within the company, Redgers says it’s important to provide a benefits plan that addresses everyone’s “basic health and wellness needs.” By doing so, an employer maximizes its ability to retain staff, attracts a wider segment of talent, and keeps a plan cost-effective and fiscally responsible.

She describes its plan as a standard plan—neither a “Cadillac” nor a “Jalopy”—but one that does the job in a unique and effective way.

“I don’t believe that a benefits plan should be designed to cover every aspect of an employee’s health and wellness because every employee is different . . .” she says. “We’re diverse so we’ve developed a vanilla approach to meet the basic needs of our population, while still being fiscally responsible to the company.”

Date-of-hire Benefits

A distinct feature of its program—one that works well in attracting younger recruits—is granting benefits to new employees right away, without the typical three-month waiting/probationary period. Within the industry, it’s a unique aspect, she says, that is much appreciated by those entering the marketplace, just out of university, or recently off their parents’ benefits plan.

Another element to the plan, that isn’t seen much in the market today, is its fully funded benefits coverage. While most employers require employees to fund their benefits plan through payroll deductions, the company pays for all of it—a more “paternalistic style of benefits plan,” she says.

Recently changing to an ASO (Administrative Services Only) plan was a smart move, she says. Instead of a traditional insurance plan, an ASO plan allows it to fund the claim payments while paying a service provider to process the claims. “Some months the bill is higher than others, but at least we’re paying for what we’re using,” she says.

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Every year, Canadians struggle through four months of typical cold, harsh winter weather. To make matters worse, colds, the flu, and pneumonia often affect one or more family members during this time.

In Canada, flu season usually runs from November to April with an estimated 10 to 25 per cent of us likely to be hit each year. The cause of increased absenteeism, interruption of service, and additional health benefit costs, the flu is estimated to cost the Canadian economy about one-half billion dollars annually (Canadian Coalition for Influenza Immunization). According to experts, employees can be absent for up to a week as a result of influenza with individual productivity being affected for up to two weeks following its onset.

Not much can be done once the flu sets in other than drink lots of fluids and get plenty of rest, but prevention should certainly be at the top of every company’s agenda. In fact, the National Advisory Committee Statement on Influenza Immunization (NACI) clearly advises employers and their employees to consider yearly influenza immunization for all healthy working adults.

The Flu Shot: Friend Or Foe?
Some people are wary of the flu shot as a result of misguided information. As a key step in prevention of illness and limiting its spread, it is important for human resources and employers to take an active step in educating employees regarding the facts, benefits, and drawbacks of the vaccination. According to Health Canada, flu vaccines have been around since the 1940s. Since the flu can change from year to year, the composition of the vaccine has to be updated annually. As a result, annual immunization is a must. The vaccine works by inducing your immune system to produce antibodies against the strains of virus in the vaccine. Most importantly is that the influenza vaccination cannot cause influenza because the vaccine does not contain live virus.

Beware These Bugs
Cold, flu, and pneumonia can all have similar symptoms such as sneezing, a runny nose, and cough.

The flu is a respiratory infection caused by the influenza virus. The influenza virus spreads through droplets coughed or sneezed into the air by someone with the flu. The virus is also found on the hands of people with the flu and on surfaces they have touched. Infection can be passed through inhaling the droplets, having them land directly on the eyes, shaking hands with infected persons, or touching contaminated surfaces.

The British Columbia Health Guide lists pneumonia as a lung infection that is caused by bacteria or viruses that are inhaled into the lungs, often as the result of a cold or the flu, which make it hard for the lungs to fight infection. Having a long-term – or chronic illnesses such as asthma, heart disease, cancer, or diabetes – increases the chance of contracting pneumonia and its inherent risk factors. For the most part, however, pneumonia can be treated at home and often clears up in two or three weeks.

The Canadian Centre for Occupational Health and Safety defines the common cold as “an infection of the upper respiratory tract – the nose, nasal passages, and the throat.” There are more than 200 viruses that can cause a cold, but the primary family is the rhinoviruses. We now know that the common cold is so pervasive, it is one of the leading causes of missed work days. Few escape without experiencing at least one cold per season, although it’s estimated that most Canadians suffer two to five colds per year.

Contagiousness
Recognizing and accepting the level of contagion, which can vary from the flu to a common cold, is key. Did you know that two days after catching a cold is when symptoms start to surface, yet that is the time when an individual is the most contagious? Once symptoms appear, they can last anywhere from two days to two weeks and, unfortunately, the person remains contagious until up to three days post clear up.

Sadly, the spread of the flu virus isn’t quite as conspicuous, but it is said to be most contagious in the two days prior to visible symptoms and can linger for up to two weeks.

Simply put, it’s often better to encourage employees to take time off or work from home than it is to expect them to continue to come to the office. Not only are they more likely to recover faster at home, but they are also much less likely to spread their germs to other valuable team members.

Winter Wellness: Handling Flu And Cold Season

The British Columbia Health Guide lists pneumonia as a lung infection that is caused by bacteria or viruses that are inhaled into the lungs, often as the result of a cold or the flu, which make it hard for the lungs to fight infection. Having a long-term – or chronic illnesses such as asthma, heart disease, cancer, or diabetes – increases the chance of contracting pneumonia and its inherent risk factors. For the most part, however, pneumonia can be treated at home and often clears up in two or three weeks.

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Winter Wellness: Handling Flu And Cold Season

The Flu Shot: Friend Or Foe?
Some people are wary of the flu shot as a result of misguided information. As a key step in prevention of illness and limiting its spread, it is important for human resources and employers to take an active step in educating employees regarding the facts, benefits, and drawbacks of the vaccination. According to Health Canada, flu vaccines have been around since the 1940s. Since the flu can change from year to year, the composition of the vaccine has to be updated annually. As a result, annual immunization is a must. The vaccine works by inducing your immune system to produce antibodies against the strains of virus in the vaccine. Most importantly is that the influenza vaccination cannot cause influenza because the vaccine does not contain live virus.

Beware These Bugs
Cold, flu, and pneumonia can all have similar symptoms such as sneezing, a runny nose, and cough.

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In recent years, property has gained acceptance as a distinct asset class that deserves a permanent strategic allocation in balanced portfolios. Institutional investors have often held real estate because of its attractive risk-adjusted returns and relatively low correlation with other asset classes.

Historically, investors have sought exposure to real estate via investments in direct property in their home market, but it can be prohibitively expensive for individual investors to acquire a truly diversified global property portfolio through direct ownership.

In contrast, investors in listed property companies can benefit from exposure to professionally-managed property portfolios supervised by specialist property companies that employ professional staff to operate, maintain, and manage the buildings in their portfolios.

Attracted To Cash Flow

Direct property investors are typically attracted to the cash flow that the asset class offers, so property securities have generally attempted to emulate this characteristic by distributing income in the form of a dividend yield. The introduction of listed Real Estate Investment Trusts (REITs) across the world has improved property securities’ yield characteristics. Although the yield offered by REITs in different countries varies, property companies operating within a REIT regime generally distribute higher dividend yields.

There are three ways in which global property typically can provide diversification. Firstly, from a historical perspective, real estate’s returns have had a relatively low correlation with those of other asset classes so it can provide a degree of protection against losses in bear markets. Secondly, investing in global property allows investors to exploit the differences in property market cycles between and within regions. Finally, investing on a global basis can improve the diversification of a property portfolio by providing exposure to different property sectors.

Global property stocks have typically had a very low correlation with global equities. For most of the current decade, the correlation between global property and global equities has been below 0.6. However, it started to increase since 2006, firstly due to a period of strong performance by global property securities and then as a result of the recent credit crisis which hit the value of financial and property stocks simultaneously.

Historic Correlation

However, the historic correlation between regional equities and property has been lower than at the global level, as demonstrated by Figure 1. Equally, the correlations between the performance of European, North American, and Asian real estate are weaker than the correlations between regional equities.

The other potential diversification benefit from investing internationally is the ability to exploit the different timing of real estate cycles between and within regions. For example, the UK market has always had a different property cycle to continental Europe and an investor should be able to exploit this.

Timing is clearly a factor for all investors considering either a new allocation to listed property or an increase to their existing exposure. The current market is extraordinarily volatile and the outlook for the property sector remains mixed, as confidence in the global credit markets needs to return before we see an improvement in sentiment. Our expectation is that in the near term, listed property will remain responsive to developments in the fortunes of financials and the wider equity markets in general. A key catalyst for listed property will be a return of confidence in the credit markets and an additional challenge will be the length and depth of the recession in Europe and the U.S.

Over the longer term, the diversification function that property performs in a multi-asset portfolio, allied to the growth of the global listed property sector over the past decade, should make a compelling case for an allocation to the asset class.

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**Property As A Global Asset Class**

Figure 1

<table>
<thead>
<tr>
<th>Correlations Between Asset Classes</th>
<th>MSCI EUROPE</th>
<th>MSCI NORTHERN AMERICA</th>
<th>MSCI WORLD</th>
<th>GPR 250 PSI ASIA</th>
<th>GPR 250 PSI EUROPE</th>
<th>GPR 250 PSI AMERICAS</th>
<th>GPR 250 PSI GLOBAL</th>
<th>JPM GLOBAL BROAD INDEX IN USD</th>
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<tr>
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<td>0.70</td>
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<td>-0.01</td>
<td>-0.06</td>
<td>0.08</td>
<td>1.00</td>
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</table>

Source: GPI, JPM, MSCI, Thomson Financial. Data from March 31 1993 to September 30 2008. Monthly return correlations. Local currency, bonds are in USD.
Two years of research and public hearings came together in the final months of 2008 as pension reviews in Ontario and Alberta/British Columbia were released for public comments.

The two reports share many areas of common ground and a few which are unique to each jurisdiction. For example, the Alberta/BC Joint Expert Panel for Pension Standards report calls for a harmonization of the pension regimes in both provinces including:

◆ identical acts in each province
◆ a joint policy advisory council and a joint pension tribunal
◆ establishment of a joint pension regulator for the two provinces to administer the harmonized statutes

One key concept both reports share is that their recommendations need to be taken as a whole as they are designed on the premise of being fair to all stakeholders.

Here, courtesy of Satanove & Flood Consulting Ltd. and the Blakes Pension and Benefits Group, are some of the ideas being proposed.

**Getting Our Acts Together**


Current pension legislation substantially treats these plans as DB plans. The panel recognized that these plans are different and even gave them a new name – Specified Contribution Target Benefit plans (SCTBs).

These have unique features including:

◆ employer contributions (and employee contributions, if any) are set at fixed levels, typically through a collective bargaining agreement
◆ there is a pension formula set out in the plan document, but it is a target benefit that is subject to reduction if funding is not sufficient
◆ the sole obligation of the employers is to provide the specified contributions; there is no obligation to top up benefits to the target level on plan wind-up

As well, it also recognized that the rules used to fund DB plans – going concern funding rules and solvency rules – are not well-suited for SCTBs. So it devised a set of rules called “going-concern-plus” for the valuation of these plans. The “going concern” part of the rules states that liabilities should be estimated using “best estimate” assumptions of future conditions, assuming the plan continues to operate as a long-term going concern. The “plus” part of the rules states that a buffer should be included to absorb the impact of adverse experience such as poor investment returns.

The panel anticipates that a plan’s actuary would conduct “stress tests” to determine the appropriate size of the buffer.

The challenge at this point is that the actuarial profession has not yet developed standards for the development of the “plus” part of the actuarial valuation.
Governance

In addition to the funding rules for SCTBs, the panel recommended that they be required to put into place enhanced governance practices (including some that apply to all plans) that reflect the unique features of these plans. Amongst other elements, the governance policy would include:

◆ a list of stakeholders and a description of their interests in the plan
◆ a detailed description of the roles and responsibilities of each party included in the governance structure
◆ the basis on which decisions are made and implemented

Every SCTB would also be required to have an investment policy (as is required currently) and a funding policy.

The panel report is now open to public comments. These can be sent before March 2 to Pension Standards Review, Alberta Finance and Enterprise, Room 402, 9515 - 107 St., Edmonton, AB T5K 2C3, ab-bc-pensionreview@gov.ab.ca, or Pension Standards Review, British Columbia Ministry of Finance, Box 9418 Stn Prov Govt, Victoria, BC V8W 9V1, ab-bc-pensionreview@gov.bc.ca.

(Source: Satanove & Flood Consulting Ltd.)

A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules

The Ontario Expert Commission on Pensions report, ‘A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules,’ endeavours to “balance the rights and obligations of employers, plan members, and pensioners.” Harry W. Arthurs, the commissioner, says he attempted to combine the wish lists of all stakeholders:

◆ members wished their pensions to be secure
◆ sponsors wished pension plans to be affordable
◆ both wished for a fair and efficient regulatory system

Jointly sponsored and multi-employer pension plans received almost all of their wish lists – the elimination of solvency funding and grow-in and the widening of investment power subject only to expertise. The comments that follow are limited to the recommendations directed toward Single Employer Pension Plans (SEPPs) and, in particular, recommendations which will serve to limit the recent trend of litigation involving such plans.

It is difficult to deny that in recent years SEPPs have been the subject of much debate and high profile litigation – a trend which was not lost on the commissioner who publicly discussed his hope that the recommendations would help decrease pension litigation which has proven time-consuming and costly to both employers and pension funds.

It is fair to conclude that the genesis of this litigation is the lack of clear and specific rules in the current incarnation of the Pension Benefits Act (PBA).

Surplus

The report recommends a logical and flexible approach to the distribution of surplus upon plan wind up. Surplus is to be distributed according to the plan documents, unless the plan documents are not clear on this issue. If the plan documents do not answer the question of surplus distribution, the report recommends that an agreement be reached between the sponsor and members and former members. Failing that, it would be sent to a clear dispute resolution process which would be final and binding on the parties. This avoids the expense (in terms of both time and monetary costs) of litigation.

Contribution Holidays

The report addresses another rich source of pension litigation by providing a formula to determine entitlements to contribution holidays. Contribution holidays would be permitted provided the plan continues to be funded at 105 per cent or more of solvency liabilities. Contributions must be resumed if the sponsor “knows or ought to know” that funding has fallen below 95 per cent.

As eligibility for contribution holidays will be determined by the sponsor, the report deals with member concerns about abuse which may result in underfunding of the plan. If the regulator finds that an improper contribution holiday has been taken, the amount withheld during the holiday, and a fine calculated as the greater of $1 million or two times the amounts withheld during the contribution holiday, become immediately due. It is unlikely that a plan sponsor will risk this fine by taking improper contribution holidays.

PBA

The current version of the PBA leaves sponsors and members without a comprehensive set of rules to look to when determining issues such as their rights to surplus and ability to take contribution holidays. The report would see the PBA drafted so that it clearly conveys that it is to be treated as the exclusive source of pension law in Ontario.

Currently, either contract or trust law is applicable to disputes involving pension plans depending on whether the plan documents demonstrate that the assets of the pension fund were impressed with a trust. This recommendation would remove the question of trust versus contract law and the PBA would be the rule book by which sponsors and members could determine their rights.

Funding

The report’s recommendations regarding funding of SEPPs have been cause for comment amongst actuaries and sponsor’s representatives who have either directly stated or implied that in this economic climate the proposed funding rules may cause the demise of the SEPP.

The report recommends that the status quo should be maintained with regard to SEPPs funding in accordance with both going concern and solvency valuations, but plans should be required to maintain a “security margin” of five per cent of solvency liabilities. Plans which have achieved 95 per cent of their solvency funding are rewarded by an extension of the amortization period to achieve the required level of funding from the current five years to an eight year period.

JGTBP

The report itself implies that the bell may be tolling for SEPPs and contemplates the creation of an innovative pension structure called a Jointly Governed Target Benefit Plan (JGTBP).

SEPPs may be converted into JGTBPs if sponsors enter into agreements with trade unions or “union-like” organizations that represent the plan’s members. A JGTBP would be governed by a board of trustees with plan members and retirees comprising one-half or more of the its members. They would offer target benefits and be funded on the same going concern basis as multi-employer and jointly sponsored plans.

A JGTBP would involve compromise for both sponsors and members. Sponsors are required to relinquish control over governance of the plan and gain the flexibility of target benefits. Members sacrifice the security of defined benefits for a measure of control over the plan’s governance.

The compromise represented by the JGTBP is indicative of the compromise represented by the entire report. However, to create safe, affordable, and fair plans, all stakeholders must be prepared to compromise.

The government is accepting written submissions on the report until February 27, 2009. They can be sent to: The Honourable Dwight Duncan, Minister of Finance, Attention: Comments on Report of the Expert Commission on Pensions, c/o Pension and Income Security Policy Branch, 5th Floor, Frost Building South, 7 Queen’s Park Crescent, Toronto, ON M7A 1Y7 or eMail: pension.feedback@ ontario.ca

(Source: Kathryn Bush and Lee Bennett, Blakes Pension and Benefits Group)
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Life, health, retirement
Turbulent financial markets and talk of recession made 2008 a year to forget. The full brunt of the subprime mortgage crisis sent markets to 75-year lows in the second half of the year and drove some of the largest investment banks in the U.S. out of the business.

Not surprisingly, dealing with the ramifications of the past 12 months dominates the thoughts of the industry experts who have contributed to this year’s ‘Review & Forecast’ issue.

John Dalton, of Tardis Benefit Services Inc., muses about interviewing the last surviving member of a Defined Benefit pension plan while Joan Johannson, of Integra Group Retirement Services, looks at how sponsors of Defined Contribution pension plans can help their members cope with investment losses.

Bruce Curwood, of Russell Investments, explains how the financial events of 2008 have shown that models are not enough when it comes to managing risk. Bernice Miedzinski, of Man Investments Canada Corp., examines the impact of the last 12 months on hedge funds and wonders if only the strong will survive.

Susan E. Slattery, of Blake, Cassels & Graydon LLP, looks at some of the noteworthy legal actions of the past year including Burke v. Hudson’s Bay Company and the continuing saga of Buschau.

And what will happen in the investment world in 2009, see what Bruce Cooper, of TD Asset Management Inc., has to say.

So, start the new year off right by gathering some insights about what happened in 2008 and what’s in store in the months to come from the pages that follow.

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**Concerted Onslaught**

I found that these plans were once quite prevalent in Canada (and, indeed, around the world, covering millions of workers in dozens of countries). Apparently, a concerted onslaught by financial regulators, accountants, lawyers, judges, and a number of other so-called ‘experts’ was just too much for the DB plan and it died some time around 2020. Strangely, these experts seemed to believe they were actually doing some good. However, the end result was clearly predictable.

Of course, it wasn’t an immediate thing.

First, corporate sponsors, then quasi-government bodies, and, finally, even governments gave up on this type of plan. The governments may well have kept their plans going, but for the huge outcry from the electorate who realized that no-one but government employees had such a generous plan – one which no other employer could possibly afford. Unfortunately, reducing benefits in order to reduce costs didn’t meet with employee acceptance. They had been ‘indoctrinated’ into believing that 70 per cent of final employment earnings was needed in retirement, whereas, in fact, much less was quite adequate.

The decline in coverage started after a series of legislative initiatives over the years following 1985. These were billed as ‘reforms,’ but, in reality, they were thinly veiled attempts by regulators to increase their power and scope. In fact, at least one regulator actually removed from its official ‘raison d’etre’ the objective of encouraging the establishment of pension plans! They clearly knew that what they were doing was not in the interests of these plans.

In addition, judges – who then knew little of real life in the employment world – made things worse by ridiculous judgments on issues of surplus and plan partial wind-ups. Many lawyers were, of course, more than willing to exploit this ignorance by encouraging petty legal suits by disgruntled employee groups, for their own pecuniary advantage.

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**Well Into Decline**

It was thought, in 2008 when these plans were already well into decline, that they would be given ‘a shot in the arm.’ A number of provinces set up ‘expert’ committees to review a wide array of pension issues and it was hoped that these would show some leadership and creativity. Unfortunately, the efforts failed due in part to provincial jurisdictional bickering, but mainly due to a simple lack of will to do anything radical to halt the decline. Once again, it was ‘too little, too late.’

Maybe all of this was one reason why, in 2030, the constitution was amended to put a sunset clause on all regulatory bodies. Now, such bodies must justify their existence every 20 years, otherwise they are completely closed down. We long ago realized that, while regulation is necessary, regulators, both as individuals and as corporate bodies, have a natural inclination to outlive their usefulness and expand their scope well beyond what was ever intended.

In some cases, the organizations which previously administered these pension plans still exist. Many older Ontarians will remember that the ‘Teachers’ and ‘OMERS’ groups combined to form ‘TEAMERS’ which now runs the largest mutual fund company in Canada, with $3.5 trillion in assets covering every asset class one can imagine – and even some one doesn’t wish to imagine!
I finally managed to get an interview with April Spring, the last surviving DB pensioner who is now 121 years old. She isn’t quite as sprightly as she used to be, but is still sharp and lucid.

I asked her what she thought of DB pension plans. She said she didn’t think of her pension much when she was young as there were so many other things to occupy her mind. However, soon after joining the federal civil service at the age of 52, she realized what a great thing she was a part of. She could easily work out what her pension might be at various retirement ages and she knew that she didn’t have to worry about interest rates or the stock market. She knew that her pension would keep its purchasing power while she was receiving it. She had clearly forgotten that the government had reduced the indexation in 2050.

Too Expensive

However, she was not surprised that the plan was stopped as all her friends and relatives told her that such plans no longer existed outside of governments. She had also been advised by a financial planner that because of much increased life spans, these plans were simply too expensive to keep up. She felt bad that she had benefitted so much, when others couldn’t.

She wondered why the bright legal, accounting, and financial minds of yesterday were not able to do something to make the plans more affordable and attractive to employers. She felt that her grandchildren and great grandchildren would have more of a problem retiring at age 70, as she had been able to do.

She just couldn’t understand how we could send women to Mars, but couldn’t save the DB plan. She also wondered, with a twinkle in her eye, why we couldn’t send men to Venus!

As I left April, she had a tear in her eye. She realized that she was truly the ‘end of an era.’

When she passed away, the DB plan is still sharp and lucid.

John Dalton is managing consultant of his own consulting company, Tardis Benefit Services Inc. (jdalton.tardis@sympatico.ca).

DC Plans

Retirement Savings Plans In Turbulent Times

By: Joan Johannson

The past three months have seen a tsunami sweep through economic markets in North America and around the world, with nearly unprecedented levels of volatility. These are difficult times for pension plan sponsors who already face the unique challenges of an aging population coupled with changes to retirement laws ending mandatory retirement. Today, the need to retain the experienced older worker is paired with the need to curtail costs while also continuing to attract and retain talent in a competitive environment.

Defined Benefit pension plan sponsors, in particular, are faced with the conflict between revisions to tax law which would appear to allow for phased retirement programs and pension legislation that does not yet accommodate this solution. The recent CAPSA paper, ‘CAPSA Work on Regulatory Principles for a Model Pension Law,’ proposes much needed change to accommodate this in Section IV (see www.capsa-acor.org).

Face Pressure

DB plans now also face pressures not encountered by CAP plans in terms of managing stipulated funding requirements during the current economic upheaval. In fact, the federal government is now looking at ways to provide relief by providing, for example, an extended pension solvency funding period to help weather the potentially severe impact of recent economic events on the financial health of their businesses.

In such times, one might expect that any organization offering a DB program must be seriously considering a change to DC as the healthiest route for the future. This may also be the best route for plan members as well if one considers that an organization that is financially unsound may not be able to deliver on the DB pension promise.

The Defined Contribution pension plan member, however, knows the terms of their asset ownership. Once the monies are theirs, there is no taking them back.

The Upside

In fact, perhaps we can take some comfort that Capital Accumulation Plan (CAP) sponsors are likely much better able to weather such capital market storms, providing retirement benefits to employees without potentially threatening the financial health of the organization. Their plan members take on the burden of managing their investment and savings strategies to meet their own retirement needs. And so the question for CAP plans is ‘how can we help plan sponsors and their members handle the needs of this new economic reality? What tools do we have today or might be used in future to meet these needs?’

Fortunately, the CAP service industry has been developing self-help tools for plan members for the past decade. In fact, without these tools most plan members would have no idea how to answer the fundamental question of how much to save for a retirement that they would find comfortable. Today’s retirement planning tools are geared to help members answer these questions and model different scenarios and assumptions. They can dial up or down such factors as amount of contribution and time until retirement as well as expected rates of return and inflation and may provide guidance as to the reasonability of these assumptions. With a final ‘click,’ the member is advised how much more needs to be saved each month to meet personal retirement goals. This information is invaluable in today’s market for determining savings levels and managing expectations.

For the actively engaged plan member, profiling tools allow individuals to deter-
mine the degree of risk (annual volatility) which they find acceptable as well as specify their investment horizon, net worth, etc. This creates an ‘Investor Profile’ which, if linked to online investment choices, can provide valuable guidance warning the plan member if a potential trade is too conservative or aggressive for their profile. These tools help the engaged plan member.

Recent Addition
A recent addition to the Canadian group market is the introduction of professionally managed target date funds which can help the disengaged plan population. “These funds provide pre-packaged ‘advice’ to plan members on the appropriate asset mix for a retirement investment portfolio and the prudent adjustment of the equity allocation over time as retirement age approaches” states Michelle Loder, Canadian DC business leader for Towers Perrin. As there are many such offerings now, Loder continues, “Plan sponsors should carefully articulate and consider the criteria for their evaluation and selection of the appropriate product for their plan as well as for its ongoing monitoring.”

Dianne Lee, senior investment consultant, Hewitt Associates, agrees. “Not all target date funds are created equal – from active to passive management, single manager to multiple, there are varying asset allocation models including the possible use of alternative asset classes. As target date funds are added as a default investment option, large quantities of assets will likely flow to these products. Plan sponsors need to conduct a thorough review of products available to determine which best meets their members’ needs.”

Another new element is the Tax Free Savings Account (TFSA) with its possible potential to offer a competitive hiring edge. As Lee sees it, “The TFSA is the most significant change to tax-deferred savings vehicles since the introduction of the RRSP ... Plan sponsors have a tremendous opportunity to get creative with a group TFSA and leverage its value across other retirement and benefits programs ... creating an opportunity to differentiate relative to competitors. Individuals could benefit from a convenient way to save for short or long term needs through payroll deduction, favourable group rates, and access to institutional investment managers and funds.” While Loder does not disagree, she believes that “… the decision between saving in an RRSP versus a TFSA is not a straightforward one and unless members are given appropriate education and robust modeling tools to enable them to make their choices between registered savings plans and TFSA vehicles, unintended and misunderstood consequences for retirement readiness could result.”

Plan Review
Although good governance is never out of style, these new offerings and pressures suggest that now is an opportune time for plan sponsors to review the compliance of their plans with the CAP Guidelines.

Today, a plan’s design may be more likely challenged if it offers an extensive range of investment options. Members, dazzled by the array, may invest across the entire spectrum inadvertently creating an aggressive portfolio. Conversely, they may react to the daily news and abandon appropriate portfolios fleeing for the perceived safety of more conservative options.

“Above all,” Loder advises, “members need to understand the impact of these types of decisions on their ability to meet their long-term retirement goals. In the example of a migration to a more conservative asset mix for instance, the member should take the time to revisit their retirement goals and consider, preferably with the use of a robust retirement planning tool, whether any further adjustments might be necessary to the level of contributions they are making annually, or even to withdrawals that they might otherwise have been anticipating making in the short term. Managing member expectations about the timing and level of retirement income their savings can support is of paramount importance.”

In parallel, it is now recognized that employees approaching retirement have special educational and communications needs and these should also be included in governance planning.

The Future
Lee takes this a step further. “The next evolution in the industry is the development of a product to assist members in determining what to do with their accumulated assets at retirement. Although in the infancy stage in Canada, decumulation products (investment models tailored to retired members’ needs) are becoming increasingly popular. Plan sponsors wishing to offer a way to assist members to translate their accumulated assets into a stable income through retirement should review the products that come to market and determine whether they are appropriate for their members. By offering decumulation products, plan sponsors will close the loop on product offerings for their members from the accumulation to the decumulation stage.”

These products must meet the basic needs of our retiring plan members – steady income, growth to offset their increasing lifespan and healthcare costs, and, where possible, a legacy for their heirs. Our retiring members also face today’s financial storm and the CAP industry must rise to the challenge with flexible solutions, simple tools, and a new array of investment options.

Joan Johannson is president and managing director of Integra Group Retirement Services (jjohannson@integra.com).

What a difference a year can make. Harkening back to July 2007, global stock markets were near their peak, world economic growth was strong, fueled by the burgeoning developing economies, volatil-
CANADIANS OF ALL WALKS OF LIFE WILL SOON BE INVESTING IN THE TAX-FREE SAVINGS ACCOUNT (TFSA)

Starting January 1, 2009, plan sponsors will have access to the new Industrial Alliance TFSA group product. Our group TFSA gives plan members all the advantages of the TFSA, along with all the benefits a group plan offers. In addition, it gives employers another employee benefit to attract and retain skilled workers.

The TFSA, like the RRSP, can be used for long-term projects such as generating retirement income, but it can also be used for current projects like buying a property or a car. It has an annual contribution limit of $5,000 which will grow tax free during the contributor’s lifetime. Unlike the RRSP, contribution room can be recovered in full when sums are withdrawn. Withdrawals are also tax free, since contributions are not deductible.
high and opportunities seemed abundant. To follow. In fact, consumer confidence was low, and times were good. There was little indication of the financial crisis to follow. In fact, consumer confidence was high and opportunities seemed abundant.

By late 2008, global stock markets were in a free fall (down 30 per cent or more), the world economy seemed headed for recession, the VIX1 was at record levels, and you couldn’t pick up a newspaper without hearing more bad news. In short, consumer confidence was at all-time lows and risk was at the topic du jour!

Yes, indeed, what a difference a year can make! However, did we learn anything from all this? I think we have.

The first thing we learned was the meaning of risk and, at the same time, we probably learned more about our collective risk tolerance. Obviously in 2007 nobody foresaw exactly what the next 12 months would bring. However, risk management is not about knowing what the future will be, but rather it is about recognizing that the future is uncertain. And, with hindsight, perhaps we were wearing rose coloured glasses (return oriented) when we should have been looking more closely at the perils in our portfolios (risk oriented). We know that fear and greed drive the market, but the time to be truly fearful is when most people are being greedy (times seem good) and we should always be risk conscious.

The Limitations Of Risk Models
In addition, we witnessed the limitations of quantitative models, particularly during periods of extreme. This first became apparent during the sub-prime crisis of August 2007 when active (hedge fund and equity) quantitative managers underperformed significantly, largely because their quantitative models led them to take the same actions at the same time. In the 12 months that followed, many of the problems that hit major financial institutions could also be traced back to financial models which failed to capture or manage the true risks they would experience.

However, risk is multi-faceted and risk models are just a crude approximation of the real world. They are fraught with simplifying assumptions and generally focus on periods of normality or most of history (95 per cent of the outcomes) and, therefore, cannot detect the outliers or ‘Black Swans,’ which often change the course of history. Shouldn’t we be disaggregating risk to come to a better understanding of it? Risk models used inappropriately may also lead to a false sense of security. We need a better risk management framework that ensures the consultant and client do not overlook important risk exposures. Just as importantly, it is easily seen that risk management is a necessity for any model. A qualitative overlay strategy can apply common sense to get behind the surface numbers. Shouldn’t we look at the many facets of risk through various lenses, to take into account the dynamic market cycles and the constantly changing hazards? In hindsight, the need to broaden our horizons, or not narrow our focus, seems obvious.

Further, 2008 reinforced that financial markets are interconnected in complex ways and that problems in one part of the system can quickly lead to losses elsewhere. It provided a hard earned lesson on the importance of transparency (knowing exactly in what you are invested), proper due diligence, oversight, and looking beyond the obvious. Good governance and risk management go hand in hand!

A Comprehensive Risk Management Framework
So where do plan sponsors go from here? I believe the need for a new approach to risk management is a necessity for any well-governed fund. Developing and adopting a better risk management framework seems to be an imperative. Just like enterprise risk management in the corporate sector, this risk management process must be fund-wide in scope, forward looking, and clearly articulated. In addition, it should:

◆ classify risk
◆ have a systematic approach to evaluation
◆ be consistent with the objective of the fund and rigorous in its application

The governing trustees must have ownership, set the risk tolerance, approve the risk metrics, and have oversight. Quantitative risk tools should be just one element of the overall risk framework and should complement the framework, not replace it.

In our work with clients to develop such a risk management approach, we have seen the need to apply a comprehensive process. We firmly endorse a multi-dimensional approach which incorporates both qualitative and quantitative perspectives. The risk management hierarchy for institutional investors, the broad categories of risk, and their principle causes, are shown in Table 1.

In summary, a risk management framework should not be a vague concept, but rather a practical process, supported by research and hands-on client experience. The framework identifies the many risks facing an investment fund and places them in a hierarchy so that fiduciaries may determine the appropriate response for their current circumstance. It is an effective management approach that ensures the consultant and client do not overlook important risk exposures. Just as importantly, it is easily understood by all levels of fiduciaries (governing, managing, and operating) and an excellent communication tool, which not only helps to diagnose and prioritize risk, but helps set a customized, action plan for the fund.

Table 1
Risk Management Hierarchy

<table>
<thead>
<tr>
<th>RISK TYPE</th>
<th>PRINCIPLE CAUSE(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciary</td>
<td>Poor policies and procedures</td>
</tr>
<tr>
<td>Asset-liability</td>
<td>Mismatched core assets and liabilities</td>
</tr>
<tr>
<td>Structural or asset-class structure</td>
<td>Asset structure biases (usually intended) versus core asset categories inherent in passive implementation</td>
</tr>
<tr>
<td>Implementation</td>
<td>Asset structure biases (usually unintended) versus core asset categories inherent in active implementation</td>
</tr>
<tr>
<td>Operational</td>
<td>Ineffective implementation of policies and procedures</td>
</tr>
</tbody>
</table>

Bruce Curwood is director, investment strategy, at Russell Investments (bcurwood@russell.com).

*Our advice to investors has been summarized and published in the Summer 2007, Journal of Investment Consulting, in an article entitled ‘A Comprehensive Risk Management Framework for Investment Funds.’ A copy of the complete article, with case study, on how to go about building a better risk management framework, is available at www.russell.com.

1. The VIX (full name: CBOE Volatility Index) is a measure of the market expectation of the 30-day volatility of the equity market, and is calculated by an exchange based on the price of put and call options on the respective index.

Benefits and Pensions Monitor – December 2008 25
The current market volatility and the upcoming conversion to International Financial Reporting Standards (IFRS), to be effective in 2011, will be a catalyst for Canadian pension plans to move their focus from total asset management to a Liability Driven Investing (LDI) platform. Well over 50 per cent of European pension plans implemented LDI strategies when similar accounting rules were adopted in Europe.

The migration to LDI impacts Canadian pension plan sponsors and investors as it may:
◆ affect valuation of certain asset classes such as equities
◆ impact liquidity in derivatives including interest rate swaps and equity options
◆ increase the use of infrastructure, private equity, real estate, hedge funds, and other alternative investments

Fundamental Changes

The adoption of LDI by European pension plans has led to a fundamental change in the asset mix and the types of assets held by those plans. This is forcing asset managers to change offerings so that they include LDI-related products. Pension plans that adopted LDI structures generally:
◆ Increased the allocation and duration of their fixed income portfolio – In the UK, pension plans that adopted LDI increased their fixed income allocation by 17 per cent.
◆ Included derivatives such as interest rate and inflation swaps in the asset mix – In Europe, 68 per cent of pension plans are considering using derivatives.
◆ Reduced equity exposure while increasing exposure to alternative assets – In the UK, pension plans that adopted LDI reduced allocations to equities by 20 per cent.

In order to maintain or grow assets under management, asset managers began to offer new products such as pooled funds and portable alpha strategies. These were offered in order to increase the duration of the assets and to increase returns while maintaining a certain level of risk.

LDI: What It Is And Isn’t

LDI is a framework for managing the funding status of a pension plan. LDI requires plan sponsors to assess their plan’s liabilities when making asset allocation decisions.

Historically, pension plans have focused on asset allocation and manager selection with little or no reference to its liabilities. As a result, plan sponsors considered themselves successful if asset returns outperformed other pension plans or the asset managers they selected outperformed their respective benchmarks, even if the funded status of the pension plan deteriorated. As a result, asset-driven strategies have left many pension plans with deficits relative to their liabilities.

Traditional benchmarks, such as the TSX Composite Index for Canadian equities, are still important to evaluate individual asset managers, but an LDI framework requires the plan sponsor to assess asset performance at the plan level relative to its liabilities. Therefore, the asset manager’s benchmark should be the plan’s liabilities, rather than a ‘traditional’ asset-based benchmark.

For example, in the current environment, a manager that has an overweight status on corporate bonds would most probably underperform against a traditional fixed income benchmark. However, since pension plan accounting liabilities are calculated using corporate bond yields, the funded status of the accounting deficit/surplus would most likely improve and/or be less volatile if the fixed income manager increased its allocation to corporate bonds. LDI would ensure the asset manager makes investment decisions relative to the plan’s liabilities versus its traditional benchmark.

Misconceptions

There continues to be misconceptions in the marketplace regarding LDI. Some pension plans believe that LDI is a product and that it requires an overnight shift in asset allocation. The reality is that LDI is a framework. Given that the objectives of an LDI solution are based on each plan’s specific liabilities and corporate objectives, each LDI solution needs to be tailored.

What’s more, LDI implementation takes a phased approach. Asset allocation changes are made in a gradual manner based on the plan’s objectives and market conditions.

This year, 2008, can be characterized as the year of the early adopter with respect to LDI, with few transactions being carried out. What was very evident in 2008 was that the key external players in LDI – institutional asset managers, consultants, and some banks – spent time building the infrastructure from a product and knowledge perspective for the expected migration to LDI in 2009.

From a product perspective, we have seen European LDI products exported to Canada. Examples include duration-based pooled fund structures to hedge interest rate risk and longevity solutions to hedge the risk of pensioners living longer than expected.

We have also witnessed new entrants into the LDI space such as:
◆ Canadian life insurers who have begun to offer LDI type services to Defined Benefit pension plans. This is a major shift since most insurers exited the DB market over the past 20 years to focus on Defined Contribution plans.
◆ New risk management consulting firms that are primarily focused on assessing the risks contained within pension plans.
◆ Banks, such as RBC, which have created dedicated pension solutions groups focused on implementing LDI solutions and providing LDI related products.

Traditional pension consultants have also increased their focus on LDI, often creating dedicated LDI teams, importing tools and systems used by their European colleagues, and spending time understanding the merits of new LDI products.

Dramatic Increase

A recent survey by SEI Investments shows 37 per cent of Canadian pension plans are considering implementing LDI in 2009. Our own experience has shown a dramatic increase in the requests for information on LDI from corporate plan sponsors. Early in 2008, we received one or two requests a
month. We now receive one or two a week. The combined impact of the following factors should act as a catalyst for LDI in 2009 as a result of:

◆ increased volatility in the capital markets in 2008
◆ the requirement for corporations to report in 2009 the qualitative assessment of adopting IFRS accounting rules
◆ the experience of the ‘perfect pension storm’ of 2001-2002, from which many pension funds are yet to fully recover

We believe that LDI is a trend that will evolve as a result of structural changes in accounting rules and 2009 will be a year of increased demand for LDI products and services. 

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**LDI Without The Greek Letters**

By: Duncan McCallum

The essence of LDI is to match the movement of asset values with the movement of liability values. Because pension liabilities are long term and fixed (whether indexed or not), the natural assets would be long term and fixed as well, specifically long bonds (indexed or not).

In fact, pension funds used to hold nothing but bonds and life annuities until someone discovered that the duration of the bonds was too short. Bond yields were high back then so duration was the only problem. Yields have since moved from well above the actuarial yield assumption to well below, so the second strike against bonds now is that they do not yield enough.

**More Duration**

The challenge of LDI today is to create an investment portfolio that acts like bonds, but with more duration and more yield. If the current market turmoil has a silver lining, it is that it has created the opportunity to do just that!

Infrastructure bonds with A and AA credit ratings are often about the same duration as pension liabilities and they are now trading at previously unthinkable spreads of 2.5 per cent to 3.5 per cent over Government of Canada bonds. This would translate to five per cent to six per cent real or 6.75 per cent to 7.75 per cent nominal – comfortably within just about every pension fund’s targets.

What are infrastructure bonds?

They are typically issued by a company that provides an essential public service, usually government-related through a lease or franchise. Generally, they are protected from competition. One of the first infrastructure bond issues was the inflation-indexed Strait Crossing Finance issue in 1993. Then there were more than $10 billion of air navigation and airport bonds from 1996 to 2005, about $3 billion of university bonds.

Now, we will likely see $20 billion to $50 billion of Public Private Partnership bonds (PPP bonds) from 2006 to 2015.

**Too Long**

Life companies are actively seeking infrastructure bonds through their private placement arms. Pension funds have been less active because the bond managers find them illiquid, the early issues require large amounts of analysis, and bond manager mandates have been to beat the bond universe and these bonds are too long for that competition!

Ultimately, we expect that, like airport bonds, PPP bonds will become more liquid and more broadly accepted as the amount of issuance grows. Until then, early moving Liability Driven Investors may enjoy a unique opportunity.

Duncan McCallum is managing director, head of Canadian infrastructure, at RBC Capital Markets duncan.mccallum@rbccm.com.

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**LEGAL**

**Potpourri Of Cases For 2008**

By: Susan E. Slattery

Looking back over 2008 it appears that what we have is a potpourri of cases advancing or considering issues identified in prior years. Overall, it appears to be a year of development rather than a year where any significant change or a new approach has occurred.

The following is a brief summary of some of the more interesting cases of the period.

**Surplus And Expenses**

In Burke v. Hudson’s Bay Company, released May 20, 2008, the Ontario Court of Appeal considered whether a transfer of surplus assets was required from the seller’s ongoing pension plan on the sale of a business. Under the terms of the purchase agreement, the purchaser agreed to assume all liabilities of the transferred employees under the seller’s plan in consideration for the transfer of assets equal to the liabilities of the transferred employees under the seller’s plan. At trial, the court found that the failure to transfer surplus to the purchaser’s plan was a breach of trust. However, the Court of Appeal overturned the decision of the lower court and held that the seller had no obligation to transfer surplus from its plan as a result of the sale. It should be noted...
Landmark LDI solutions

In a changing investment landscape, beating the benchmark is no longer enough. Liability driven investment (LDI) solutions can help pension funds avoid surprises.

Standard Life Investments offers LDI solutions to help you better manage your risk without forfeiting your long-term growth potential.

Our dedicated Canadian team combines quantitative, actuarial and derivative expertise with significant financial engineering experience. We work closely with you and your consultants to produce investment solutions that are tailored to your specific objectives and risk budget, through separately managed or pooled fund accounts.

Standard Life Investments manages approximately CDN $26.9 billion of assets in Canada and CDN $263.6 billion worldwide.

For more information on our liability driven investment solutions, please contact:

Bob Milner, Western Canada: 403-531-1104
Patrick Lamontagne, Eastern Canada: 514-499-2538
Jay Waters
Harold Lounds
Andrew Marshall, Central Canada: 416-367-2177

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Exceptional investments, extraordinary world
that the decision of the Court of Appeal was at least partially based on the determination that the transferred employees had no entitlement to surplus under the terms of the seller’s plan. The court did not answer the question of whether surplus is required to be transferred on a sale of business where the members are entitled to surplus.

This decision also dealt with the issue of plan expenses. Following the decision in Kerry, the Court of Appeal held that amendments permitting the payment of plan and trustee expenses from the trust fund were permissible on the basis that they fell within the scope of the general amendment power within the plan and the trust agreement. In addition, although the court found that the amendments were not a revocation of trust, the court went on to note that even if the amendments were a revocation of trust, they were permitted by the terms of the trust agreement.

In the decision in Cousins et al v. Attorney General of Canada and Marine Atlantic Inc., released June 26, 2008, the Federal Court of Appeal considered the application of the Ontario requirements for surplus distribution on a partial wind up to the requirements of the federal Pension Benefits Standards Act, 1985 (PBSA). The decision of the lower court determined that the federal legislation was sufficiently approximate to that of the Ontario Pension Benefits Act (PBA) such that the decision of the Supreme Court of Canada in Monsanto should apply and surplus distribution on a partial wind up should be required under the PBSA.

The Federal Court of Appeal overturned the decision and held that the distinctions between the relevant provisions of the PBA at issue in Monsanto and the corresponding provisions of the PBSA at issue in Marine Atlantic are material and justified distinguishing Monsanto. In noting the significant differences between the PBA and the PBSA, the court focused on the definitions of the terms ‘termination’ and ‘wind up’ in the respective legislation. An application for leave to appeal to the Supreme Court of Canada was filed on September 24, 2008.

Further Consideration Of Buschau

As part of the ongoing saga of Buschau, the Federal Court released its reasons for judgment on September 11, 2008, referring the decision of the superintendent back to the superintendent for redetermination. If you recall, the Supreme Court of Canada referred the determination of the termination of the Premier Plan to the superintendent. The superintendent determined that the employer was entitled to reopen the plan to add new members and found, as a factual matter, that the plan had not been terminated. Further, the superintendent determined not to utilize its discretion to declare the plan terminated on the basis that the continued existence of the plan was a worthy goal and the employer was continuing to provide the promised benefits and was complying with applicable solvency requirements.

The decision of the superintendent was appealed and the Federal Court found that the superintendent failed to appreciate the extent of her discretion and rendered a decision that was unreasonable given the evidence before her. The basis for the decision of the Federal Court was related to improper conduct on the part of the employer. Leave to appeal to the Federal Court of Appeal was filed on September 26, 2008.

Multi-Employer Pension Plans

For multi-employer pension plans with members located in the province of Quebec, the decision of Sean Kelly et al v. Régie des rentes du Québec et al, dated April 2, 2008, was encouraging news. In that decision, the Quebec Court of Appeal overturned the decisions of the Quebec Superior Court, the Administrative Tribunal of Quebec, and the Review Board of the Régie des rentes du Québec and found that a multi-employer plan providing for the reduction of benefits and was complying with applicable solvency requirements.

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Partial Wind Up

In a March 27, 2008, decision in Hydro One Inc. v. Ontario (Superintendent of Financial Services), the Ontario Superior Court of Justice Divisional Court upheld an order of the Financial Services Tribunal (FST) which required the Superintendent of Financial Services to order a partial wind up of the Hydro One pension plan with respect to management compensation plan (MCP) members whose employment was terminated.

Section 69(1)(d) of the PBA allows the superintendent to require a full or partial wind up of a pension plan if “a significant number of members of the pension plan cease to be employed ...”. The question before the tribunal was “whether Section 69 can properly be interpreted to permit one particular group (for example, the MCP members) to be notionally segregated from other plan members in order to deter-
mine whether the number of terminations of members of that group resulting from a reorganization represents a significant number of members of the pension plan. The court found this notional segregation was permissible. Significance may be determined by a comparison of the terminated members of the subset of members within a plan to the total members of that subset. The court upheld the tribunal interpretation of Section 69(1)(d) and its order that the plan be partially wound up.

Amendment Of Employment Contract

On April 29, 2008, the Ontario Court of Appeal released its decision in Wronko v. Western Inventory Service Ltd., which upheld the principle that an employer cannot unilaterally amend significant terms of an employee’s contract of employment without the implicit or explicit agreement of the employee. The employer provided the employee with two years’ notice of an amendment to his employment agreement which significantly reduced his severance. The employee formally disagreed with the amendment but continued to remain in the employment of the employer. At the end of the two-year period, the employer confirmed that the employee’s severance provision had been effectively amended and stated that if the amendment was not acceptable “then we do not have a job for you.” The employee replied stating that he considered that notification to be a termination and claimed the full two-year severance.

The Court of Appeal overturned the decision of the lower court and found that if an employee refuses to accept the employer’s offer to amend a fundamental term of his or her employment contract and the employer allows the employee to continue working, the terms of the original employment contract remain in force. By allowing the employee to continue working, the employer acquiesced to the employee’s refusal to amend the employment contract.

The application of this case to pension and employee benefit plans is not clear. Although such plans form part of an employee’s terms of employment, these types of plans generally contain within their terms a unilateral amendment provision.

In addition, in the case of registered pension plans, notice and additional disclosure requirements under pension standards legislation must be considered, including the additional disclosures and timing issues relating to “adverse amendments.” Leave to appeal to the Supreme Court of Canada was denied without reasons on September 9, 2008.

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PENSIONS
Managing Through Uncertain Times

By: Monica McIntosh

The recent volatility in capital markets has been extraordinary. Global equity markets have dropped precipitously and the Canadian equity market is no exception. Canadian bond markets have also been affected by the turmoil. This unsettled environment presents unique challenges for sponsors of Defined Benefit pension plans and Capital Accumulation Plans (CAPs).

Sponsors of DB pension plans need to prepare for the impact that their pension plan will have on their organization’s finances. Sponsors may face demands for large cash payments to repair new or expanded pension deficits at a time when credit is tight. For some organizations, the impact could be severe and affect business investment decisions.

Advance Notice

Although Canadian sponsors are normally able to delay additional funding until the next triennial funding valuation is due, in this environment it is important to have as much advance notice as possible about potential contribution increases and alternative approaches that could mitigate short-term increases.

However, cash isn’t the only challenge. The impact of the pension plan on the company’s income statement will squeeze next year’s earnings and, for organizations reporting on a U.S. GAAP or IFRS accounting basis, weaken the balance sheet. Because discount rates used for determining pension accounting costs are based on high quality long corporate bond yields, the increase in credit spreads has provided some mitigation of the negative impact of the losses in equity markets. But will it last?

Sponsors of DB pension plans may look enviously at those organizations who adopted Defined Contribution pension plans or other CAPs, but they are affected, too, albeit in different ways. Employees may be forced to consider deferring their retirement plans because their account balances have shrunk, adding to the challenge that many organizations face in managing their workforce. The negative impact on employee engagement when plan members are distracted with worry over their retirement savings can add further stress to the organization’s operations.

So what should a plan sponsor do?

Uncertain Conditions

For DB plan sponsors, successfully navigating through uncertain conditions will require forward thinking and contingency planning, based on a thorough understanding of the impact of capital market movements on your plans and the alternatives available to address these impacts. This includes:

◆ Understand your pension financials: In the near term, plan sponsors can estimate the year-end balance sheet entry, 2009 income statement expense, and anticipated cash contribution requirements using today’s assets and liabilities. As part of this planning process, sponsors should also develop illustrations of further changes in capital markets – for the better and for the worse. Given recent
volatility, sponsors may wish to review the implications based on a wider-than-normal range of possibilities.

◆ Decide what action can be taken in the near-term: Contingency plans can be formulated so the sponsor is not unprepared in the event that any of these scenarios are realized. Investigate if any actions can be quickly implemented to prevent things from getting worse. For example, could additional cash funding in 2008 help dampen pension expense increases and maintain solvency funding ratios? In some jurisdictions, funding relief may be available to mitigate short-term increases in cash requirements.

◆ Monitor frequently: As recent events have illustrated, conditions can change rapidly, so it is important to monitor the situation frequently and adjust plans as necessary.

◆ Longer term, review the pension financial management plan: Sponsors may want to take additional steps to improve the assessment and monitoring of risks, on both the organization and its benefit plans. Many sponsors may want to identify the conditions under which additional risk mitigation techniques would be adopted. Strategies may involve adjustments to investment policy, funding policy, or even benefit design changes.

Consider Actions
For CAPs, whether employees participate in a Defined Contribution pension plan, a deferred profit sharing plan, or a group RRSP, sponsors should consider actions to be taken such as:

◆ Review what your service provider is communicating to members. Has there been a special communication regarding the market turmoil? Is this material sufficient, or is there a need for more customized communication to be provided from your pension committee?

◆ Monitor fund allocation and transactions at the plan level and address any unusual investment behaviour with education on retirement portfolio management principles focusing on risk tolerance assessments, appropriateness of long-term asset mixes, and rebalancing discipline.

◆ Be proactive in addressing potential questions and concerns members may have regarding the safeguarding of their assets or the stability of their service provider.

◆ Revisit the suitability of member decision support tools. Employees now, more than ever, need tools that will enable them to establish a realistic retirement income goal and enable them to make the best decisions with respect to their participation in the retirement program including their contribution levels, their withdrawal activity (if permitted), and their long-term portfolio management strategy.

For those responsible for pension management within the business, the biggest risk could be the failure to have answers for business leadership. The current economic volatility has reinforced the need to understand pension risks, monitor them regularly, and have the agility to respond to events as they unfold. In extraordinary times such as these, it is important to maintain a balance between managing short-term risks, while not losing sight of your organization’s long-term objectives.

Monica McIntosh is the national leader of Towers Perrin’s asset consulting practice.

The IBM Institute for Business Value Study came out with a report titled ‘Insurance 2020: Innovating beyond old models.’ Dated May 23, 2006, it presented the ideal model for managing employee benefits. This collaborative, open, client-centric, web model will allow major simplification of processes and cost reduction. The report foresees that by 2020, the industry will have moved into this new model. We fully endorse their conclusions and vision as we came to the same conclusion back in 2000.

The IBM analysis identified large-scale trends that will likely confront insurers in the year 2020:

◆ Active and informed consumers across demographic groups will reward non-traditional operators

◆ Technology virtualizes the value chain and will lower barriers to entry

◆ Innovation will be required

◆ Old modes of thinking will threaten the industry’s ability to innovate

◆ Interlopers will increasingly disrupt traditional insurance operations

◆ Industry leadership will require experimentation in operating models, processes, products, and customer relationships

◆ Strategic investment in innovation today is critical to success in 2020

To better understand the need for change, all we need to do is explore the current business processes.

Complex Web
The insurance industry is a complex web of participants trying to interact together. Roughly, we could estimate there are some 20 to 50 carriers, 5,000 advisors/actuaries, 125,000 enterprises, hundreds of payroll or HR systems, hundreds of thousands of health service providers, and some 15 million insured Canadians.

The problem compounds because most of these participants operate in silos which means they have to re-invent their own electronic processes. Most manage independent databases and use different formats and methods to share information. To make things even worse, some are based on old legacy technologies that are stretched to the limit and cannot adapt to the new realities.

If we want to tag a cost for managing this current insured model, we can estimate it to be between 15 per cent and 40 per cent of premiums. Using a median 20 per cent of annual Canadian premiums of $25 billion, this means more than $5 billion is spent every year for management only. This represents some $150 to $500 per insured every year.

“To develop new business and operational models, companies must encourage experimentation and establish a rugged, but
not too rigid, process for innovation,” says IBM’s ‘2004 Global Innovation Outlook.’ It established the following innovation lessons from this initiative:

- Innovation is increasingly open, collaborative, multi-disciplinary, and global
- New business designs are emerging that thrive on collaborative innovation
- The world evolves around the primacy of the individual

These concepts can help form the basis of an innovation plan for a company that is committed to achieving more than just optimization.

**Working in Silos**

In layman terms, IBM recognizes that current insurance technologies are ‘closed, isolated, and product centric.’ Most participants are working in silos, re-inventing the wheel and sharing access to information within the organization or with clients only.

The new model needs to look at Web 2.0 trends where the consumer/participant can access, share, and collaborate to drive the evolution of the information. Web services – Wikipedia, YOUtube, social networks, blogs, and many other community services – are not a fad, but a major trend. Consumers, whether individual or corporate, want to be in on the action. They want to share responsibilities, be part of the decision-making, and get access to the information when they need it.

The insurance industry is no different. Consumers want to buy the right insurance service, they want to understand the costs and products, and be able to access the right information when they need it. Insurance information will need to move from product-centric to client-centric which is open and has universal access.

My personal vision is that the solution to group benefits management needs to mimic what the ATM revolution did to banking.

Here is my blueprint for a universal, client-centric, collaborative web that guarantees group benefits insurance savings by simplifying the management processes to perfectly reflect the new model of businesses proposed by IBM.

**Centre Of Our Solar System**

Graphic-wise, we will replace the complex web model of the current inefficient model by one that becomes central to the client. The ‘C’ – standing for client, collaborative, and centric – becomes the centre of our solar system. The beauty of this model is that the client can be any participant – carrier, sponsor, advisor, health service or product provider, members, etc. The client is the owner of the information and he is the one that decides and invites the other participants. Every participant becomes an active part of this collaborative solution. Each will have a controlled access to share and make contributions based on their unique ‘role(s)’ and ‘rights.’ There is one single platform, one single database, and each participant will access the information within a customized and optimized interface.

It is easy to understand how this new model will allow major simplification of processes and cost reduction. Although I am proud to say that such technology exists today in very limited numbers, IBM foresees that it may take up to year 2020 for every participant of the industry to have moved into this new model.

Why will it take 12 years to get there? Most will wait because we are conservative. We accept pain and punishment because we are familiar with them. For most carriers and major industry participants, the question is: why rock the boat? After all, as long as the sponsors will continue to foot the bill, why take the risk of changes?

“The problem is that we are now in an era in which technology can transcend nagging industry problems and change the game,” says IBM, and early adopters will get the early benefits of the change while putting pressure on the others.

To become the clients of such a model, one will need to be a medium to large sponsor, professional advisor/actuary, TPA/TPP, and/or carrier. The smaller sponsors (under 150 members), as well as any other participant with limited group benefit expertise, should access this platform through a qualified and certified professional advisor/actuary, TPA/TPP, or carrier.

**Truly Universal**

To be truly universal, this platform needs to provide access to all the needed services:

- administrative tools to insure billing as well as employer/employee contributions
- links with HR or payroll services
- claims management and automatic adjudication services
- tools to simplify market evaluation

This model could allow sponsors to recoup some 50 per cent of these expenses. The solution is evident and obvious. However, to get the new model going, you might need to get involved, unless you enjoy being part of inefficiency.

Richard Sirots, is president and chief executive officer of C-surance.ca, a firm specializing in process optimization and web tools to manage group insurance and employee benefits (rs@c-surance.ca).

**ACCOUNTING**

**Fair Value Not The Culprit**

There are fair value naysayers who suggest that the current economic crisis is reason enough to ease this long-standing accounting methodology. Their argument goes that financial institutions are suffering to a great extent because of the significant write downs of illiquid assets they have to take through the application of fair value accounting.

At a time of great financial challenge and hardship, these ill-placed conclusions put even greater pressure on the standard setters, regulators, and investors who, in reality, support a methodology that truly reflects market realities in the most definitive and transparent way.

By: Jeff Diermeier
Certain Circumstances

Pressure by the European Commission, politicians, and special interest groups on the International Accounting Standards Board (IASB) has resulted in amendments that allow reclassification of financial instruments in certain circumstances. These amendments were put forward without any public consultation as a way to introduce something comparable to U.S. GAAP. However, in actuality they have provided European companies with the opportunity to weaken the standards by which banks account for their holdings of complex investments.

If the objective is to provide a systemic circuit breaker during the credit crisis, regulators should have flexibility to establish the parameters for an appropriate yardstick of the solvency of financial institutions. Nay-sayers focus on fair value being pro-cyclical in nature, and therefore, undervaluing assets when markets are weak.

However, the real problem is that there is confusion between the use of financial reporting information by investors for capital allocation and by regulators for the assessment of the safety and soundness of financial institutions. Pro-cyclical effects of fair value often arise due to the failure to delink the two uses of information.

The irony is that the political pressure exerted against fair value is at the expense of what is central to addressing the current financial crisis – restoring investor confidence through the application of standards that ensure financial reporting transparency. This central tenet was re-affirmed in a recent survey by CFA Institute in which a large majority of financial analysts and advisors said that concerns over transparency and the accuracy of asset valuation were among the top reasons for the market upheaval. What value is there of independence if at the first sign of disagreement various entities remove their support and speak against it?

Poor Lending Practices

The causes of the current financial crisis are clear – poor lending practices, inappropriate risk management, model failure, ignorance about complex purchases, asymmetrical compensation schemes, and poor governance. In fact, fair value has helped to reflect the true severity of these problems.

Fair value provides a more reliable indicator of economic worth by marking assets to their external market prices. It works as an early warning system and is the only accounting regime that can facilitate the timely correction from previous bad decisions. If financial institutions stick to applying market prices to their assets they would convey correct and appropriate information to investors about the effects of risk factors.

The approach taken in Canada to respond to the global financial crisis is encouraging. The Office of the Superintendent of Financial Institutions has provided additional guidance on how to handle the application of fair value in the current financial environment. The focus is on helping investors interpret the reported values. It is not about suspending fair value, but rather how best to implement it. This focus is rightly placed on the need for transparency in reporting.

While some changes have been introduced to account for liquidity issues, Canadian regulators have resisted making fair value the culprit.

It is true that Canada enjoys one of the strongest financial systems in the world and has not been as dramatically affected by the credit crisis as other regions where bank failures and bailouts have become a reality. Canada has been focusing on the financial system as a whole. The government’s view is that shoring up financial institution liquidity is paramount.

Act As Antidote

The belief that concealing mark-to-market losses will re-instill investor confidence and act as an antidote to pro-cyclical nature seems to be based on the misconception that observed net income volatility is the sole stimulus to investor perception of the risk of financial institutions. We argue that a more effective way of restoring confidence and ensuring investors do not misinterpret firm performance is to enhance the financial statement presentation so as to enable investors to distinguish between core operating earnings from gains or losses of holding assets. This should be coupled with meaningful disclosures that can convey the inherent uncertainty and margin of error on the valuation of complex financial instruments.

Accounting standards are in place to provide investors and other users of financial statements with objective information to make informed decisions. Ignoring these standards undermines the integrity and independence of the global financial reporting system. It would be a proverbial slap in the face to the investors, auditors, preparers, and others who contributed to the public debate over their creation. Rather than reducing the application of fair value, the focus should be on improving and expanding its current application across all financial instruments.

Jeff Diermeier is president and CEO of CFA Institute.

INVESTMENT

Hedge Funds – Survival Of The Fittest

By: Bernice Miedzinski

The unfolding crisis in the global economy has already had a transformational effect on the financial services industry, including hedge funds. Further change is inevitable as investors, regulators, and the funds themselves face the cruel lessons of 2008. To be clear, hedge funds did not cause the credit crisis, nor even play a major role in precipitating it. Rather, the market participants central to the crisis were loan originators, investment banks, rating agencies, and sellers of credit default swaps (CDS).

Nevertheless, hedge funds participated in several phases of the crisis as they hedged their credit risk using CDS, or sold...
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stocks to hedge their equity risks in relative value trades. Further, the forced sale of liquid assets to meet margin calls, investor redemptions, or to shield against counterparty risk also contributed to declines in equity and commodity prices. As Table 1 highlights, while hedge funds continue to outperform equities, they still suffered significant losses in recent months.

The New Hedge Fund Landscape

Today, hedge funds – and indeed long-only managers – face ‘investment Darwinism’ as the crisis sorts the wheat from the chaff. So how might the hedge fund industry look once the storm subsides?

To start, there will be a smaller, less crowded industry. The past year has tested every aspect of a hedge fund’s business – its infrastructure, investor relations, and risk management – and the business is only as strong as its weakest link. In short, only crisis-tested managers with proven track records and robust infrastructure will survive. Thus hedge fund assets and the number of funds will shrink further in 2009.

Similarly, the number of banks and trading counter-parties will continue to decrease. However, while the initial reduction in active traders hurts hedge fund returns (less trading volume, less liquidity, etc.), over time fewer hedge funds and bank trading desks will likely mean less competition chasing returns.

There will be more challenges in executing trades. As prime brokers consolidate, they are enforcing stricter terms on credit and leverage. Also, as investors reassess securities lending, the cost of stock loans may increase. Changes like these will raise trading costs for hedge funds. However, given the current dislocations in markets, regulation will likely focus on improving transparency and imposing an operational framework and/or ‘best practice’ guidelines on funds.

Instruments such as CDS will likely be ‘exchange-traded’ rather than OTC, with the accompanying liquidity, daily pricing accuracy, and clearinghouse backing. Overall, regulation will be positive if it increases financial transparency, improves trading efficiency, and protects against malpractice. Regulatory oversight will favour larger hedge funds with large compliance/legal teams, and both standards and barriers to entry will be raised.

Further institutionalization and consolidation is bound to occur. Hedge funds that survive the storm and can combine entrepreneurialism with solid infrastructure will prosper. For example, funds of funds (FoFs) with managed account platforms are better positioned to weather the storm, and this will be important going forward. Since the top 100 managers control about 75 per cent of hedge fund assets, hundreds of hedge funds will close in 2009 and the best will certainly be wiser, slightly chastened, entrepreneurial with solid infrastructure will gain strength as they exploit the glut of opportunities. Hedge funds have typically recovered well from losses. For example, from March 1999 to February 2000, six months after LTCM’s collapse, diversified FoFs gained a record 33.5 per cent. While the crisis will take time to work through the global economy, the size of dislocations in equity and credit markets will provide a rich opportunity set for hedge funds over the next few years.

Managers that emerge from the storm will certainly be wiser, slightly chastened, and more investor focused. These managers will gain strength as they exploit the glut of market opportunities. Some argue that the ‘golden age of hedge funds’ awaits them, one reason why the hedge fund universe, albeit a smaller one, will continue to attract investment as part of effective portfolio diversification.

Table 1

<table>
<thead>
<tr>
<th>Date</th>
<th>Relative Value</th>
<th>Event Driven</th>
<th>Equity Hedge</th>
<th>Global Macro</th>
<th>Managed Futures</th>
<th>Diversified FoFs</th>
<th>S&amp;P 500 TR Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-Jun 2008</td>
<td>-1.4%</td>
<td>-2.7%</td>
<td>-3.8%</td>
<td>6.6%</td>
<td>9.8%</td>
<td>-2.4%</td>
<td>-11.9%</td>
</tr>
<tr>
<td>Jul-Oct 2008</td>
<td>-15.6%</td>
<td>-14.3%</td>
<td>-19.4%</td>
<td>-0.8%</td>
<td>-2.2%</td>
<td>-16.6%</td>
<td>-23.8%</td>
</tr>
<tr>
<td>Jan-Oct 2008</td>
<td>-16.8%</td>
<td>-16.6%</td>
<td>-22.5%</td>
<td>5.7%</td>
<td>7.3%</td>
<td>-18.7%</td>
<td>-32.8%</td>
</tr>
</tbody>
</table>

Sources: Hedge Fund Research, Inc; Bloomberg; Stark & Co. HFRI Equity Hedge, Event Driven, Macro, Relative Value and Fund of Funds Indexes, Stark 300 Trader Index and S&P 500 TR Index (dividends reinvested).

Bernice Miedzinski is executive vice-president, institutional relationship management, for Man Investments Canada Corp. (bmiedzinski@maninvestments.com).

1. A CDS is a contract where the buyer makes a series of payments to the seller and in exchange receives a payoff if the credit instrument (e.g., a bond) goes into default, or if a specific credit event occurs (e.g., bankruptcy or restructuring). For example, AIG was a large seller of CDS.

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To learn more about LifePath, go to www.BGILifePath.ca or email DCCanada@barclaysglobal.com

*Source: ”P&I/Watson Wyatt World 500” Pensions & Investments, September 4, 2006
Investors everywhere have been troubled by the increasing volatility in capital markets in recent months. As the global credit crisis deepened, policy makers were prompted to take unprecedented measures to restore confidence in the financial system. The depth of the recent stock market declines have made many investors nervous about the future of the capital markets.

Bastions Of Safety

In most market downturns, investors would look to the traditional bastions of safety – the bond and money markets. Unfortunately, even these two areas have provided little security after liquidity froze up following the collapse of some long-standing financial institutions.

Nonetheless, there is reason to remain optimistic. We believe that the equity markets will follow their traditional path and recover ahead of the economy. Historically, financial markets bottom when they think the worst is behind them and before we begin to see a return to strong earnings.

When the turnaround will come is difficult to pinpoint. There are still clouds overhanging stock markets as the shock waves from the U.S. subprime mortgage meltdown continue to reverberate around the world.

Economic growth in the U.S. is slowing, and we have yet to see clear signals that falling U.S. house prices are beginning to stabilize. The key international markets of Europe and Japan are also feeling the pinch as GDP growth has been trending lower in these economies too.

The global economic slowdown has been feeding into the corporate level as well, as earnings estimates continue to be revised down. We expect this trend to persist into 2009 as weak earnings, which had been largely concentrated in the financials sector, have taken hold in other sectors.

Lack Of Liquidity

The lack of liquidity has exacerbated the problem. However, we expect credit markets to begin functioning properly before long, given the actions of governments and central banks to provide liquidity – significant interest rate cuts, enhanced short-term loan programs to financial institutions, and bailouts of major banks. However, we anticipate that the cost of credit will remain higher than in the recent past. Higher borrowing costs will have an impact on companies that do not have strong balance sheets and require significant debt funding for their operations. Accordingly, we expect that many firms will begin to scale back growth plans, resulting in higher unemployment.

Despite the headwinds, we have seen some positives in the final months of the year. Commodity prices have retreated from record highs reached this past summer. While this was not the best news for the Canadian equity market due to the significant weighting of resource stocks on the TSX, the pullback provided much needed relief to consumers and the broader global economy in general.

As well, global growth, though slowing as noted above, remains positive on the whole. It is important to recognize that growth in emerging economies provides an offset to the slowdown in the more mature markets. The key emerging economies, such as China and India, may also be slowing, but the decline in growth rates is from high single or low double digits to mid or high single digits.

Equity Valuations

Finally, from a long-term perspective, equity valuations remain attractive. We believe stocks are well-priced and see significant buying opportunities. Still, we expect further volatility through year-end with markets essentially locked in a trading range.

As we said earlier, the macro environment remains cloudy and earnings estimates are coming down, resulting in a mixed picture for equities. However, there is good value in companies that pay dividends, have an above-average return on equity, strong management, and the potential to grow earnings and dividends over time.

In this period of unprecedented financial crisis and uncertainty in international markets, the only guarantee is that no one can know what will happen next. Socio-political and macroeconomic analysis suggests that global economic growth will recover in just a few years and we will once again be in a commodities bull market. However, there remains the possibility that the current economic slowdown could develop into a protracted recession.

In times when fear and uncertainty rule the markets, the most prudent course is to take all measures to protect your portfolio against the worst-case scenario. Take the opportunity to review your strategic direction, and then take the action that best serves the interests of your plan and its various stakeholders – now, and for the long term.

Bruce Cooper is head of all traditional fundamental equity teams within TD Asset Management Inc., a wholly owned subsidiary of The Toronto-Dominion Bank (TD Bank).
Despite fluctuating gas prices, Canadian employers are implementing only limited measures to provide employees with relief from commuting. Where they are making changes, organizations are motivated more by employee wellness than the rising cost of fuel.

When numbers at the pumps started to go through the roof earlier this summer, Hewitt conducted a short, online ‘Rapid Response’ survey to see how employers were responding. From the results, it appears that there are few knee-jerk reactions. Rather, employers seem to be taking a more holistic view of the costs of commuting – not just the financial strain of getting to work, but the emotional and environmental impact as well.

Ease Commuter Woes

That observation doesn’t mean there isn’t more that employers can do to ease commuter woes. There is much room for creativity, as evidenced by some of the initiatives certain organizations have undertaken.

The initial reaction of Canadian employers to the question of how to minimize the impact of commuting has been to make it easier for employees to work at home or to work a full schedule in fewer days.

Going The Extra Mile

While riding out rising gas prices may be advisable, organizations that disregard the commuting issues their employees are facing may be missing the boat. Assuming a more proactive stance not only makes good business sense, it provides an opportunity to distinguish the organization as an employer of choice.

Recent data from various U.S. studies suggests that providing commuter assistance could go a long way in attracting and retaining key employees.

The results of a study by Wayne Hochwarter, professor of management at Florida State University’s College of Business, were cited in a May 30, 2008, online Wall Street Journal article, ‘Company Programs Help Employees Save on Gas.’ Eight hundred full-time employees were surveyed about how the high price of gas was affecting them. Each used their own vehicle to get to work and had an average round trip of 30 miles. The study indicated that rising gas prices caused more stress on the job, resulting in lower employee productivity. In fact, one-third of respondents said they would quit their jobs for a comparable position closer to home.

The same article cited another study by outplacement consulting firm Challenger, Gray & Christmas. Thirty-four per cent of employers stated that candidates had turned down jobs at the prospect of a long commute.

The IBM survey ‘Feeling the Pain: The Impact of Traffic Congestion on Commuters,’ released this spring, clearly indicates the toll – both the time and expense – commuting can take on drivers:

- 19 per cent say traffic has negatively affected their work or school performance
- 45 per cent report increased stress and 28 per cent report increased anger

Assuming these same sentiments hold true in Canada, employers in this country, like their counterparts in the U.S., have much to gain by helping to ease commuter woes.

Commuter Assistance Drives Employee Satisfaction

Of the 236 Canadian organizations that responded to the survey in July, almost half offer flexible work locations or telecommuting (working from home or a satellite company office) to some or all employees, while an additional 17 per cent are planning to make this option available within the next year. Sixty-four per cent provide flexible work hours, including condensed work weeks and flexible start times, with a further 19 per cent expecting to do so over the next 12 months.

However, employer feedback suggests that the main reason for providing this flexibility is employee wellness, not the high cost of gas. Given that gas prices have experienced wild fluctuations over the last several months, it makes sense for employers to adopt a broader perspective before taking steps to address the travel challenges of their employees.
Thinking Creatively

Organizations taking part in the Canadian survey were asked about more leading-edge employee benefits to assist with commuting challenges. The results show that certain arrangements are gaining employer endorsement and making their way into the workplace:

- Thirty-six per cent provide bike racks, change rooms, or other non-financial support for bicycle commuters, and another 11 per cent are planning to do so in the next year.
- Twenty per cent provide non-financial support for carpoolers, such as a bulletin board to facilitate car pool arrangements or prime parking spots for car pool vehicles. That figure is expected to increase to 31 per cent by mid-2009.
- Eleven per cent of organizations provide a subsidy (direct reimbursement) for mass transit, while a further five per cent will add this benefit over the next 12 months.
- Other initiatives barely appear on the radar screen of Canadian employers:
  - Flexible transportation subsidies, where employees are given the choice of applying company dollars to parking, transit, or cash for bike riders
  - Company-sponsored vans to ferry employees between mass transit and work, where the job site is somewhat off regular commuter routes
  - Parking subsidies – above whatever may be offered to employees in general – for those who either participate in a car pool or drive an alternative fuel vehicle

While these measures have not been adopted wholesale by many employers in the U.S. either, certain employers are leading the way in implementing commuter relief initiatives and making others take notice. A recent Forbes.com Workplace report described several unusual efforts that organizations are undertaking to assist workers:

- The New Belgium Brewing Company in Fort Collins, CO, gives employees a new bicycle on their one-year anniversary as an enticement to ride to work, rather than drive. It also provides showers so employees can clean up before starting work.
- In return for allowing them to completely wrap a qualifying employee’s car with the company’s logo, the career search website Jobing.com pays 100 per cent of the employee’s gas, along with a monthly $500 stipend.
- Microsoft Corp. supplies a company bus called the Connector with 16 routes that transport 6,000 employees.
- The Principal Financial Group arranges free bus rides with the local transit authority for its workers.

High Cost Of Business Travel

While rising gas prices may not be playing a prominent role in the decision of how to make commuting easier for employees, they are coming into play when it comes to business travel. Almost two-thirds of respondents to the survey indicated that they have increased their mileage reimbursement rate in the last year for employees who use their own vehicles for business-related travel. Fifty-three per cent also plan to review those rates over the next six months.

The reasons most frequently given for recent or anticipated increases were rising gas prices, employee fairness, and remaining competitive. However, a quarter of respondents stated that they increased rates because employees asked them to do so.

Only 16 per cent of organizations reported that they regularly review their reimbursement policy. While rates vary from under 40 cents per kilometre to over 52 cents, many respondents had made considerable increases over the last 12 months. Eleven per cent had increased their reimbursement rate by eight cents or more per kilometre. If organizations want to build goodwill with their employees, they should proactively review mileage reimbursement rates on a regular basis.

Looking Ahead

Employers in areas where competition for skilled talent is fierce may find themselves losing candidates and employees to organizations that provide assistance to commuters – especially if gas prices continue to increase. And those employees who stay on the job may be less productive as the stress of commuting affects them. These factors may well be persuasive for an organization that is considering whether to implement commuter relief measures, particularly those that may carry a hefty price tag for employers.

Regardless of these business reasons, benefits that are good for employee well-being, good for the environment, good for workers’ finances, and build goodwill deserve serious consideration on the part of employers. Expect to see commuter assistance begin to play a more prominent role in employee benefit packages in the near future.

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Addenda

The following were not available at press-time for the ‘Annual Report on Money Managers’ in the October issue of Benefits and Pensions Monitor.

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Did you know that over the last 50 years average life expectancy at birth has risen by almost 20 years worldwide? According to the World Health Organization, it went from 46.5 years in 1950-55 to 65.2 years in 2002. In the Middle Ages, it was only about 25 years!

What’s more, we’re presently witnessing a significant aging of the Canadian population. At the time of the 2006 census, there were more than 4.3 million Canadians 65 or older, representing an increase of 12 per cent over 2001 (see Figure 1). Furthermore, the oldest seniors represent the fastest-growing segment of the Canadian population. In 2006, for example, more than a half-million Canadians were 85 or older, a jump of 25 per cent since 2001.

**Unique Time**

With increased life expectancy comes a dream on the part of workers to enjoy a longer period of well-deserved retirement. The present day Canadian context, then, is characterized by an aging population, a constantly increasing life expectancy, and workers who wish to retire at a younger and younger age, taking advantage of this unique time to accomplish projects that are important to them. However, besides the risk related to life expectancy, Canadian workers who participate in Defined Contribution pension plans should also be aware of the risks connected with market performance and inflation. All these risks translate into a greater need for savings in order to provide for a comfortable retirement.

We know that benefits from government pension plans are not enough to provide a sufficient income at retirement. What’s more, these benefits are not available before age 60. Therefore, personal savings are necessary to ensure adequate retirement income and this is especially true for people who wish to retire before age 60. The increase in life expectancy is having a direct impact on this need for personal savings since the withdrawal period is getting longer. Thus, if a retiree makes provisions for a life annuity or a life income fund (LIF) at the time of retirement, a rise in life expectancy automatically means a reduction in retirement income, or an increase in the amount required to generate the desired retirement income.

**Accumulation Period**

Figure 2 shows the impact of the increase in life expectancy with regard to the purchase of an annuity for a person who has been working since age 20 and who retires at 65. We are basing our calculations on life expectancy in 1960 which corresponds to the beginning of the accumulation period and on life expectancy in 2005, which represents retirement and the end of the accumulation period. Thus, in 2005, to replace 70 per cent of his annual pre-retirement salary of $40,000, a 65-year-old man would have to lay out $359,851 if he wants to obtain an annuity indexed to the two per cent inflation rate, compared to the $295,458 which he would have paid if life expectancy had remained the same throughout the accumulation period. In other words, based on this example, a 4.3-year increase in life expectancy over the accumulation period between 1960 and 2005 means an additional $64,393 is required to buy an indexed annuity.

**Risk Related To Returns**

Another factor that significantly influences the total amount available to an investor at the time of retirement is the performance of financial markets. A sum of $1,000 invested every year over a 30-year period will grow to almost $70,000 if the average yield is five per cent; close to $84,000 if the rate of return is six
per cent; $101,000 if it is seven per cent; and $122,000 if it is eight per cent. Obviously, the performance of financial markets has a major impact on the final amount accumulated for retirement.

Unfortunately, as we have seen over the last few months, we have no control over the performance of financial markets. All that retirement plan sponsors can do is ensure that members have access to a varied and complete range of investment options that invest in investment solutions that match their respective profiles. It is essential that the tool that determines the investor profile take into account the investment horizon. Thus, when the investment horizon is long, an investor will have the advantage of opting for investment options that offer better expectations of return, since even though the volatility (risk) associated with these investment options is higher, it is the long-term return that counts and, therefore, short-term fluctuations are less worrisome. For this reason, life cycle funds are an excellent alternative for those who wish to optimize their return expectations based on their investment horizon.

Risk Related To Inflation

Did you know that $1 earned in 1986 is now worth 56 cents? Over a long period of time, inflation plays a significant role when it comes to price changes and purchasing power. During one’s working life, salary increases generally counter the impact of inflation. However, what about retirement?

Since retirement has no set length, it is difficult to assess the impact of increases in the cost of living on retirement income. One thing is certain, the longer retirement is, the more inflation will reduce the retiree’s purchasing power over time and the more he will have to save during his working life in order to be able to maintain his purchasing power throughout his retirement years.

Since it is difficult to calculate the additional amount required to compensate for inflation, and since its ‘erosive’ effects are not always initially clear to all investors, retirement plan sponsors should make use of calculating and planning tools that project retirement income in today’s dollars, or they should at least offer this possibility so that investors have a realistic view of the purchasing power that their retirement income will provide.

It is also essential to provide retirement plan investors with educational tools that will allow them to become familiar with various economic and financial concepts such as inflation. By being informed and forewarned, investors have a much greater chance of avoiding unpleasant surprises upon retiring, such as seeing their purchasing power diminish.

However, a number of studies have shown that investors in DC plans are not saving enough to provide for a comfortable retirement. According to research sponsored by the Canadian Institute of Actuaries in June 2007, only one out of three Canadians planning to retire in 2030 is investing at a sufficient level (Madrian and Shea, 2001; Choi et al. 2004; Choi et al., 2006) have shown that automatic enrolment increased the participation rate in retirement plans significantly (see Figure 3). On the other hand, a much higher number of investors in this type of plan end up invested in the option by default, as compared with investors in plans in which enrolment is voluntary. Therefore, the sponsor’s role is essential in an ‘automatic pilot’ plan because he must choose an adequate default investment option and set a sufficient contribution rate to ensure a decent retirement for his employees.

Awareness Of The Stakes

Moreover, educating investors and raising their awareness of the stakes is of prime importance. It is essential that they be regularly informed of their financial situation in relation to reaching their retirement objectives. Some group pension plan providers have educational experts whose job it is to communicate with retirement plan investors. This service is accompanied by a vast range of educational tools such as websites, paper guides, personalized statement mail-outs, etc.

In some cases, phased retirement might be another solution to consider. Working part-time, rather than stopping completely, could extend the accumulation period while reducing the number of years of full retirement. Nevertheless, phased retirement should be used with a goal of increasing the amount of accumulated savings, and not solely to gradually reduce the number of hours worked. This approach also has the advantage to the employer of allowing him to show flexibility and a desire to accommodate his employees, which can help strengthen his reputation as a first-rate employer, thus putting him in a better position to deal with the labour shortage that seems to be imminent and inevitable.

These risks for future retirees represent a major challenge that can be met with discipline and perseverance. Like the proverb says, ‘Better to be safe than sorry!’

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Professionals responsible for the investment direction of their organization's pension funds are invited to request a membership information package.

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‘The Evolution of Investment Sales’ is the theme of AIMSE’s ‘16th Annual Canadian Conference,’ January 13 and 14 in Toronto, ON. The event provides a forum to network with peers as well as plan sponsors and consultants, in addition to a variety of educational sessions. Visit: www.aimse.org

CPBI Ontario’s ‘4th Annual Pension Investment Forecast’ will feature some of Canada’s most influential pension plan investment professionals. Panelists include Colin Carlton, vice-president, investment research and risk management, Canada Pension Plan Investment Board; Josephine Marks, managing director, pension assets, Scotiabank; and William W. Moriarty, president and CEO, University of Toronto Asset Management Corporation. It is set for January 14, 2009, in Toronto, ON. Visit: http://www.cpbi-icra.ca/

Registration for the HRPA’s ‘2009 Annual Conference & Trade Show’ is now open. This year’s event will feature six world-class keynote speakers and more than 120 professional development sessions. It takes place January 28 to 30, in Toronto, ON. Visit: www.HRPA.ca/Conf09

Tickets for the CPBI ‘2009 Benefit Ball’ are now on sale. This year’s event ‘Celebrates Bollywood.’ It takes place February 5 and all proceeds go to the Crohn’s and Colitis Foundation of Canada (CCFC). Visit: http://www.cpbi-icra.ca/en/event_details.ch2?event_id=633

The ‘Canadian Health and Wellness Innovations Conference’ will explore cost control trends as well as the latest advances in alternative treatments to supplement traditional healthcare. The International Foundation of Employee Benefit Plans event will be held February 8 to 11 in Victoria, BC. Attendees will learn new approaches to managing healthcare costs and will gain a thorough understanding of the components of cost drivers. Visit: http://www.ifebp.org/Education/0903canHlthInnovations.htm

‘Preparing Your Business for Public Health Risks’ will be the focus of a breakfast seminar February 9 in Toronto, ON. Featured speakers include Dr. David McKeown, chief medical officer for the city of Toronto, and Gary J. Gabet, manager of human resources and health and safety for Maple Leaf Foods. Topics will include communicating health risks to your employees. Visit: www.oha.com/healthrisks

‘Medical Tsunami’ Looms

I was with great interest that I read the article on heart disease – ‘Take It To Heart: Heart Disease in the Workplace’ – in the October issue of Benefits and Pensions Monitor.

The article was bang on in many respects – particularly the observation that survivors often face significant physical and emotional challenges. That said, there is an important sidebar to the story that needs to be told – the growing number of adults with congenital heart disease (CHD) who are now in the workplace.

CHD is the world’s leading birth defect. About one in 70 Canadian children are born with a heart defect. In the past, few patients with CHD made it past their teens.

Now, however, thanks to medical advances, more than 95 per cent make it to adulthood. The massive wave of children with CHD who have reached maturity over the past three decades has been nothing short of a ‘medical tsunami.’ There are now more than 130,000 adults living with CHD in Canada.

While most of these adults will lead happy and productive lives, the vast majority will still require life-long cardiac care and at least half face the prospect of complications, multiple surgeries, and/or premature/sudden death.

Over the course of their careers, many CHD ‘patients’ will require some form of workplace accommodation such as the flexibility to attend regular medical appointments, reduced work hours to cope with lower energy levels, or time off to recover from surgery.

Sadly, however, many young people with CHD feel compelled to hide their heart history from their employers – for fear of being ‘written off.’

I consider myself one of the lucky ones. Following a mild stroke almost four years ago – the result of my CHD history – I faced 18 months of doctors’ appointments and medical tests, a year on a surgical wait list, complex open-heart surgery, and three months of recovery. Through it all, my employer stuck by me. I worked when I could and they accommodated my needs.

Today, I’m back to work on a reduced schedule (four days a week) and I’m all the more appreciative of my employer. If only all employers could be as supportive!

Ted Thaler

APPONIMENT NOTICE

Claude Leblanc

Joseph Iannicelli, President and CEO of The Standard Life Assurance Company of Canada, is pleased to announce that Claude Leblanc has joined the Company as Senior Vice-President, Group Savings and Retirement.

Mr. Leblanc is a seasoned executive with 30 years of experience at leading Canadian organizations in the insurance and financial services sector. With his strong leadership and extensive knowledge of the business, he will continue to strengthen Standard Life’s position as a top tier provider of innovative savings and retirement solutions to Canadian employers.

Mr. Leblanc graduated from HEC Montréal with a Bachelor’s degree in Business Administration and later undertook management training at Harvard University’s High Potentials Leadership Program. He is active in his profession, and for a number of years, as a member of the board of directors of the Québec chapter of the Canadian Pension and Benefits Institute.

Standard Life plc is a major international financial services group headquartered in Scotland that provides asset-managing services for retirement, investment and protection to some 7 million customers globally. The Standard Life Assurance Company of Canada is Standard Life plc’s largest operation outside the U.K. with 2,000 employees across Canada. In 2008, Standard Life marked its 175th year of operations in Canada.

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I t was a time of wealth destruction and financial upheaval. It was a time when people forgot about making money and instead turned to the important matter of just preserving any wealth that they still had. And it was a time that might have lessons for us as we face today’s financial problems.

No, I’m not speaking of the Depression, which seems to be the time period that many today are quoting as they look for a modern Keynes to give them government-based solutions.

Rather, I’m talking about World War II, when the very future of financial systems, and of the countries that gave them a home, was in real doubt. Hedge fund manager and amateur historian Barton Biggs, in his latest book, ‘Wealth, War and Wisdom,’ looks at this period and notes the following:

◆ **Stock Declines Go On Longer Than You Would Like**

This is unfortunately true. The British stock market hit bottom in 1932, recovered by 1936, then dropped again in 1937 as both the United States and Britain slipped into another recession. The market tested the 1932 low in 1940, and only began reaching the 1936 recovery level after World War II.

◆ **But Equity Index Movements Can Tell Us Something**

Biggs notes that markets as a whole are often great predictors of what will happen to a country and its economy. The British stock market bottomed at an all-time low in mid-1940 before the Battle of Britain and the U.S. reached a similar bottom near the Battle of Midway. The German market reached a peak at the time of the ill-fated invasion of Russia. Biggs notes that “Those were three great momentum changes of World War II – although at the time, no one except the stock markets recognized them as such.” None of these indications were due to any mysterious reasons grounded in technical analysis, but rather came from the wisdom of crowds, which were able to understand news and signals that others missed.

◆ **Look At Preserving Wealth in the Meantime**

Despite their problems, equities are still the way to go and over the very long term (the entire last century) brought positive returns to western countries and even countries such as Japan and Germany that were decimated by the war.

However, this broad trend masks some notable points. Only four countries (including Canada and the United States) had positive real returns in their equity markets in every 20-year period in the first half of the last century. In the other 11 countries, there were 20-year periods of negative real returns. In four of these countries (France, Germany, Italy, and Japan), the declines during the 1940-1949 period completely wiped out the equity gains of the first 40 years.

However poor the returns from equities were, they were still better than the alternatives. Government bonds in these four countries had total real returns of between minus 96 per cent and minus 98 per cent for the 1900-1949 period, as rampant inflation destroyed any real returns from bonds. Real estate wasn’t much better as for many years nobody was paying rent on either land or buildings when a war was taking place around them.

Equity investing is no panacea. Biggs notes that there are no wonderful ‘keeper’ stocks to invest in.

In the United States, the crash that began in 1929, sunk to a bottom in 1932 and reached a recovery peak in 1936 that was still only about half the 1929 high. For the next decade, the United States stock market stayed well under the 1936 level.

◆ **It Was The Worst Of Times**

Despite their problems, equities are still the way and forget for the simple reason that no company has ever had a sustainable, competitive advantage. Some advantages last longer than others, but all are temporary. It is even arguable that there is no safe industry. While the pace of change might be faster in high-tech groups than in more traditional ones, the velocity of change is increasing in all industry groups over time. Diversify your equity holdings, park some money in an index, and look at true active investing for the remainder of your wealth.

Biggs places great faith in stock markets. “Equity markets are wise. The investor crowd has great intuitive wisdom … Disregard the ranting and raving of the self-proclaimed elite thinkers and alleged experts on wars, economics, politics, and, above all, the stock market … They lack the imagination and the courage to predict the unexpected, the 10 standard deviation events that transform the environment. History usually doesn’t evolve in a slow and orderly way; often it leaps forward in disorderly, chaotic jumps.”

Right now, the markets are trying to tell us something as a new financial history is being written. Maybe we should listen to them.
To be successful in any business, attention to detail is crucial. And this is especially true when it comes to providing retirement services for your employees. At Great-West Life we are completely committed to the highest principles of accountability and providing superior, reliable group retirement services. If you want your group retirement plan to run as smoothly as you wish everything else did, give us a call at 1-800-452-0025 or visit www.grsaccess.com
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