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Earlier this year at the HOOPP symposium, they provided a curious bit of video. Based on the ‘Apple/PC’ commercials which extol the virtues of Apple over the problems encountered by PC users, here the casual laid-back Defined Benefit pension plan calmly countered all the problems faced by the upright, conservative Defined Contribution plan.

Looking at events of recent months, however, one wonders if this was HOOPP’s declaration of intent to get into the ‘Superfund’ race in Ontario.

Better Results
The concept first reared its head in the Ontario Expert Commission on Pensions report, ‘A Fine Balance.’ Large pension plans, it said, generally achieve better results than small plans because they are able to employ teams of financial analysts, pay lower investment management fees, and have access to private equity placements and other investment opportunities. As well, these plans can achieve significant economies of scale in their administration.

From this, it recommended that the provincial government investigate expanding the Canada Pension Plan or creating a comparable provincial plan.

Ontario responded by announcing it would introduce legislation permitting the Ontario Teachers’ Pension Plan to manage money for other pension plans and institutional investors in the public sector. Not only did Teachers’ embrace the idea, but shortly afterwards Michael Nobrega, chief executive officer of the Ontario Municipal Employees Retirement System (OMERS), said it was now open for business. He also suggested the province mandate that all pension funds join forces to create ‘Superfunds’ as only giant funds – with more than $100 billion in assets under management – have the critical mass to invest effectively on a global scale.

Clear, there are benefits to be had from these ‘Superfunds.’

In addition to those already outlined, these funds could provide a portal for small and medium sized employers to offer pension plans to their workers. But, allow us to rain on that parade as we march towards ‘Superfunds.’

Turning our gaze eastward, we see a shining example of one possible pitfall. The Caisse de dépôt et placement du Québec reported a loss of more than 25 per cent for 2008, due in part to a bad bet it made on non-bank asset-backed commercial paper. At a time when few plans in this country were able to avoid the ramifications of the global financial crisis, every bad bet hurts. It is not inconceivable that a similar kind of investment loss could strike a ‘Superfund’ with similar consequences.

Mitigate Risk
Consolidating employer retirement savings plans into these large entities also flies in the face of the theory of diversification as a way to mitigate risk. It seems to us that the more plans you have spread over more members, the more likely that a majority will avoid the worst of a poor financial decision.

The other concern is what happens to the pension money management industry in Ontario and, ultimately, Canada if these ‘Superfunds’ start looking after all of those funds primarily inhouse? We’d end up with a few people superempowered to make investment decisions, perhaps increasing the possibility of one of them being seriously wrong. We would likely also see a brain drain as opportunity dried up on the pension fund and service provider side forcing the best and brightest elsewhere.

We agree that there is a gap in pension coverage. And while we see the merits of creating ‘Superfunds,’ we like to think there is a private sector solution which can create suitable retirement savings vehicles at reasonable fees for those small and medium sized employers.
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Scott Sweatman, associate counsel, Blake, Cassels & Graydon, LLP, is this year’s CPBI National and Pacific region Volunteer of the Year. Sweatman has been a CPBI member for more than 15 years. He recently co-chaired the Joint Expert Panel on Pension Standards in Alberta and British Columbia.

Joan Hollihan, a principal at Mercer (Canada) Limited, is the Southern Alberta region Volunteer of the Year. A CPBI member for more than 15 years, she has chaired and co-chaired several committees and was the chair of the regional council in 2004. Marg Romanow, benefits officer with the Saskatchewan Union of Nurses, is the Saskatchewan Volunteer of the Year. A CPBI member since 1994, she has served on the regional council for many years.

Pat Clunie, director and HR business partner for MTS Allstream, is the Manitoba region Volunteer of the Year. A member of the CPBI since 2001, she has been a member of the Manitoba regional council since 2003. Sonia T. Mak is the Ontario region’s Volunteer of the Year. A lawyer by profession, she is a partner at Borden Ladner Gervais LLP, specializing in pension and benefits law. She has been a member of the CPBI since 2002.

Standard Life
Anita Lieberman is vice-president, business development, group savings and retirement, for The Standard Life Assurance Company of Canada. She will be conducting business development initiatives across all Canadian markets to enhance Standard Life’s position in the group savings and retirement market. She has held management positions at some of Canada’s leading insurance companies during her 30-year career in the pension and retirement market.

Lincluden
Todd Parsons is vice-president, fixed income, at Lincluden Investment Management. He has more than 12 years of fixed income investment experience and was a member of MFC Global Investment Management’s Canadian Total Return team with responsibility for actively managed fixed income assets with a focus on corporate debt.

Desjardins
David Charbonneau is vice-president, business development, group retirement savings, at Desjardins Financial Security. In his new role, he will ensure that group retirement savings assumes a leadership role within the company in terms of business development across Canada. Until recently, he was responsible for business development in the consulting market for group retirement savings at the company.

Human Resources Institute
Mason Meyers, human resources director for Globex Foreign Exchange Corporation, has received the Human Resources Institute of Alberta’s ‘2009 Rising Star Award.’ It is awarded to an HRIA member in the first five years of his or her career who demonstrates great promise as a future leader in the Alberta HR community. Mason created a formal HR department and established policies and procedures that will benefit both Globex and its employees over the long term. Allan McCaIder earned the ‘HRIA Distinguished Career Award.’ In his current position as human resources manager with Strathcona County, he has made significant contributions in the areas of talent development and health and safety.
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VEBA Comes To Canada
The Canadian Auto Workers and Chrysler have agreed to establish a Canadian health-care trust (HCT) to fund retiree pension and health benefits, says ‘Eckler Group News.’ The HCT initiative is similar to the U.S. Voluntary Employee Beneficiary Associations (VEBA), where they are funded on a tax-free basis. The detailed framework for the Canadian HCT is to be developed in the next month.

Safe Harbour Not Practical
The Joint Forum of Financial Regulators has decided not to include safe harbour provisions in its Capital Accumulation Plan Guidelines. It has completed its review of the guidelines that were published in May 2004 and says the majority of responses from plan sponsors and service providers indicated no changes were needed, although there was some support for a safe harbour provision. It discussed whether changes to the guidelines should be made to accommodate a safe harbour provision and concluded it would not be practical to consider safe harbours in the context of guidelines and it concluded that no changes to the guidelines are needed. However, the Joint Forum will establish a standing committee to monitor and address issues that may arise in the future in relation to CAPs.

Providing Psychologically Safe Workplace More Pressing
The duty to provide a psychologically safe workplace is even more pressing during challenging economic times, says Martin Shain, senior researcher at the Centre for Addiction and Mental Health. Speaking at the Connex Health/IHPM Employer Forum, he said there are additional, but avoidable, problems which increase the risk of employees suffering from a mental injury. These include increased information failure when employees are not involved in decisions where they have a legitimate interest. Employers must create psychologically safe workplaces because minds, like bodies, need protection. However, they also face increased threats of legal action from employees who claim that conditions in the workplace are responsible for their mental conditions.

SRI Consolidates Market Share
Socially responsible investment has consolidated its market share in Canada over the past two years, says a study by the Social Investment Organization (SIO). The ‘Canadian Socially Responsible Investment Review’ estimates total SRI assets in Canada in 2008 at $609.23 billion. This represents a 21 per cent increase from $503.61 billion in 2006. The estimated share of total assets under management in Canada is 19.9 per cent, comparable to the share in 2006 of 19.5 per cent. The findings include $555.06 billion in assets invested according to Broad SRI strategies, which are primarily based on a fiduciary analysis of the risk and return characteristics of environmental, social, and governance issues. The increase from $446.22 billion two years earlier reflects asset growth by pension funds with existing responsible investment policies as well as a small increase in the number of pension plans and endowments with responsible investment policies.
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**Nobrega Calls For Superfunds**
The Ontario Municipal Employees Retirement System (OMERS) is now open for business and is actively seeking mandates to manage other pension funds’ assets, says Michael Nobrega, its chief executive office. Speaking at the Conference Board of Canada’s ‘2009 Summit on the Future of Pensions: From Crisis to Sustainability,’ he said the province should mandate that all Ontario pension funds in the public and private sectors join forces to create superfunds as only giant funds with more than $100 billion in assets under management have the critical mass to invest effectively on a global scale. The province proposed legislation in its recent budget to give the Ontario Teachers Pension Plan the ability to also manage pension assets for smaller funds in an effort to encourage more fund consolidation. Nobrega said the province needs at least one other super fund that can also manage pension money for Ontario employers.

**Firms Lack Benefits Continuation Policies**
More than half (57 per cent) of respondents to a ‘Pal Benefits Flash Survey’ do not have a formal policy around benefits continuation or don’t know if they have one. This has become a critical issue because current economic conditions have increased the number of severances and layoffs. Of those that do have a formal policy around benefits continuation, 33 per cent provide benefits over and above those required by the Employment Standards Act.

**Depression Treatment Affected By Expenses**
A troubling connection between out-of-pocket expenses for people contending with both physical illnesses and depression is affecting access to antidepressant treatment, says a study by the Centre of Addiction and Mental Health (CAMH). The study explores whether the amount of money spent on medication before a disability episode impacts medication use among workers on depression-related disability. A worker on depression-related short-term disability is less likely to fill a prescription for antidepressant medication if the worker already is paying high out-of-pocket costs for medications to treat physical disorders such as heart disease or asthma. This phenomenon may be a barrier to accessing antidepressant treatment, which could delay taking necessary medication, impacting not only a person’s recovery, but also a company’s bottom line. Approximately one third of work-related productivity losses can be attributed to an employee being either unproductive or unable to function at full capacity because of depression.

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**Addenda**
The following was inadvertently omitted from the Fixed Income Directory in the April issue of Benefits and Pensions Monitor.

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At the core of Intuit Inc.’s values is a commitment to providing a great work environment. After all, “people are the foundation of Intuit’s success,” says Robin Wilson, HR analyst.

The provider of business and financial management software solutions has been consistently ranked among the best, including being placed among Hewitt Associates’ ‘50 Best Employers in Canada’ (2007, 2008) and Fortune’s ‘100 Best Companies to Work For,’ eight years in a row.

Supplying its 340 Canadian and 8,000 worldwide employees with a great place to work not only attracts and retains top staff, says Wilson, but delivers proven business benefits. Despite more companies, perhaps, veering away from that type of investment in its workers these days, the approach is especially important during today’s uncertain economic situation.

“Company values don’t fluctuate with the economy. Particularly in tough times, the best employees are even more valuable … Great people flourish in an environment that liberates and amplifies their energy,” she says.

This commitment towards fostering a leading impression of the work environment reflects the balance Intuit is trying to achieve: “The give-and-take atmosphere and the people I work with make work feel like home-away-from-home for me.”

Work-Life Balance
To help relieve any stress that may be interfering with performance, the company provides an onsite acupuncturist and massage therapist. There’s also onsite game rooms, cafeterias, and nap rooms that anyone can use at any time. At two of its Canadian offices, there are onsite gyms as well.

Providing other wellness programs, employee recognition programs, flex schedules, monthly socials, and allowing casual attire are all part of its commitment to maintaining a healthy work-life balance. Its workplace mantra, ‘Bring Your Whole Self to Work,’ acknowledges the overlap between the ‘professional’ and the ‘personal,’ and that one should not dominate the other.

Giving workers flexibility with their schedules – while promoting working efficiently to get work done – allows them to enjoy their office experience and to do what matters most outside of business hours.

A recent web content release co-ordinator’s workplace arose about 15 years ago when employees gathered to determine what kind of company they wanted Intuit to be. Out of that came its ‘Employee Value Proposition,’ which outlines what workers can expect from the company. Among the list of employee expectations, it promises to:

◆ Help me be productive, do great things, and be the best I can be
◆ Let me know where I stand and how I’m doing
◆ Invest in me and help me grow fast
◆ Pay me fairly and recognize my contributions
◆ Make me an integral part of the team
◆ Create a positive work environment

To ensure these expectations are met, a considerable amount of time is devoted to understanding what motivates workers and drives them to do their best. In fact, Wilson says 50 per cent of its executives’ staff time is spent discussing leadership, talent, and “people” topics.

Above all, ensuring greater comfort makes its workplace unique and enjoyable, Wilson says. Its Canadian buildings feature ‘best in class’ environmental features such as self-adjusting floor vents, raised floor heating/cooling/electrical systems, and indirect lighting fixtures. Because teams can get loud in open-concept offices, employees are given noise-cancelling headphones or access to quiet breakout rooms.
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New research suggests that Alzheimer’s disease and other dementias aren’t only about our parent’s generation; they’re also about ours. Recent data from the Alzheimer’s Society of Canada reports that of the 500,000 Canadians living with Alzheimer’s or dementia, more than 71,000 are under the age of 65.

The findings paint a concerning picture of the present and future impact of dementia on Canadian society. They further warn of the potential for an epidemic as the number of cases is set to double over the next several years.

Degenerative Diseases
Alzheimer’s disease and related dementias are progressive, degenerative diseases that break down and devastate vital brain cells. Though Alzheimer’s accounts for approximately 64 per cent of all dementias in Canada, there are others – Vascular Dementia, Frontotemporal Dementia, Creutzfeldt-Jakob Disease, and Lewy Body Dementia. While each is unique, symptoms most often include a gradual and continuing decline of memory; altered judgment, reasoning, mood, and behaviour; and the inability to execute daily activities.

Past investigations show the extent of workplace assistance for women balancing employment and elder care responsibilities are limited. The findings revealed a childcare bias in family-friendly policies, a gender bias in policy formulation, and a focus on workplace productivity rather than employee well-being. The research concluded that the average workplace policy does not take into consideration the complex needs and diverse situations of employed women providing care for older adults.

Alzheimer’s Update: Forgetting the Age Barriers

Alzheimer’s seems to result from the combined effects of many risk factors—including age, genetics, lifestyle, and environmental—which overpower the natural self-repair and self-healing mechanisms in the brain. Although genetics plays a role in the disease, only five to seven per cent of people diagnosed have the inherited form.

At the moment, there is no known cure for any type of dementia, but there is growing evidence that preventative measures can be taken to reduce the likelihood of onset.

The Role Of The Caregiver
Caregiving is a critical issue for people living with Alzheimer’s. According to the Canadian Caregiving Coalition:

One-in-five Canadians age 45 and over are providing some form of care to seniors who have long-term health problems.

Almost half the informal caregivers in Canada (43 per cent) are between 45 and 54, many balancing this role with job and family responsibilities.

The link between caregiver tasks and caregiver health is complex. Thirty per cent of caregivers providing support for Alzheimer’s patients experience depression. Caring for a community-dwelling Alzheimer’s disease sufferer, combined with low levels of social support, has been associated with negative psychological and health outcomes.

Furthermore, one-third of employed, unpaid Canadian caregivers reported work disturbances due to caregiving. Such disturbances were twice as frequent among caregivers of individuals with Alzheimer’s disease.

The economic impact of taking time off work, lost and postponed career opportunities, or the loss of a job is also a detriment to the caregivers’ long-term, financial well-being. Caregivers are often left with little option but to use sick days, vacation time, or official caregiver leave to provide care for a relative.

Past investigations show the extent of workplace assistance for women balancing employment and elder care responsibilities are limited. The findings revealed a childcare bias in family-friendly policies, a gender bias in policy formulation, and a focus on workplace productivity rather than employee well-being. The research concluded that the average workplace policy does not take into consideration the complex needs and diverse situations of employed women providing care for older adults.

More Vulnerable
Additionally, with reports showing that the disease can affect a younger generation, workplace productivity will become more vulnerable. Not only will baby boomers require time to care for their aging parents, but we now know they are susceptible to dementia themselves. This, of course, means their children, in the prime of their careers, might be faced with the challenge of caring for their boomer parents earlier than expected.

The strain of Alzheimer’s disease on overall workplace productivity can be heavy and looks to be gaining momentum. Concerned HR professionals can work towards re-structuring and advancing policies for elder caregivers by recognizing the distinct and enhanced needs of an employee who has a relative with Alzheimer’s. Being flexible with work schedules and helping to negotiate work hours and time-off will go a long way. Also, developing workplace awareness clinics, and ensuring personalized employee support programs are ways to maintain productivity levels.

By: Caroline Tapp-McDougall
Caroline Tapp-McDougall is the publisher of Solutions: Canada’s Family Guide to Home Health Care and Wellness and the author of The Complete Canadian Eldercare Guide (solutions@bcs-group.com).
Investors want protection

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After nearly eight years of sitting on the sidelines, liability driven investing (LDI) is back in a big way.

LDI’s popularity last peaked during the market crisis of 2001 when a combination of low interest rates and low market returns forced plan sponsors to revisit their investment strategies. With LDI, the investment target of the fund is not linked to any external index, but rather to the liability of the fund. In the case of pension funds, the investment target is the present value of the benefits payable to employees and pensioners.

Disastrous Years
Thanks to one of the most disastrous years in the history of the financial markets, LDI is once again surging in popularity. Diminishing stock prices have dramatically reduced pension assets across Canada. As a result, many of this country’s plans are faced with battered funding ratios (the ratio of the plan’s assets to liabilities). In an effort to reverse this trend, many pension plans are turning to LDI.

While these plans have adjusted and adopted their investment strategies toward LDI, many are still measuring their funds’ performance using traditional asset-based market indices. As a result, they may be missing a critical piece of the picture when trying to evaluate plan performance. For example, according to a recent RBC Dexia press release, the 2008 median return on investments for Canadian pension plans was minus 15.9 per cent. The median value added at the total plan level was 0.11 per cent for the same period. Relative to their policy returns, pension funds showed a moderate overperformance which seems to suggest no reason for concern. However, the negative benchmark returns eroded the funding status of many pension funds. This raises the question about whether using traditional benchmarks alone is meaningful. Instead, an equal (if not greater) emphasis should be placed on tracking the plan’s assets against its actual liabilities. Liability benchmarking can be a powerful tool to help plans accurately measure the performance of their LDI portfolios.

Fair Value
A liability benchmark is simply a proxy on the fair value of a pension plan’s liability.

Pension plan liabilities are typically a sequence of negative future cash flows, each representing a predetermined, fixed pension payment.

To serve as a liability proxy, the assets held in the liability benchmark should generate the sequence of positive cash flows that matches the negative liability outflows. Such assets can be described as an annuity with a holding period equivalent to the plan’s remaining time horizon.

A straightforward way to implement a liability benchmark is to build a fixed income portfolio where every expected cash flow matches the plan’s respective liability outflow. The matching strategy allows building a robust liability benchmark to mimic changes in the market value of the pension plan’s liability. The underlying bond portfolio can be fine-tuned to precisely match more than 95 per cent of typical plan liability cash flows, measured in terms of outstanding liability present value. When cash flows of a benchmark and plan liabilities are matched, the benchmark’s market value becomes an estimate of the present value of the plan’s liabilities.

Cash Flow Matching
Although cash flow matching is a more robust approach to creating a liability benchmark, practical limitations have motivated many to use a duration matching approach as an alternative. The latter does not require every individual cash flow to be matched. Instead, the duration of the liability benchmark’s fixed income portfolio is matched with the duration of plan’s liabilities. This method is simple to implement and uses a bond index in combination with interest rate swaps to generate a required benchmark.

Figure 1 illustrates the performance of a typical Canadian pension plan (as of December 31, 2008). In this scenario, the plan’s benefits are not inflation linked. The peak in benefit payments is expected in 2026. The weighted duration of the plan liabilities is 14.75 years. In this instance, we have developed a liability benchmark linked to the plan’s liability structure and then analyzed the performance of the plan’s assets against both a traditional asset based benchmark and the liability benchmark.

Liability benchmarking is an important and relevant way to gauge performance, particularly given the current economic climate. It is an effective tool to help measure and monitor the risk of pension assets deviating from the intended objective and ultimate target – the ability to meet benefit obligations.

Liability Driven Benchmarking

Vladimir Bobko is senior analyst – investment funds research at RBC Dexia Investor Services (vladimir.bobko@rbcdexia.com).
Given the current economic environment and market volatility, it may seem like the right time to add alternative assets to your investment mix. Before making the move into alternatives, however, you must ensure that your investment program is built on sound practices and processes.

Any successful investment program is managed according to a process of continuous improvement. Adhering to your stated processes is crucial when contemplating alternatives. Figure 1 illustrates possible individual steps of an asset planning cycle. The entire process is centred on creating good governance policies and practices.

'Sponsor’s Mission'
A sponsor’s mission and governance capabilities – or ‘budget’ – should be well understood and defined before a move into alternative investments. A governance budget can be defined as the time, expertise, and organizational effectiveness a sponsor possesses internally or has access to externally.

Any investment program requires both time and expertise to be successful. Both are especially critical when considering alternatives. The industry has been saturated with new investment products, particularly in the ‘alternative’ category. Often, however, the education element has been overlooked, underestimated, or, worse, downplayed. Taking the time to thoroughly understand an investment vehicle in order to gain the expertise needed to judge its success (or failure) can require some tenacity. Often, the providers of alternative products claim that access to detailed information would breach their proprietary competitiveness. Demanding transparency of information is not only your right as a plan sponsor, it’s
your fiduciary responsibility.
Organizational effectiveness within the sponsor’s governance budget is less obvious. Think of the sponsor’s decision-making process as an example of its organizational effectiveness. A governance framework that allows decisions to be made primarily during regularly scheduled, quarterly committee meetings is much less effective than one that allows more frequent decision-making. Understanding your organization’s delegations and individual roles and responsibilities will help you get a clear picture of your organization’s decision-making process.

Once you have determined your governance budget, establishing a corresponding framework for your investment strategy becomes easier and more realistic. Figure 2 provides an example for such a framework. The main message is ‘Match your strategy to your governance capabilities.’ If you don’t have the governance capabilities for complex investments, don’t entertain them. Or, if alternative investments is your desired asset class – perhaps because they are a good match for your liability profile – acknowledge what is necessary to improve your governance budget and develop a plan that will take you there before embarking on alternative investing.

**Important First Step**

Creating a well-designed and properly implemented governance framework is an important first step in the strategic move into alternative asset classes. At the same time, a well-designed risk framework is important to analyzing the inclusion of alternative asset classes in your investments.

The next questions are practical ones – which assets and how much? Risk analysis and risk budgeting are the right ways to analyze, measure, and interpret the overall impact of this change in asset mix.

A typical risk analysis and implementation plan would include the following steps:

**Step 1: Establish a risk budget**
The first question in the process has to be ‘How much overall risk is acceptable?’ A number of factors can influence the overall appetite for risk including the size of the plan relative to the overall organization, and the current financial status of the plan. Ultimately, risk should be measured in terms of total potential impact of the different portfolio structures and asset mixes on both the contributions levels and total surplus or deficit of the plan. It may be feasible to use a proxy for the plan liabilities in the analysis. In any event, the analysis must start with a thorough understanding of the current situation in the plan – both assets and liabilities.

**Step 2: Identify an efficient use of risk**
Risk is the currency used to generate return. Allocate risk as efficiently as possible to generate the highest possible return for risk. The analysis requires an understanding of the expected risk and return, net of fees, relative to liabilities for each proposed mix of assets. This can be a very complex process requiring an understanding of long-term asset class and economic assumptions; interrelated decisions on asset mix, portfolio structure, manager selection; and other factors.

Ultimately, the goal is to achieve the best overall result for the plan within a manageable framework.

**Step 3: Implement the risk budget decisions**
Careful consideration of risk tolerances and efficient allocation of risk allows those responsible for the plan to set appropriate goals and targets. The next step is to implement the changes.

The more significant the changes, the more consideration must be given to the implementation plan:
- Should the changes be made quickly or implemented over an extended time period to avoid market discontinuities?
- Are there liquidity issues or trading costs to consider?
- Are the alternative assets available in sufficient quality and structure to meet the needs of the plan?

![Figure 2: Matching Investment Strategy With Governance Capabilities](image-url)

**Typically, committees:**

- are currently at 1
- aspire to be at 2
- but often resourced at 3

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In the early 1990s, the time of the last real estate recession, the Bloc Québécois was formed, Brian Mulroney introduced the GST, the Edmonton Oilers’ dynasty came to a shuddering halt, and real estate was a minor player in Canadian pension plans. Fast forward 20 years and the Bloc maintains its drive for independence, controversy over the GST has re-emerged in the form of a tax cut, and success continues to evade the Oilers.

However, not everything stays the same. Over the last 20 years, commercial real estate in Canada has moved away from the niche investment category and into the mainstream. It forms a key component of any pension portfolio and pension funds are major players in the Canadian commercial real estate markets. Back in 1990, members of the Pension Investment Association of Canada (PIAC) reported assets totaling $168 billion with 4.2 per cent of this allocated to real estate. By the end of 2007, these assets had grown to $814 billion and the allocation to real estate had more than doubled to nine per cent.

Increasing Payout Demand

Canada’s aging population has meant an increasing payout demand from pension plans and, in today’s turbulent investment environment, the numerous advantages that real estate offers as an asset class – including a stable income stream and higher levels of transparency and stability, coupled with the re-assurance of owning a hard asset – will continue to place it at the forefront of the investor psyche.

The primary benchmark used for Canadian pension funds is the Institute of Canadian Real Estate Investment Managers (ICREIM)/IPD Canadian Property Index which is produced on a quarterly basis. The benchmark tracks ungeared total returns from directly held standing real estate investments and does not include developments. As of December 2008, the All Property index returned 13.5 per cent and 11.6 per cent annualized over five and 10 years respectively. Compare this to, for example, JP Morgan seven- and 10-year government bonds which returned 7.6 per cent and 6.9 per cent annualized over five and 10 years and the MSCI Canada return of five per cent and 6.6 per cent. The correlation between real estate returns and equity returns is very low which makes real estate a valuable contributor to investor diversification.

An Inflation Hedge

With recent high energy prices driving up costs and the concerted effort of global governments to spend their way out of recession, the threat that inflation poses to the medium term future should be acknowledged. Some observers predict that the return of economic growth could be accompanied by a period of higher than normal price increases. In this context, real estate behaves well. According to IPD, in the eight years from 2000 to 2008, net income growth from real estate portfolios averaged 2.8 per cent per annum. In the same period, the increase in the Canadian Consumer Price Index averaged 2.3 per cent per annum. Being an underlying function of the economy, as an asset class real estate is capable of providing a hedge against accelerating inflation.

As stock dividends are slashed and bond yields fall to record lows, one of the key components to real estate returns is the long-term stable nature of income. Even in times of economic uncertainty, tenants are legally obliged to pay rent, resulting in a predictable steady income stream. A typical Canadian office lease will be five to 10 years in length and some leases may have rental increases written into the agreement. Market rental rate increases, or declines, can take time to filter through into lease agreements which helps smooth any volatility in a bear market.

Why Real Estate? Why Now?

Unfortunately, the same applies in a bull scenario! One risk that must not be ignored in the cur-
rent economic climate is the risk of tenant default. However, careful due diligence of tenant covenants can help minimize the probability of this occurring. A scrupulous real estate fund manager will construct its portfolio not only to diversify between sectors of the market (office, retail, or industrial), but also to spread the risk of leases expiring and tenant quality across the portfolio. Should a tenant actually default on rental payment, the property does not become worthless as there is the opportunity to acquire a new tenant or the option of re-positioning the asset in order to maximize returns. In addition to diversification and risk reduction, effective management of income can add value to a portfolio.

**Astute Asset Management**

Astute asset management is an important area where an advantage can be gained in real estate. In addition to effective income management, an owner or operator of real estate has the ability to re-position the asset’s physical characteristics to gain a crucial edge in eking out returns in today’s, and tomorrow’s, challenging economic environment. Whether it be through the modernization of an existing building, its complete redevelopment, or just a simple facelift, the ability to add value is a key consideration. One attribute of real estate that cannot be altered is location and this is where the experienced and knowledgeable operator can earn their spurs by using local market knowledge to ensure a premier location is near the top of the priorities list.

When compared to a glut of recent stock rights issues and a flood of government bond issuance, creating new real estate is not quite as simple. Planning restrictions, geographic constraints, and long construction times all ensure that the supply pipeline for real estate is much harder to turn on. A welcome boon, when compared to previous cycles, is that the majority of Canadian markets have limited construction projects currently underway – the notable exceptions being central Toronto and Calgary. Toronto is preparing for a batch of new office buildings in the downtown core which will have an adverse affect on the sub-market. Calgary, coming off the back of an oil and gas boom, is also going to see a number of new office assets delivered to the market, although a return of high commodity prices could see this historically volatile market bounce back. With the current lending markets resulting in decreased availability of construction financing, it is likely to be some time before new projects will be able to be brought to market, increasing the demand for existing assets.

**Struggle For A Foothold**

The unprecedented volatility in equity markets, not just in Canada, but across the globe, has seen investors struggle for a foothold in difficult conditions. Real estate, while decreasing in value, has not seen the violent swings that have recently characterized the world’s equity markets. The nature of real estate valuation, where properties are valued by means of comparative sales, results in underlying movements being smoothed.

Recently, asset valuation has been a major issue in a market where transactional evidence has been few and far between. Last year saw transaction volume decrease almost 35 per cent from 2007 as credit markets came to a standstill and vendors refused to accept lower valuations. This year is anticipated to be a year of price realization where astute market operators can take advantage of reduced values as over-leveraged owners are forced to come to market.

A recent investor flight to quality has seen yields from Canadian 10-year government bonds pushed under four per cent, something not recorded since the 1950s. At the same time, capitalization rates for office, industrial, and retail assets have all increased markedly resulting in a widening spread for real estate returns. At the peak of the market in 2007, a typical Class A downtown office property could be expected to trade at a cap rate of around five per cent. Now, pricing levels are thought to be around eight per cent as diminished investor demand, increased debt costs, and a weakening tenant demand have all taken a bite out of previously elevated valuations.

The critical question is what does today’s pricing reflect? Comparing against the current ‘risk free’ 10-year Canadian benchmark bond yield of 3.7 per cent, real estate assets bought today offer a margin of 430 basis points. Taking into account depreciation and expected downward pressure on rents, this margin is still positive, but is squeezed to around 50 basis points. The illiquid nature of real estate suggests that investors should demand a margin closer to two per cent. As we move further through 2009, where capitalization rates are expected to continue to increase, this margin is likely to emerge for investors and, consequently, the asset’s high yield is likely to attract renewed investment and allocations.

**Tight Vacancies**

Canada has experienced a sharp correction in commercial real estate markets in recent months as the national economy entered recession. Real estate cycles – comprised of periods of tight vacancies and rising rents, followed by heightened construction – sometimes lead to oversupply, depressed valuations, and rental falls. While vacancy rates have increased, Canada entered this cyclical downturn from a position of strength with vacancy rates at historically low levels and, as discussed previously, overbuilding not a prevalent issue. Weakness in occupier demand is expected to persist and there remain some challenges ahead. However, from a historical and global perspective, Canada is relatively well-positioned to emerge from the downturn.

This year is likely to be a year of continued uncertainty and volatility across global investment markets. For the adept real estate manager, the near future is likely to be characterized by two words – income and opportunity. Preservation of income will be key in an environment where underlying occupiers are experiencing unprecedented strain. Greater evidence of stress is likely to materialize and, in investment markets, 2009 will see more highly leveraged owners forced to reluctantly accept that assets bought on the basis of excessive rental forecasts are worth considerably less. As this scenario unfolds, real estate investors could be presented with some of the best buying opportunities since the 1990s recession, when pension funds making acquisitions laid the foundations for strong performance in the forthcoming years. Therefore, for a longer term pension fund investor, 2009 could be an optimum entry point into real estate.

As for what will happen to the Bloc Québécois, the GST, and the Oilers in the next 20 years, that is more difficult to predict. One thing for sure is that the time is at hand to consider your allocation to real estate!

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Hedge funds have been at the receiving end of a barrage of criticism in recent months over their performance, opacity, and regulation. They have even taken the blame for the current financial crisis. However, I will argue that much of this criticism is unfair and what we are seeing, in fact, is an industry going through an evolutionary process, which ultimately will result in a far stronger asset class.

Hedge funds have become scapegoats. It has been all too easy to blame the industry for global capital market shortcomings. Yet, compared with investment banks, hedge funds, with credit still relatively tight, have not been nearly as leveraged. In addition, it is worth remembering that hedge funds create markets and liquidity and highlight market inefficiencies as well as encourage far greater levels of due diligence in public companies.

Greater Oversight
There will be regulatory change, this goes without saying. Regulatory bodies around the world are pushing for greater oversight through registration and transparency. Such moves are not surprising and should largely be welcomed. It is part of the evolutionary process and, in the long term, will only serve to strengthen the sector. Hedge funds by design are dynamic and should be able to make such a transition to a more regulated environment and this is a key differentiator from the more traditional slow moving, long-only fund managers.

In the past, expectations have been set too high. There was the belief that hedge funds would always make money, regardless of market conditions. Such views came out of the bull years of the mid-2000s when managers were making significant leveraged returns, over and above equity returns. This was a period when new investors flooded the sector. These expectations were cut short in 2008 when few funds outperformed, leaving investors feeling both disappointed and short-changed.

In 2008, hedge funds were down on average 23.3 per cent (HFRX Global Hedge Fund Index). While disappointing, this compares favourably to equity markets with the S&P 500 down 37 per cent and MSCI World (Local) down 38.3 per cent. Yet some hedge fund investors did make money during the year, with strategies such as macro up 5.6 per cent and short only up 22 per cent (HFRX Macro Index and HFRX Short Bias Index).

Often Forgotten
From an investor’s standpoint, time frames are hugely important, but often forgotten. Absolute returns should not be defined over a short time period, but, at the very minimum, a medium-term. Looking back, even if you include September to December 2008, the hedge fund sector has outperformed and delivered in the long run. Through to March 31,
2009, the HFRX Global Index generated returns of minus 1.8 per cent over five years and 6.4 per cent over 10 years, against the S&P 500’s minus 4.8 per cent and minus three per cent and MSCI World (Local) minus three per cent and minus 2.3 per cent.

These returns have come with much lower volatility than equity markets – 7.2 per cent for the HFRX Global Index over five years versus 14.7 per cent for the S&P 500 and 14.6 per cent for the MSCI World Local.

This is what long-term investors should be looking for and has long been advocated by the more progressive institutional investors, — endowments, pension funds, and foundations — who maintain large commitments to absolute return funds and continue to increase their allocations.

It is difficult to describe September 2008 onwards as anything but ‘unprecedented.’ It made little difference where you invested and unless you confined your options to 100 per cent cash, shorting equities, or macro bets, you invariably lost money.

Fundamentals during this period played little role in investments and there were few tangibles to base investment decisions on. The valuations of both good and bad companies were hit regardless. For many funds, the best option was to sit on cash and pick up opportunities when they arose.

Since the beginning of 2009, the environment has improved, with hedge funds benefiting from the greater number of investment opportunities and funds once more making money, be it in discretionary, fixed income, currency, or the equity long/short space. Corporate fundamentals are again playing significant roles and those managers with the ‘trading mentality’ have been able to benefit on both the short and long sides.

Even without the previous levels of leverage, managers have successfully benefited from the current market volatility. The ability to make money in such conditions separates the hedge fund manager from the long-only manager who continues to be shackled to restrictive long-only mandates.

Encouragingly, as we go deeper into this year, we are likely to see further opportunities in such areas as distressed-credit, distressed private equity, and restructuring, with hedge fund managers positioning themselves for this new set of opportunities.

The hedge fund sector has certainly changed since September 2008 and this again points to a healthier environment. Industry assets under management have dropped from $2 trillion to around $1.2 trillion and there are now closer to 7,000 hedge funds (down from 10,000). We expect further consolidation in the industry throughout the year, with the industry potentially shrinking by as much as 50 per cent from its peak as the smaller, less well resourced funds with shorter track records, falling by the wayside. The end result should be a more exclusive, efficient and far more streamlined business. With fewer hedge funds and no proprietary trading desks chasing the alpha, the less crowded environment has opened up an Ali Baba’s cave of investment opportunities for managers.

Illiquid Funds

Within the sector itself, a significant change has been the disappearance of the more illiquid funds, some of which had lost sight of their absolute return mandates. To achieve their impressive numbers in the mid-2000s, these players had leveraged their largely directional portfolios and when the credit markets dried up found that they were mostly stuck with illiquid holdings.

Their error was being too one dimensional, offering investors little to no downside protection. Many such funds were small and have since quietly closed down or have been left in suspended animation.

Returning to the evolutionary theme, survival of the fittest is an important part of the hedge fund endgame and that is why the sector continues to be so well-placed and poised for further success. The industry has also been experiencing a hedge fund manager clear out, a development that has ‘cleared the decks’ of the less talented managers. Such changes can only be positive, not just for investors, but also the long-term reputation of the hedge fund sector.

Over the last few years, too many under-qualified individuals arrived on the investment scene and were eventually found wanting. This is one of the reasons why we have traditionally favoured those hedge funds and managers with long-term track records in the industry, for these are the businesses and managers with the experience, the proven performance, who have seen previous down-turns and up-turns, and have the right teams and resources in place.

High Watermark

It is worth remembering that there are also a number of hedge fund managers who are currently below their high watermark and are working to restore their reputations and their numbers. This is a very strong incentive to get performance back on track.

In this environment, due diligence has moved into the spotlight. It is encouraging to see a number of hedge funds further tightening up their operations, with many having moved, or are in the process of moving, to top counter-parties, administrators, and other top tier accountancy firms.

In the bull market, investors wanted quick access to outperforming funds and some found themselves performing cursorily, rather than comprehensively, due diligence. Yet, due diligence is one area that should never be taken lightly. It should include both tried and tested quantitative and qualitative due diligence processes, including the full spectrum of a manager’s operations.

Larger funds of hedge funds continue to be well-positioned to offer extensive due diligence and to deal with the potential of more onerous regulation. Large funds with years of experience on their side and the resources to undertake the required levels of due diligence, combined with the right ownership structure have the ability and size to negotiate separately managed accounts with underlying managers. It is this final point that will become increasingly attractive to many investors in the future, for such accounts provide a fund of funds with total transparency, greater liquidity, control of their portfolios, and the ability to negotiate fees.

For funds of hedge funds, the arguments remain as strong as ever, with investors seeking the diversity, extensive due diligence, and consistent low volatility returns that fund of hedge funds offer.

The changes that we have already seen over the past year, and will likely continue to see over the next year, are marking the future course of the hedge fund industry. This is the evolutionary process. Such changes are tightening up the sector, in terms of funds and regulation, but those that can adapt will become the core elements of the next generation of hedge funds, which will be part of a far more effective and efficient industry.

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OMERS has been held up as an example of one of Canada’s most successful multi-employer Defined Benefit plans. Indeed, the Governor of the Bank of Canada has cited it as a plan that effectively pools risks across its members and sponsors.

Launched in 1963 with 160 employers and 8,000 active members, it was developed to create efficiencies for employers in sharing the administrative and investment costs of providing pension benefits to workers employed by municipal governments and other local agencies. That first plan had $5 million in assets, virtually all non-marketable Ontario debentures.

300,000 Members

Today, it has approximately 300,000 members, more than 100,000 retirees, 1,000 employers, and 50 unions. Beneficiaries receive $1.7 billion annually in retirement, survivor, and disability pensions.

It is jointly governed which means members and employers share responsibility for decision-making and the obligation to fund the plan. This model has been in place since 1968.

In 2006, OMERS was granted its independence from the Ontario government. While the province was the official sponsor until 2006, it did not actually contribute funds to the plan as OMERS has always been jointly funded by employers and plan members. In becoming a jointly-sponsored plan, it believes its joint-governance tradition has been strengthened as it:

◆ provides a balance between employer and member interests
◆ ensures that employers and members understand the financial impact of benefit design decisions and the role of contributions in plan design
◆ shares funding shortfalls and surpluses, which leads to better decision-making by all participants
◆ improves governance oversight of plan administration as well as pension fund investing and related risks

In terms of its investment strategies, OMERS has been an active investor in public equity and debt markets since 1974. It started broadening its investment horizon that year by investing part of the fund in marketable securities. In 1979, it began to invest all new funds in marketable securities.

Its asset mix strategy today is based on the belief that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate strong returns and consistent cash flow with reduced risk to meet the plan’s funding requirements. As a result, its long-term asset mix strategy is to reduce its asset mix exposure to public market investments (public equities and interest bearing investments) to 57.5 per cent of net investment assets and increase its exposure to private market investments to 42.5 per cent of net investment assets. At the end of 2008, its private market investments were 39.8 per cent of its asset mix and public market investments had decreased to 60.2 per cent.

OMERS Pensions

The OMERS Primary Pension Plan is a contributory DB plan. Member benefits are determined by a formula based on earnings and years of service. Equal contributions from members and employers finance about 30 per cent of benefits, while the plan’s investment earnings finance the remaining 70 per cent.

The majority of pensions it pays out are to those taking early retirement. Fully 58 per cent of its pensions are received by members who took early retirement. The average age at which members commence early retirement pension is 58.63 after 19.62 years of credited service. Those who retire at 65 typically have an average of 15.16 years of credited service when they retire. Since 1999, it has seen its number of pensions increase 41 per cent from 75,336 to 106,435.

Its mandate is to provide best-in-class service to its members, retirees, and employers. As a result, a lot of its work is to provide open channels of communication with a dedicated call centre; information and pre-retirement sessions for members and employers across the province; its website; targeted newsletters; and gathering member feedback through surveys and focus groups.
When the Canada Pension Plan (CPP) was implemented in 1966, Québec decided to have its own general plan, the Québec Pension Plan (QPP), which is essentially identical to the CPP. The QPP provides basic retirement benefits, death benefits, and disability benefits to all Québec workers. It is funded by mandatory contributions by workers and their employers.

A major reform of the QPP was carried out in 1998, mainly to address challenges to its financial sustainability. The most important consequences of that reform were gradual, but significant, increases in the contribution rates and a small decrease in the retirement benefits. Since 2003, the combined employee/employer contribution rate has been 9.9 per cent of pensionable earnings (the same as the CPP rate).

Working Paper
In October 2003, the Québec government issued a working paper proposing changes aimed mainly at encouraging workers to delay commencement of their QPP pensions. This paper was followed by parliamentary committee hearings early in 2004, but no changes were made to the QPP as a result of the 2003 paper.

However, the QPP December 31, 2006, actuarial valuation report revealed a deterioration in its financial position. A key conclusion of the report was that if no changes were made to QPP benefits and contributions, the QPP reserve would be completely depleted around 2050. The report also indicates that as of 2011, the contribution rate that would produce a stable reserve is 10.7 per cent of pensionable earnings, 0.8 per cent higher than the current rate. If no changes are made to contribution rates or benefits, the contribution rate would have to increase to about 12.5 per cent of pensionable earnings in 2051 when the fund’s reserve would be depleted.

In June 2008, the Québec government issued another working paper which reiterated most of the recommendations contained in the October 2003 paper. It also proposed measures aimed at strengthening the QPP’s financial position and outlined potential fundamental changes. The June 2008 paper observed that the Québec population is aging rapidly, at a faster pace than in the rest of Canada, and that the ratio of pensioners to active contributors is also quickly increasing.

Significant Changes
The most significant changes proposed by the June 2008 paper are an increase in the contribution rate and no conditions for payment of an early retirement pension. The paper proposes that the contribution rate be increased from 9.9 per cent to 10.4 per cent, in 0.1 per cent increments starting in 2011, with the 10.4 per cent rate to be attained in 2015.

In terms of the early retirement payment proposal, the current QPP provisions permit a person to receive retirement benefits prior to age 65 (but not earlier than age 60), subject to the following conditions:
◆ The person has stopped working
◆ The person expects to earn less than 25 per cent of the QPP’s Year’s Maximum Pensionable Earnings (YMPE) in the next 12 months (in 2009 less than 25 per cent x $46,300 = $11,575)
◆ The person has entered into a phased retirement agreement with the employer that provides for a reduction in pay of at least 20 per cent

It is proposed that these conditions be eliminated. However, current restrictions on receiving retirement benefits no earlier than age 60 and the early retirement reduction of 0.5 per cent per month prior to age 65 would remain unchanged.

Other proposals call for:
◆ Higher Actuarial Increase Factor on Postponed Retirement

Under the current QPP provisions, if a person elects commencement of the retirement benefit after age 65, the benefit is increased by 0.5 per cent for each month after age 65 that pension commencement is delayed. The paper proposes raising this actuarial adjustment to 0.7 per cent.

The Québec Pension Plan: A Few Repairs Or A Major Overhaul?
Fixed Calculation Period for Pension Formula

The QPP provisions for calculating a pension are relatively complex. A fundamental component is that earnings between age 18 and the pension commencement date, excluding earnings in 15 per cent of the years in which earnings were lowest, are used for determining the pension. Under the proposals, the sum of earnings up to the YMPE in all contributory years divided by 40 would be used. Earnings in years during which the contributor was caring for children under age seven would be increased to reflect the average earnings during the rest of the career (the current provisions contain a similar adjustment). The paper indicates these changes would be implemented gradually, beginning in 2011.

The new calculation method may produce a higher pension for some contributors who work longer. On the other hand, it would typically produce lower pensions for contributors who started working after age 20 and retire early.

For example, consider Mary who started working at age 24 and retired in 2009 at age 60. During each year of her career, her earnings exceeded the YMPE. Under the current QPP provisions, she is entitled to a pension calculated using the same eligibility requirements for contributors who worked after age 60. The paper suggests that the YMPE could be increased for future years of contributions and pension accrual from, for example, $46,300 to $62,000 – the maximum earnings level used by the Québec Parental Insurance Plan. According to the paper, such a change would improve the QPP’s long-term funding level, increase the contributors’ earnings protection, and reduce employers’ obligations and members’ contributions to supplemental pension plans that are integrated with the QPP.

It also looks at providing an income replacement rate over 25 per cent as another approach to explore in order to improve the protection provided by the QPP.

Possible QPP Expansion

Many of the proposals in the June 2008 paper are focused on maintaining a sustainable QPP. However, the paper does not stop there. It also introduces the possibility of enlarging the QPP coverage through the following two avenues – an increase in YMPE and a higher income replacement rate.

The paper suggests that the YMPE could be increased for future years of contributions and pension accrual from, for example, $46,300 to $62,000 – the maximum earnings level used by the Québec Parental Insurance Plan. According to the paper, such a change would improve the QPP’s long-term funding level, increase the contributors’ earnings protection, and reduce employers’ obligations and members’ contributions to supplemental pension plans that are integrated with the QPP.

It also looks at providing an income replacement rate over 25 per cent as another approach to explore in order to improve the protection provided by the QPP.

Implementing either or both of these measures would change the Québec pension landscape significantly, result in higher employer/employee QPP contributions, and force a re-design of most employer-sponsored pension plans. They could also make QPP and CPP quite different, making it very difficult to maintain uniform benefit programs for Québec and non-Québec employees.

Finally, the paper suggests workers might be permitted to make additional QPP contributions, without concurrent employer contributions. Such voluntary contributions would accumulate in individual accounts and would give entitlement to an additional pension paid at retirement by the Régie des rentes du Québec. Since the release of the QPP consultation paper, expert panels in British Columbia/Alberta and Nova Scotia have also suggested implementing province-wide Defined Contribution arrangements.

The June 2008 paper was issued before the recent financial market turmoil. QPP funds are entirely held in the Caisse de dépôt et placement du Québec. Losses the Caisse is expected to have suffered due to the recent financial crisis attracted considerable attention during the 2008 Québec election campaign. With the release of the 2008 annual report of the Caisse, we have a better idea of the damages to the QPP’s financial position. Addressing these additional QPP financial problems may require more aggressive contribution increases or benefit reductions than those contemplated in the June 2008 paper.

Difficult Decisions

The government of Québec has some difficult decisions to make. On the one hand, it would like to maintain the QPP’s equivalence with the CPP in terms of benefits and contributions. On the other, the QPP is faced with a demographic situation that differs significantly from the rest of Canada. Moreover, the recent financial turmoil may have widened the gap between the CPP and QPP. It seems clear that to maintain the QPP’s financial autonomy and not use general tax revenues to pay QPP benefits, means benefit reductions and/or contribution increases will be necessary. These would reduce uniformity with the CPP. Differences between the CPP and QPP (especially different contribution provisions) would increase the administrative burden for employers with employees in Québec and other provinces, and make it more difficult to have uniform provisions in benefit and pension plans for all employees.

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The incredible advances in the field of communications and use of the Internet have turned people from simple spectators into active players. Service providers and sponsors have everything to gain from this new interactive way of communicating with group pension plan members.

The Joint Forum of Financial Regulators ‘Guidelines for Capital Accumulation Plans’ were established to help plan sponsors adopt sound governance practices. Among other things, the guidelines recommend that members who have control over investment decisions be provided with the information and help they need to make informed choices on how to invest.

The major fluctuations we are now seeing in financial markets are a reminder that it is essential for members to make their investment choices in an informed and responsible way, taking into account the risk level associated with each asset category.

The publication of the guidelines increased service provider efforts to offer ways of helping plan sponsors fulfill their obligations, particularly when it came to communicating with members. Now more than ever, they are finding new and innovative ways to develop effective means of communication that will satisfy both plan sponsors and members.

Members, for their part, are responsible for using the information made available to them when it comes to making decisions, particularly with regard to:

◆ setting contribution amounts, if the plan framework gives members such an option
◆ developing an investment strategy by choosing investment vehicles appropriate to their investor profile

Members can choose to consult with an investment advisor. However, the onus is on them to use the information provided to them by the plan sponsor. Members should also review their specific situations on a regular basis.

Message Received, Message Understood

Anyone who has taken a basic course in communication will remember that the communication process consists of a sender, a receiver, and a message (See Figure 1).

The sender encodes the message (an idea, concept, or piece of information) which is then decoded by the receiver.

In order for the message to be conveyed from the sender to the receiver, certain rules have to be respected:

◆ The sender and the receiver have to use a common code – the same language, whether it takes the form of sound, writing, signs, or symbols
◆ The sender must choose the proper channel to connect with the receiver – they must have access to technology that will allow the message to reach the receiver effectively

The communications age has caused people to be swamped with messages. What’s more, in a group pension plan, members are adrift in a sea of information and more often than not, left to their own devices. Moreover, retirement financial planning is certainly not their highest priority. Generally speaking, they worry more about paying the mortgage and buying groceries each week.

So, in order for the message to reach plan members, group sponsors and service providers need to ‘chew’ the information, simplifying it as much as possible so that receivers can decode it with minimal effort. They must identify the right information and present it at the right place and at the right time. The Internet’s flexibility makes it a communication channel that is well-suited to these various conditions.

Figure 1
Unlimited Possibilities And Popularity

Service providers in the field of group retirement savings have many reasons to be increasingly interested in the Internet. Let’s look more specifically at two, namely the growing popularity of this medium and the world of possibilities it opens up.

The Internet is the communications channel that has seen the greatest growth in the last 10 or 15 years. We are now seeing it become popular with almost every stratum of the population. Overall, 19.2 million Canadians used it for personal purposes in 2007, which represents 73 per cent of the population aged 16 and older, according to a Statistics Canada 2008 study, ‘Internet use and social and civic participation.’ However, the Internet is still the favoured medium of 18- to 34-year-olds who account for 90 per cent of the users, says information from Cefrio, a research and development centre.

At home, Internet users use eMail above all. On the web, they visit government sites and search for information on health and travel. Many Canadians also use the Internet to do their banking, pay bills, and order goods and services, says Statistics Canada.

Another reason for its growth is the Internet allows users easy access to all kinds of information – from simple text to images, animations, and videos. The Internet also has a customizing capability through secure centralized access since access levels and access rights can be set for each user.

Dealing With Lack Of Interest

In the 2007 tax year, almost 88 per cent of Canadians were entitled to contribute to an RRSP. Of this group, only 31 per cent actually made a contribution, says Statistics Canada. Similarly, two out of three Canadians are not saving enough for retirement, according to the Canadian Institute of Actuaries.

Faced with such findings, it is normal to wonder why Canadians are not more interested in preparing for retirement. A number of reasons connected to the social and economic climate could certainly be suggested, but one wonders whether part of it is not just a lack of interest. And what if this lack of interest were connected to poor knowledge or a lack of understanding of retirement savings? Could we convince a member to join the plan when participation is voluntary and to understand the benefits of maximizing their contributions?

Challenge Of Attracting Members

By providing more effective ways of educating employees on financial issues, plan sponsors partially address their fiduciary responsibilities to members. Effective communication encourages employees to join the plan when participation is voluntary and to understand the benefits of maximizing their contributions.

A 2005 study by the Wharton School at the University of Pennsylvania pointed out that organizations which make significant use of the Internet to communicate with their retirement plan members, and which include interactive tools, get higher participation rates. The study went so far as to state that by making improvements to its communication program, an organization achieved as high a rate of plan participation as it would have by increasing the employer’s financial contribution.

Simplicity: Another Challenge!

“Simplicity is the ultimate sophistication,” said Leonardo da Vinci.

Applicable to any field, this holds just as true when it comes to Internet communication and retirement savings tools. Here are a few pointers to keep in mind:

◆ Members should be able to find all the information and tools they need in one place.

◆ The planning process that is offered should consist of a limited number of steps and they should be able to cover each step fairly quickly. For example, if using video segments, the information contained in each segment should be delivered in no more than three minutes if you wish to hold the member’s attention throughout the video.

◆ The emphasis should be on essential information. Additional information for members who want to round out their knowledge can be provided elsewhere.

◆ The visual concept should be inviting and members should be able to navigate instinctively and at their own pace.

Ideally, the communication tool that the service provider offers to attract members to the plan and for retirement financial planning should be flexible enough to be adapted to a specific group. In this way, a sponsor who wishes to provide information on the specifics of the plan (eligibility, contribution rates) can do so using the tools set up by the service provider.

Although most Canadians are not investing enough for their retirement, they need to know the importance of doing so and of starting early. Those who have a retirement plan through their employer are privileged, although they may not always be fully aware of all the benefits. By improving communication methods and providing members with tools that can be adapted to their needs, we make it more likely for them to derive the greatest benefit from their plan and, in the end, achieve financial freedom in retirement.

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Canada is caught in the grips of a severe recession and employers should make it a priority to keep their workforces as healthy and productive as possible. If they’re not devoting attention to this now, it could result in a poorer recovery later.

However, the current economic crisis can severely impact workplace productivity unless organizations help employees deal with the effects – stress, uncertainty, and conflict, says Shepell·fgi Research Group’s ‘Financial Distress Impacts Health and Productivity.’

Number Of Accesses
According to the report, the number of accesses for financial counselling and consultation have been rising at a rate twice that of all other EAP services. In the second half of 2008, there was a 13 per cent higher rate of access for financial issues than in the second half of 2007, which means that employees have been increasingly using EAPs for support and guidance.

According to the research, in 2008, the top financial issues for employees were:
◆ Debt/Credit – 37.6 per cent
◆ Financial Planning – 15.2 per cent
◆ Divorce/Finances – 8.7 per cent

There is no question that employers must be clear about what is causing any decline in productivity and also about what is driving up costs. This is especially true in troubled economic times. In the current environment, employers would be wise to target three things:
◆ Preventing the impact of serious financial stress
◆ Engaging employees
◆ Helping employees stay healthy and productive

However, the problem of productivity losses due to stressed employees doesn’t concern those who are no longer at work, it concerns those who still have jobs.

For example, one very real problem that often materializes when people are let go is the phenomenon of survivor guilt. Those who are left behind may feel guilty because they remain employed while their colleagues are gone.

And it goes further than that. Because fewer people are left to handle the workload, they may be expected to work longer hours, nights, and weekends to pick up the slack. This can have a severe impact on the individual’s family and personal life.

What does increasing financial stress mean for employees? A lot. Throughout their working years, employees will experience a number of normal life patterns that cause stress. Such things include moving into a new home, being hospitalized for an injury or illness, getting married, the death of a family member, or the loss of income when between jobs. Fortunately, many people are able to adapt to these situations and can use the supports available.

However, the problem of declining productivity due to stressed employees really rears its head when one or more of these factors becomes severe. Probably the best example is financial stress, which can lead to an overall imbalance in life and have potentially serious negative impacts, both at work and at home.

As global economic troubles rise, stress related to diminishing savings, dwindling investments, and insecure jobs will increase.

Then there is the ripple effect on personal and workplace relationships. One study (Cash, 1996) found that personal finance ranked number one as a source of stress. It was ahead of relationships, work, health, and crime/violence.

How does increasing financial stress affect employers? For the answer, all we have to do is look at the research, and it’s extensive. It shows that employees who are mentally and physically healthy are far more likely to be engaged at work than those who feel stressed and overwhelmed.

It doesn’t seem to matter what type of work we are talking about – workers on an assembly line, managers, sales professionals, or those in the service sectors – employees who aren’t experiencing financial stress are more productive.

In seeking ways to address the issue of increased...
financial stress in the workplace, employers have a challenge because stressed employees are more apt to take time off to deal with their financial problems. They may take time away from productive labour in order to telephone creditors, to seek sources of additional credit, to converse with their fellow co-workers about stresses, or to talk with their supervisors about pressing financial concerns.

The 1998 So-hyun Joo study found that good financial wellness and worker productivity are positively related. It said that workers with good financial wellness are those people who come to work every day, are given high performance ratings from their bosses, use minimum time at work attending to personal financial matters, and enjoy consistent or even increasing job productivity. The same research showed that workers with poor financial wellness are the people who are absent from work more often, receive poor performance ratings from their supervisors, spend excessive time at work dealing with personal financial problems, and experience a decline in job productivity from one year to the next.

In the United Kingdom, a 2003 survey of more than 1,300 HR practitioners found that while casual absence dropped 10 per cent during periods of economic instability, longer-term disability went up. Why did this happen? There appears to be two major reasons. It was due to the higher volume of work that typically remains for those who still have a job and the fact that some employees may seek job security and income protection, perhaps inappropriately, through their organization’s disability program.

Investment Planning

The report ‘Financial Distress Impacts Health and Productivity,’ which concentrated on EAP accesses for financial counselling and consultation, looked at such financial issues as counselling for general financial stress and counselling for more specific credit and collection problems. We are talking specifically about specialized financial counselling and consultation related to such issues as bankruptcy, retirement, job loss, divorce, estate planning, financial planning, and investment planning.

From our vantage point as an EAP provider, there is definitely cause for concern about the impact of the economic downturn on employees and their organizations. So, what should employers do? For starters, they need an integrated, long-term approach to employee health and productivity. Here are some concrete things they can do to get the ball rolling:

- Focus on preventing serious financial stress by helping employees better understand and cope with the economic downturn, in order to lessen its impact. Workplace-based, financial education programs have proven to be effective.
- Within the organization, actively promote your EAP’s proactive, financial counselling and consultation services.
- Understand the very real connection between healthy, productive employees and lower costs for disability and absenteeism.

Understand, further, that investing in health promotion and prevention strategies today will lead to results tomorrow … and put the organization ahead of the curve when the economy recovers. All employers want to lessen the impact of lost productivity and prevent disability claims due to stress and conflict in the workplace. They can do this by promoting their EAP services and, equally important, making sure that managers have access to the right tools and support.

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Canadian employers are worried about the impact of a possible mass retiring of the first wave of the baby boomers, many of whom are eager to start a new work-free life, start a new business, or possibly go back to school.

Canadian organizations of all sizes and industries across the country – especially in Alberta – are having a hard time attracting and retaining older employees, says a survey by Hewitt Associates.

So while the question used to be: ‘How can we cut back on the cost of employee benefits?’ Now the more likely question is: ‘What more can we do to attract and keep older knowledgeable workers?’

**Key Education Tool**

However, there is a key education tool that very few employers are offering to attract and retain employees, it is called long-term care planning.

Peter Drake, the vice-president of retirement and economic research at Fidelity Investments, says there are five key risks to retirement income:

- Longevity
- Asset allocation
- Inflation
- Excess withdrawal
- Healthcare spending

Long-term care planning focuses on preparation for healthcare spending.

There are good reasons why employers should consider long-term care planning education for employees. They include:

* The majority of Canadians are ignorant about how the healthcare system functions in their province. They only learn about the system realities when they need to access it. They do not know what care, services, or accommodation cost and too often do not anticipate their own or their parents’ care needs.

* Most of us feel long-term care is reserved for the elderly. Statistics prove otherwise. According to Sun Life Financial, more than one out of every 10 people who has received long-term care insurance benefits was under age 50 at time of claim.

* By 2031, more than 750,000 Canadians will have Alzheimer Disease or related dementia unless a cure is found before then. Almost 25 per cent of Canadians now have someone with Alzheimer Disease in their family.

* Employers are looking for ways to attract and retain valuable older, experienced employees. By offering long-term care planning as part of an employee education program, employers are providing added value to employees and even retirees.

* Too many believe the government will look after their care needs and costs later in life.

The Long-term Care Planning Process

The long-term care planning process is a straightforward, common sense exercise that every adult over the age of 50 needs to complete. The basic steps are:

* Understand the need to plan

Although many of us are aware of long-term care realities because of aging parents or friends, we continue to put care planning for ourselves on the back burner. As a result, we remain unaware of the implications long-term care can have on our families, employment, and finances. If we want to age well, in our own homes if possible, we need to take steps now to ensure this can happen.

* Understand provincial government care provisions

Investigate your provincial home care/facility care provider system, so you understand home care, assisted living, retirement home, and long-term/nursing home care.

Know what services are not provided by your provincial government, as well as the costs of private pay home care and the co-payment for facility care.

Investigate the wait list situation for care facilities. If necessary, learn what care services/procedures are considered outside the jurisdiction of the system and, therefore, not covered by government health plans.
Have the care planning conversation to identify which family members you can count on for help.

When it becomes evident that a family member needs care, the most effective way to facilitate decision-making about care requirements is to call a family meeting. This way everyone involved – spouses, parents, and adult children – will understand the problems. All will have a chance to participate in the solutions and provide care and support as needed.

Create sources of care funding to pay for services and housing

Since the majority of us will need some form of care as we age, we need to consider how we plan to pay for it – through savings, financial help from family or friends, or through some form of insurance – particularly critical illness or long-term care insurance.

Ensure all personal, medical, and social information is documented and stored in one place

It is very important to document healthcare conditions, directives, and preferences in an organized manner. In the event of a medical emergency or the need for critical or chronic care, a family member must have access to this crucial personal and medical information. Purchase or create a long-term care planner. It is a practical tool for families to keep track of essential personal, healthcare, financial, and legal details and wishes of loved ones in the event they need long-term care.

Establish clear legal directions

Document your wishes in the form of a will and powers of attorney. Ensure these documents are complete, current, and accessible to those who need them in the event of an accident, illness, or death. Legal documentation can also involve decisions about end-of-life care. Talking about end-of-life wishes is an uncomfortable discussion at best, but such a conversation can be a great gift for loved ones. If appropriate to your age, discuss the issue with your family and physician to relieve them from the burden of having to guess your end-of-life wishes. The greatest gift aging parents can give to their adult children is to tell them what care they do and do not want as the end of life approaches.

Make sure your home remains a good fit as you age

Because people want to age in place – at home – it is essential that the home environment be as safe as possible, so a senior can live there independently for as long as possible. If you are older, live alone, or are on the verge of needing care, consider modifying your home. Also, research the role that assistive devices can play in maintaining independent, comfortable living.

Communicate and update your plan regularly

Once you have completed the care planning process and documented the results, do not put the plan away and ignore it. There are many events that may change the focus of your plan. These include marriage, divorce, a death in the family, change/loss of employment, or relocation. Ensure you review your care plan yearly and make adjustments as necessary.
Women And Long-term Care Planning

Women need to pay special attention to long-term care planning because they tend to put others before themselves and end up becoming caregivers for frail parents or ill spouses. This can result in a drop-out from the work force for a few months or many years, resulting in lost wage, pension, and career opportunities as well as a drop in their own health status.

Another reason is a vast majority of women (90 per cent) feel financially insecure, despite the fact they are more educated, more involved in financial decisions, and are controlling more of the wealth than ever before, according to the ‘Allianz Women, Money & Power Study (2006).’ Along with this financial insecurity is a tremendous fear of becoming a bag lady. About half (46 per cent) of women had this fear – surprisingly enough, almost half (48 per cent) of women with $100,000-plus incomes felt this way.

A Statistics Canada study, ‘The Death of a Spouse and the Impact on Income,’ found that 72 per cent of older women of all income levels suffer income loss when their spouse dies. Five years after the death of the husband, the richest widows experienced an 8.6 per cent decline, compared with a 9.8 per cent drop among the poorest.

Finally, widowed women accounted for 45 per cent of all women older than 65. Senior widows outnumbered senior widowers by four to one. Further, women have a life expectancy of 81 years, compared to 75 years for men, so women are expected increasingly to live alone in their senior years.

Avoid The Mistakes

As boomer men and women, many of us have or are experiencing the impact that aging has had on our parents. Many of us did not like what we saw. Start now to plan for your aging and long-term care so you can avoid the mistakes your parents made.

Have the care conversation with:

◆ Your parents, if you have not already done so
◆ Your spouse, children, or close friends, if appropriate
◆ Your financial planner to ensure you have considered everything necessary for financial security until the end of life

Plan where and how you want to live.
Plan so you will have enough money to enable you to have care choices, because ‘money equals choice equals control.’

Creating a care plan will take time and effort, but once it is completed, you will have accomplished two very important goals:

◆ You will have added the missing piece to your financial/retirement plan
◆ You will have removed a huge burden from your family and, over time, all will be thankful that you took the initiative to plan ahead

There is no excuse for avoiding the issue, the expertise and resources are available to help you plan for long-term care. So, as the saying goes: ‘Just do it!’

Karen Henderson is the founder and CEO of the Long Term Care Planning Network (karenh@ltcplanningnetwork.com).
Every issue goes to work for Canada’s most important companies

Benefits and Pensions Monitor has helped this industry navigate through good times and bad since 1991. Staff experience dates back to the early 1970’s in this industry, and MONITOR leads by example in circulation and content. Companies that advertise in this magazine are the ‘who’s who’ brands of this industry.

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With the headlines full of economic uncertainty, the ‘Canadian Summit on socially responsible investment’ will explore how socially responsible investment (SRI) is responding to current market volatility. Sessions on climate change, green investing, community investing, current market volatility. Sessions on climate change, green investing, community investing, retail markets, and institutional investment will provide insight and hope for how SRI can point a way forward through the current market turmoil. It takes place June 7 to 9 in Winnipeg, MB. Visit http://www.socialinvestment.ca/event.htm

Dr. Nick Bonitis, director of the Institute for Intellectual Capital Research, is back by popular demand as a keynote speaker at LOMA Canada’s annual conference. Bonitis will show how to cope with information bombardment and improve your ability to manage change by working smarter, not harder. As well, Paul Grimes, senior vice-president, individual sales, at Industrial Alliance, will explore current and emerging issues facing the Canadian financial services industry. The 2009 conference takes place June 9 in Toronto, ON. Visit: www.lomacanada.ca/en/conference/index.htm

The ‘10th Annual Ontario Employment Law Conference’ will take place June 10 in Brampton, ON. Employment law specialists from Stringer Brisbin Humphrey will examine areas of labour, employment, and human resources law. Visit: http://www.firstreference.com/conference

The financial and economic events of the past two years that have profoundly changed the investment landscape will be the focus of the 2009 Morningstar Investment Conference. Set for June 10 in Toronto, ON, sessions will look at topics including investing opportunities in the financials, natural resources, and fixed income sectors. Visit: global.morningstar.com/ca/MIC

The latest on current regulatory and legislative issues and protecting the organization from pension legal risks will be among the areas covered at the Federated Press ‘Pension Law & Litigation’ conference. Set for June 15 to 17 in Toronto, ON, it will also feature sessions on developing an effective pension risk management approach and avoiding litigation over pension shortfalls. Visit: http://www.federatedpress.com


McLean Budden - Soami Kohly

The Board of Directors of McLean Budden is pleased to announce the appointment of Soami Kohly as Vice-President, Liability Driven Investment (LDI) Solutions.

Mr. Kohly will lead the firm’s LDI business. He has over 15 years experience in the pension and financial services industry. Recently, he was the head of the LDI group for a major brokerage firm. Prior to that, he worked as a consulting actuary at a global pension consulting firm. Soami is a Fellow of the Canadian Institute of Actuaries and a Chartered Financial Analyst.

Soami Kohly, CFA, FCIA
Vice President, LDI Solutions

The Board of Trustees of Ontario’s Colleges of Applied Arts and Technology Pension Plan is very pleased to announce the appointment of Derek Dobson as Chief Executive Officer and Plan Manager.

Mr. Dobson has 17 years of experience in the pension industry, most recently as Executive Administrator (CEO) of TEIBAS Ltd., the Toronto Electrical Industry Benefit Administrative Services. Before that, Mr. Dobson spent approximately 6 years in a senior capacity at HOOPP, the Hospitals of Ontario Pension Plan.

An Associate of the Society of Actuaries, Mr. Dobson serves on the Ontario Regional Council and Strategic Communication Committee of the Association of Canadian Pension Management, and has a wide variety of leadership experience in investment, plan design, funding, strategic planning, client service and communications.

The Board of Trustees is confident that his broad range of experience will make him an excellent fit to help the CAAT Pension Plan prosper and move forward in these challenging times.

Derek Dobson
Chief Executive Officer and Plan Manager

The 5th Annual FPL Canadian Electronic Trading Conference’ will take place June 1 and 2 in Toronto, ON. Sessions will examine areas such as marketplace restructuring and investment management strategy changes. Visit: eTradingCanada.ca

‘What Your Drug Plan is Paying For and How to Manage It’ is the topic of the next Benefits Breakfast Club meeting. Michael P. Sullivan, president of Cubic Health, will be the presenter at the June 4 in Burlington, ON. Visit: http://www.connexhc.com

McLean Budden is one of Canada’s oldest investment firms. From offices in Toronto, Montréal, Vancouver and Chicago, the firm manages over $30 billion on behalf of institutional and private clients in Canada, the United States, Europe, Bermuda and Asia.

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We would all like to believe that the current financial turmoil is somehow unique and that the stresses we are feeling today have been unmatched by any other people in history. However, a look at global crises of the distant and near-term past show us that we are far from unique, and point out some features that can help us in the future.

Michael Bordo, from Rutgers University, has been studying financial crises for many years, and his various published papers give us some needed perspective on the matter. Here are some key findings:

◆ There are more financial crises today
While our short-term memories of crises such as the Asian crises of 1997-1998 and the Russian and Long Term Capital Management meltdown of a few years later might lead us to believe that financial problems are becoming more frequent, this is actually the case in most of the world. Bordo uses as broad a definition as possible (including currency crises, banking crises, and occasions when both occurred at the same time). In one study, he looks at 120 years of financial history in 21 countries. Crisis incidence is today about double what it was in the period from the end of World War II to the end of the gold standard in 1971. The only other period that saw as much financial upheaval was the period from the Depression through to the end of World War II.

Canada is the exception to this rule. While the earliest currency crisis for our country was in 1891 and our first and only banking crisis was in 1923, we have remained relatively free of problems since the mid-1980s. Until today, of course.

◆ While more frequent, crises aren’t more severe
Interestingly, little has changed over time in relation to the duration of crises. Crises have historically been followed by economic downturns lasting on average two to three years. This is as true now as it was over a century ago. The same with the losses associated with financial problems. Though there are many ways of counting losses, crises tend to cost about five to 10 per cent of a country’s GDP.

◆ However, multiple financial crises are growing
There has been a growing prevalence of multiple crises, similar to what we are currently experiencing today, beginning in the last quarter of the 20th century. These combinations of banking and currency crises have been more frequent than at any time since the Depression.

◆ History repeats
While not qualifying as financial crises, the past 120 years have shown reoccurring patterns of booms and busts in markets for equities, land, commodities, foreign currencies, and other assets. Changes in the valuation of risky versus safe assets have been played out repeatedly over time as risky assets become overvalued, leading to busts affecting both debtors and creditors alike. These lending booms and busts, combined with business cycles, are frequent throughout history.

The global spread of crises is also not new. Contagion has always spread quickly through asset markets. For example, the crisis of 1890 started first with a central bank tightening in England and later France and Germany, spread through lenders to Argentina, and then affected the rest of Latin America and other emerging countries around the globe. And all this happened a century before the first credit default swap was invented.

◆ Maybe this time it is different?
There is one key area where we want to be unique at this time. History has shown that how governments support the financial system is important. “The historical record shows that unconditional support for unsound intermediaries makes crises worse by facilitating looting and gambling for resurrection,” says Bordo. Unfortunately, governments have, in the past, done just that. The record shows many cases of governments either failing to act (think of Japan throughout the 1990s) or only acting after the crisis has passed, and then often doing the wrong thing (think of the protectionist measures resulting from the Depression).

So far, global governments have been promptly tackling both the liquidity and solvency aspects of our financial system. Maybe we have learned from history which means that we may just get out of this current crisis after all.
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