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Will the Supreme Court of Canada decision which allows the use of Defined Benefit pension plan surplus to fund employer contributions to a Defined Contribution element of a pension plan lead to a new interpretation of the treatment of pension plan surplus? This, of course, was one of the objections of the former employees who took legal action over the pension plan amendment in 2000 by Kerry Canada which created a Defined Contribution component in its plan. Ironically, some of these former employees behind the court challenge were managers at the company involved in making the amendment to the plan.

Reaffirmed Ability

The Supreme Court of Canada, in upholding a Court of Appeal decision, reaffirmed the ability of plan sponsors of DB plans to take contribution holidays. However, in a split decision, a majority of the court decided there was only one plan and the intention at the time of the amendment was to have just one pension plan. The majority decision – the minority view was that there were two plans – said since there was only one trust, applying assets in the fund towards DC contributions did not violate the exclusive benefit language of the pension trust or constitute a partial revocation of the trust. It noted that it is possible to have different classes of members within a plan, yet allow all classes to benefit from the assets in the fund. Note, the key word is ‘asset,’ not ‘surplus.’

While discussions of pension plan surplus today may be moot, this decision opens the door a crack, in our view, to a novel interpretation of pension plan surplus. The debate, during times when plans are flush with cash and bumping up against the arbitrary and ridiculous limits of surplus, is who does the surplus belong to – the plan sponsor or the plan members?

The Kerry decision, in a back-handed sort of way, suggests that surplus belongs to neither of these. The real owner is the plan. And if we look back into the history of pension plans, they were created by employers so that employees would have a benefit when they retire, not to become a cash cow if, and when, a plan finally closes.

What has happened over the years is that this distinction has been lost as employers abused it by making attempts to get at surplus or to use pension plan assets to help pay the cost of getting rid of workers. Employees developed a sense of entitlement, supported by the legal and regulatory systems, that plan surplus belonged to them since plans were set up for their benefit.

Ignored is the reality that surplus is merely a moment in time. By the time it is calculated, it can be gone. Plus, depending on the purpose of the calculations, a plan can be in surplus and in a deficit all at the same moment.

Potential Return

Even the numbers used to determine the solvency level of a plan are based more on conservative attitudes than on how assets in a plan are being invested and their current or potential return.

Further muddying the issue is that accountants opened a Pandora’s Box when they first decided to report assets that belonged to pension plans as company assets to prop up their bottom lines and make them look more attractive to investors.

This Supreme Court decision could allow a clever lawyer to argue the position that pension plans are separate entities, set up to fund the future retirement of a company’s workers. In fact, going forward, maybe we need three legal minds arguing pension surplus cases with attorneys representing the plan members, the plan sponsor, and the plan.
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Paul Stephens has re-joined the Vancouver, BC, office and assumed the role of market lead for Hewitt’s health management practice. He has 19 years of human resources consulting experience, the first 14 years at Hewitt’s Vancouver, BC, and Calgary, AB, offices providing pension and benefit plan consulting services.

Elena Morandi-Bonner is director and account executive at Buck Consultants, an ACS company. A professional project manager, as well as a quality systems and business standards expert and certified auditor, she has extensive experience in project management, systems support, and quality management.

Patrick Longhurst has been appointed to a two-year term on the Financial Services Tribunal. The president of Longhurst & Jack Inc., which provides education and financial advice to individuals approaching retirement, he spent 30 years as a consulting actuary specializing in the design, funding, and communication of major private and public sector pension plans. He retired in 2007 as a senior consulting actuary at Watson Wyatt. He is also a former member of the editorial advisory board at Benefits and Pensions Monitor.

Richard Nadeau is managing director and vice-chairman of Desjardins Securities. Until recently, he was senior vice-president of TMX Group, responsible for managing listed issuers on the Toronto Stock Exchange. Christiane Bergevin is executive vice-president, strategic partnerships, office of the president of Desjardins Group. Most recently, she was senior vice-president and general manager, corporate projects, at SNC-Lavalin Group.

Mike Pastuszak is manager, business development, group savings and retirement, at the Standard Life Assurance Company of Canada. With more than 15 years of experience in the pension industry, he will serve brokers in Ontario and strengthen its distribution through the broker channel.

John Lockbaum is managing director of RBC Dexia Investor Services’ Canadian operations. Previously, he was senior vice-president and managing director at ING Wealth Management in Toronto, ON. Scott MacDonald is head, pensions, financial institutions, and client service, North America. In this key management role, he will provide strategic direction for the company’s pensions, insurance, and foreign financial institutions segments. Daryl Kletke is head, Funds Canada. Previously, he spent seven years with Fidelity Investments in a series of progressively challenging roles, culminating with his role as vice-president, client service.

Philip Howell is CEO and superintendent of financial services for the Financial Services Commission of Ontario (FSCO). Previously, he was deputy minister of economic development for the Ontario government. Prior to that appointment, he was the deputy minister of tourism and before that he was the associate deputy minister of finance, responsible for the Treasury Board. During that stint in finance, he served as the interim CEO and superintendent of FSCO for 14 months.

Brent Acton is regional vice-president for Manulife Financial group benefits in its downtown Toronto regional group office. He joined the firm as an account executive and, in 2004, became director, sales and account management.

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Trend Factor May Be Lower

An individual company’s health trend factor can often be three to five per cent lower than the insurers, says Michael Worb, president and CEO of Pal Benefits. Insurers surveyed for its ‘2009 Guide to Health and Dental Trends’ report indicated an average trend factor of about 15 per cent for overall health. However, Worb says its health trend factor is based on an examination of data culled from its book of business as well as outside sources. It also views each company’s plan through the lens of their unique demographics, utilization, and industry. Plus, insurers need to build a margin into their calculations. Worb says when a company is self-funded with enough employees (usually more than 50), the principles of group economics can be fairly applied and their specific metrics on utilization can be weighted very heavily when negotiating plan renewal costs which may, in turn, allow a company to enjoy improved rates on the cost of providing benefits.

‘Green’ Real Estate Growing

The European market may not be properly pricing the long-term advantage of “green” properties over conventional ones, says Greg Hartch, managing director, Real Estate Europe, for GE Asset Management. Speaking at its ‘European Real Estate Luncheon Discussion,’ he said Europe is fully committed to sustainability in real estate with the EU calling it a “fundamental” objective. Hartch says that the demand for “green” real estate is growing, particularly with global corporations and governments. He expects rental growth and tenant retention will be greater for “green” properties, increasing the yield for investors.

Maze Of Regulation Hurts Pensions

Canada’s maze of provincial pension regulations discourages the creation of national, single-employer pension plans, says a study by the C.D. Howe Institute. In ‘The Pension Tangle: Achieving Greater Uniformity of Pension Legislation and Regulation in Canada,’ author Gretchen Van Riesen, of GVR Consulting, says national single-employer pension plans covering employees across Canada are at a very fragile juncture as 60 per cent of working Canadians are without a private pension sponsored by their employer. This is due, partly, because cross-jurisdictional differences in pension legislation and regulation make it less likely an employer with employees in more than one province will establish a registered pension plan. This is counter-productive, given that Canadians face a serious gap in pension coverage, says Van Riesen. The report points out that the provinces – which are responsible

for establishing minimum standards for design, funding, communications, and administration of pensions – have developed their legislation at different times and with different provisions. In addition, different aspects of pension policy tend to fall under different ministries – principally finance, labour, and justice – that have different constituencies, priorities, and expertise. As a result, employers face a confusing myriad of rules and a higher risk of administrative error and legal challenges, which acts as an obstacle to those considering creating national pension plans. To address the problem, she suggests four options for regulatory reform and harmonization, all of which incorporate better harmonization of pension legislation.

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The problem was simple enough: too many members of Alberta’s Local Authorities Pension Plan (LAPP) were being encouraged to withdraw from the plan.

LAPP is a contributory Defined Benefit pension plan for employees of local authorities in Alberta. As of December 31, 2008, the plan had assets of approximately $13.5 billion and about 189,000 members.

However, rule change in 2007 by the government of Alberta opened the door to accessing commuted values before age 55. Members were being enticed by the financial investment community to take advantage of the change and withdraw funds.

Reaching The Solution

The solution, at first glance, also seemed to be simple enough: provide clear information to the members on the consequences of withdrawing early from their DB plan. Once the members had a complete picture of the advantages and disadvantages of early withdrawal, it would be easier for them to make an informed financial decision.

While the problem and the solution were easy enough to understand, reaching that solution proved to be more difficult than anticipated.

For nearly two years, a small group of consultants, policy advisors, legal experts, and writers tangled over what constituted ‘clear information.’ After multiple drafts and rewrites, it became clear that these pension professionals – myself included – all had different ideas on what members needed to know about plan withdrawals. And, even after the final draft was published, enough disagreement remained that the published version had to be scrapped in favour of a revised and reprinted version. A third version is now in the works.

Are all pension communications this much of a challenge? Increasingly, the answer seems to be ‘yes.’ Although members of our project team had the best of intentions, the needs of our clients (plan members) were too often ignored. We overlooked the fact that most members of our pension plan had little to no understanding of how the plan worked, and that our approach to the subject – and the language used – needed to reflect that.

Another challenge was the fact that so many team members had different views on how to approach the subject. Because the rules regarding plan withdrawals are complex, some believed that the language in the explanations needed to mirror the language in the regulations. Others believed the information had to be translated into something a member could understand. It was this conflict, more than anything else, that prompted the multiple rewrites.

With so many participants and so many perspectives on how the information should be communicated, how did we get the job done? “Slowly and patiently,” says Marilyn Lurz, a pension consultant retained by LAPP to assist with the project. “We negotiated. We discussed certain concepts over and over again and offered up clearer, more intuitive ways of explaining things.”

Important Lessons

Even though we are both long-time communication industry veterans, the experience taught us some important lessons about effective pension communications. First, when disagreements arise, it is helpful to return to the fundamental question of ‘what’s best for the member.’ Second, keep in mind – even when the going gets rough – that everyone on a project is working towards the same end. Third, have lots of patience.

“It took far longer than we expected, and we all got a bit bruised along the way,” says Lurz, “but the end product was well worth the wait. LAPP members reading this publication will know exactly what will happen if they choose to withdraw early from LAPP and withdraw their current value – which was the point behind the whole exercise.”
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As the first baby boomers approached ‘retirement’ age, concerns began to grow over predicted mass departures from the workforce. As it turns out, many of us are opting to work longer or return to the workforce in order to stay active and, after the recent recession, re-build our retirement nest eggs. In fact, in 2008 a sizeable chunk of the Canadian workforce, nearly 2.8 million people over age 55 were either employed or seeking employment, says Statistics Canada.

With such a substantial portion of workers now made up of older adults, it’s important to take a few minutes to look at the health issues that might concern aging workers.

How Do We Age?
Depending on the type of job a person is doing, the physical changes that typically occur with aging can affect how that job is completed, but not necessarily how well. A number of changes usually become apparent between ages 40 and 50. For example, people generally lose 15 to 20 per cent of their muscle strength by age 60. Flexibility and joint range of motion also tend to decrease with age. While this may not be a problem in many situations, there is an added potential for injury in some.

Correct balance and posture tend to become more difficult to maintain as we age and most of us notice certain changes in our vision as we get older, particularly at certain distances, in poor lighting conditions, or when a glare is present.

In general, skilled/experienced workers are usually able to adapt to their environment and develop safe work habits that match their strengths and abilities. It is still a good idea, however, for supervisors to be aware of potential risks, particularly during training periods or when new projects begin.

Health Concerns
Employers may be worried that older workers will face more health problems and potential sick leave than younger employees. This is true to a certain extent. Adults over age 45 are more likely to develop chronic health conditions such as cardiovascular disease, arthritis, and diabetes. They also take slightly more sick leave than the average worker (9.7 versus 7.9 days each year for those aged 25 to 44. In addition, older employees are more likely to experience repetitive strain injuries such as back problems.

On a positive note, older workers are less likely than young employees to sustain on-the-job accidents or injuries.

Promoting Wellness
A presentation by Michelle Tew, of Occupational Health Clinics for Ontario Workers Inc., gives a few suggestions for how employers and managers can help create a supportive workplace culture:

◆ Adapt work spaces and tasks
Work areas can be ergonomically designed to reduce repetitive motion or unnecessary strain on muscles/joints. Adjusting environmental factors such as light, heat, and noise can compensate for some of the physical challenges many people face as they age.

◆ Provide appropriate training programs
Any training sessions involving older workers should take into account general strengths and weaknesses found in older adults, as well as the individual needs of that particular employee. Some possible adjustments to training methods include encouraging older employees to mentor new workers on familiar tasks using ‘reverse mentoring’ – where younger employees train older workers on new technologies. As well, allowing for smaller training groups, hands-on experience, and extra time to practice unfamiliar skills work well with older workers.

◆ Offer flexible work schedules
Working with a particular employee to determine his or her personal scheduling needs and how they fit within the company is one way to provide a positive environment. For example, it may be easier for him or her to start and leave work earlier. Compressed or extended work schedules may also be attractive to certain employees.

One of the best ways HR professionals can support the company’s older employees is by encouraging an inclusive, welcoming environment that recognizes the wealth of experience and skills that they bring to the task at hand. Taking the time to understand their unique positions in the workplace is a great first step to ensuring their value is not overlooked.
The growth in Canada of investor support for responsible investment (RI) has been impressive in recent years. While this growth was initially driven by retail investors, it has been dwarfed by the $544.1 billion in pension assets (as of 2008).

The same cannot be said of Defined Contribution pension plans in Canada. There have not been, to date, many examples of plans either applying RI principles across their investment options or offering RI-themed options to individual plan members. Whether this is due to a lack of demand (from plan sponsors or members) is unclear. What is clear is that DC plans in other countries have successfully developed leading RI practices.

Australian pension funds are world leaders in RI. Given that the country has a much higher proportion of DC assets under management – almost all new pension contributions go to DC plans – the Australian example suggests that responsible investment and DC structures can be highly complementary.

Research by Mercer’s RI team provides an interesting comparison between Canada and Australia. Australia has a higher level of participation in the UN Principles for Responsible Investment (UN PRI). Canadian participation in the UN PRI includes seven asset owners and 11 investment managers – with no DC signatories from English Canada. Australian participation includes 28 asset owners – with a combination of DB, DC, and hybrid structures – and 43 investment managers.

In addition, industry and regulatory support for responsible investment has been stronger, and consistently so, ‘down under.’ This may be driven, in part, by the fact that Australian funds must compete for beneficiaries as the latter have, as of 2005, the right to compare, choose, and switch the funds in which they invest. Our experience suggests, however, that the key impetus towards RI comes from pension boards driven by a growing understanding that the principles of responsible investing can be integral to the execution of fiduciary duty.

The relevance of RI is becoming increasingly clear with the recent market turmoil caused, in no small part, by a focus on short-term results and a lack of alignment between investors, owners, and the financial industry intermediaries that manage the relationships between the two.

These issues should be of concern to all investors, including DC plan sponsors and administrators, and a strong case can be made for RI integration for all pension plans, including DC plans. However, the common solution employed by DC plans in North America is to focus on the ethical dimension by providing investment options that, for example, screen out companies or sectors or weight them according to clearly stated ethical principles.

Natural Desire

For many DC recordkeepers, there is a natural desire to limit the number of investment options that must be man-
funds define SRI and how to choose a fund. Likely have questions about how different screening and advocacy. Still, fiduciaries have made considerable progress over the last decade in establishing competitive satisfaction. Certainly, SRI and RI funds satisfy demand. However, well-informed advisors and trustees can help to ensure that participants who choose an SRI option will receive competitive, long-term, risk-adjusted returns.

Here is a six-step approach for plan sponsors considering a separate RI-informed option:

**Step 1: Assess beneficiary interest**
One of the common reasons cited for adopting RI options is the need to achieve a better alignment between the pension plan and the company’s mission statement and corporate social responsibility commitments. Beneficiary support for rethinking investment strategies tends to be more volatile — particularly within the current economic context.

Some sponsors have found that surveying plan participants is an excellent way to gauge demand and to highlight specific issues of concern to participants. To a certain extent, a well-designed survey can identify the potential funds that might be shifted from existing options to a proposed option informed by RI principles. They can also assist plan sponsors in understanding their beneficiaries’ level of technical understanding of, and comfort with, investment strategies.

**Step 2: Become informed**
After gauging beneficiary interest, sponsors should learn more about the field to better assess the investment options. To do so, sponsors can turn to their investment advisors — assuming, of course, that they are aware of RI, its development, and current trends — or to public sources.

There is a network of membership associations that explicitly support both SRI and RI practitioners, service providers, investors, and investment professionals. In Canada, that association is the Social Investment Organization (www.socialinvestment.ca).

Finally, there are a number of initiatives for investors that focus on deriving long-term enhanced returns from the analysis of ESG factors. These groups are run by investment and ESG experts and often act as clearinghouses for information on issues that impact long-term investment return (such as climate change). The signatories to these initiatives are primarily investment managers, public pension funds, and mission-based organizations seeking to align investments and ownership activities with their fiduciary mandate to minimize risk and provide long-term returns.

The UN PRI offers a framework enabling investors to address ESG considerations within their investment strategies. It consists of six principles, each associated with several possible actions. The PRI were developed by an international group of institutional investors reflecting the increasing relevance of ESG issues to investment practices and fiduciary duty. As of the most recent report on progress, more than 182 asset owners and 282 investment managers from around the world with assets under management of more than $18 trillion have become signatories to the UN PRI. Canadian asset owners that are signatories include the BC Municipal Pension Plan, the Caisse de dépôt et placement, and the Canada Pension Plan Investment Board.

**Step 3: Talk with partners**
Sponsors should also research their existing recordkeeper and external advisors and probe to determine what investment options are, or could be, available. If there is identified internal demand for these options, this should be mentioned as well. Clearly, however, the ability to ‘shape the market’ depends on the targeted assets an individual sponsor can reasonably expect to offer their recordkeeper.

**Step 4: Make the case**
There has been a perception that investing in SRI or RI-informed funds means giving up returns, either because the investment universe is reduced, or through a perceived lack of correlation between ESG factors and the financial performance of companies. Numerous academic studies have challenged this assertion and have shown that there is no consistent performance cost to SRI or RI. It is instructive to note that some of the world’s top performing pension funds — with top quartile returns and the highest governance and administrative standards — are also leaders in the RI movement.

Still, in most countries, there is very little jurisprudence to guide fiduciaries. Not surprisingly, legislative or regulatory frameworks in Canada generally do not either require or expressly sanction the consideration of ethical concerns. That being said, there appears to be no legal restriction on the incorporation of ESG information in the investment process.

**Step 5: Choose a fund**
A huge variety of options are available to plans looking for alternative investment strategies.
Engagement
Consistent with our long investment horizon, we encourage corporate conduct that enhances long-term financial performance through a policy of engaging with companies. Given our belief that constraints decrease returns and/or increase risk over time, we do not screen stocks.

Engagement comes in many forms, all having the goal of encouraging positive change aimed at enhancing long-term financial performance and, therefore, assisting us in fulfilling our mandate of maximizing returns without undue risk of loss. The process involves having dialogue with senior executives and board members of companies, in which we invest, as well as regulators, industry associations, and other stakeholders.

Direct Engagement: Every year we analyze our public equity portfolio to identify potential engagement opportunities. Among other considerations, we look at the relative size of our holdings and specific ESG factors they face.

Collaborative Engagement: We have taken leadership roles in several organizations such as the Canadian Coalition for Good Governance, the Carbon Disclosure Project, and the UN Principles for Responsible Investing. In addition to facilitating engagement with companies, these coalitions also develop policies and guidelines, engage with regulators, and conduct research on ESG issues.

Proxy Voting: One of the most effective mechanisms in the engagement process is proxy voting which allows us to engage with all of the public companies in our portfolio. We encourage companies to review and implement, where appropriate, the guidelines set out in our Proxy Voting Principles and Guidelines. These guidelines provide direction on how we are likely to vote on issues put to shareholders.

Efforts Concentrated
We currently concentrate our engagement efforts on climate change, executive compensation, and the extractive industries. These focus areas represent ESG risks for many companies in our portfolio over the long term.

Our first ‘Report on Responsible Investing’ was issued this past fiscal year and provides a detailed review of our activities and achievements including:

• Companies have improved their reporting on climate change including increased quantity and quality of responses to the Carbon Disclosure Project questionnaire.

• Several oil and gas and mining companies agreeing to review or implement enhancements to reporting and management strategies on issues such as human rights and transparency on taxes and royalty payments.

• Companies with which we have engaged collaboratively have improved their disclosure on executive compensation.

While we have made significant strides in using engagement, including proxy voting, to improve disclosure and corporate management of ESG factors within our portfolio, we recognize that this is an evolutionary process and that a great deal more is yet to be accomplished. By taking a leadership role in responsible investing, we will assist in our long-term goal of managing the CPP Fund for decades and generations to come.

Brigid Barnett is responsible investing manager for the CPP Investment Board.
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SRI Philosophy/Style: Core philosophy is grounded in the belief that experienced investment professionals using a disciplined process and sophisticated analytical tools can consistently add value to client portfolios. This is achieved through the consistent application of a fundamental, bottom-up investment philosophy, supported by internal research capability.

GUARDIAN ETHICAL MANAGEMENT INC.

John Clancy, Managing Director; 3100 – 199 Bay St., Box 201, Commerce Court W., Toronto, ON M5L 1E8

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FIERA CAPITAL INC.

Christine Girvan, CEO; Simon Segall, Vice-president, Institutional

Investment counselling provides social and environmental ratings on publicly-traded Canadian companies that conduct business operations in a socially responsible manner according to ‘ethical’ screens and show strong growth prospects with some exposure to foreign companies that meet these criteria – Top-down, Bottom-up style; Sustainable investments.

SRI Philosophy/Style: Focus on companies that solve sustainability problems, while aiming to outperform indices. Sustainability radar provides a framework for identifying firms at risk from the sustainability agenda, and those that build a competitive advantage by responding to challenges.

CIBC GLOBAL ASSET MANAGEMENT INC.

Michel Jalbert, Vice-president, Head of Institutional Business Development & Marketing; 1000 de la Gauchetière W., Ste. 3200, Montreal, QC H3B 4WS

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ADDELLA CAPITAL CAPITAL INC.

Joe DiMassimo, Senior Vice-president, Sales & Client Service; 36 Toronto St., Ste. 1150, Toronto, ON M4R 1K8

Manages core and core-plus strategies for Canadian institutional clients.

SRI Philosophy/Style: Core philosophy is grounded in the belief that experienced investment professionals using a disciplined process and sophisticated analytical tools can consistently add value to client portfolios. This is achieved through the consistent application of a fundamental, bottom-up investment philosophy, supported by internal research capability.

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Provides a robust portfolio of investments.

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INHANCE INVESTMENT MANAGEMENT  Kerry Ho, CEO; 1200 - 900 West Hastings, Vancouver, BC V6C 1E5  PH: 604-975-3300 or 866-646-5850  Fax: 604-975-3319  eMail: kerryho@inhance.ca  Web: www.inhance.ca  Managed Since: 2001  Canadian Clients: 2  SRI Philosophy/Style: Integrated in-house investment team finds companies that are leaders in progressive practices. Through its investment process, incorporating environmental, social, and governance analysis with traditional financial analysis and portfolio construction, it endeavors to provide returns through an extra level of risk mitigation and added alpha.

LEGG MASON CANADA INC.  David Gregoire, Managing Director, Head of Distribution; 220 Bay St., 4th Floor, Toronto, ON M5J 2W4  PH: 416-594-2979  eMail: dgregoire@leggmasoncanada.com  Web: www.leggmasoncanada.com  Managed For: More than 10 years  SRI Philosophy/Style: Through its affiliates, it offers a range of strategies with the focus on socially aware investments. The portfolios cover multiple styles and market capitalizations in International Equity, Global Equity, and U.S. Equity.

MCLEAN BUDDEN LTD.  Alan Daxner, Executive Vice-president; 145 King St. W., Ste. 2525, Toronto, ON M5H 1J8  PH: 416-361-7264  Fax: 416-862-0167  eMail: adaxner@mcleanbudden.com  Web: www.mcleanbudden.com  Managed Since: 2000  Canadian Clients: 6  SRI Philosophy/Style: Builds portfolios based on its established investment expertise. SRI portfolios screen for alcohol, tobacco, gaming, armaments, pornography, and adherence to local employment standards. Screening is based on both internal and external research.

NATCAN INVESTMENT MANAGEMENT  Grace Di Meo, Vice-president, Distribution; 1100 University St., 4th Floor, Montreal, QC H3B 2G7  PH: 514-871-7102  Fax: 514-871-7476  eMail: gdimeo@natcan.com  Web: www.natcan.com  Managed Since: 2004 (Although it created the Social Value Canadian Equity Fund in 2004, it has offered Responsible Investment services since 1993). Canadian Clients: 66 Institutional Clients (Religious Communities)  SRI Philosophy/Style: Approach consists of buying out-of-favour stocks with attractive profit-enhancing catalysts to generate value added while limiting downside risk. Fund’s objective is to exceed the S&P/TSX Index in both financial and ESG performance while avoiding companies involved in controversial business activities.

PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT LTD.*  Jason Milne, Corporate Governance Analyst; 20th Floor, 200 Burrard St., Vancouver, BC V6C 3N5  PH: 604-408-6000  Fax: 604-685-5712  eMail: jmilne@phn.com  Web: www.phn.com  Managed Since: Early 1990s  Canadian Clients: 3  SRI Philosophy/Style: Community Values Funds are modeled after the firm’s ‘core’ funds and managed according to the Community Values Investment Principles, which are applied to a company’s social and environmental record. *Phillips, Hager & North Investment Management Inc. is a wholly owned subsidiary of Royal Bank of Canada.

PICTET ASSET MANAGEMENT INC.  John Maratta, Senior Vice-president; 1000 de la Gauchetiere W., Ste. 3100, Montreal, QC H3B 4W5  PH: 514-288-0253  Fax: 514-288-5473  eMail: mtl-inst@pictet.com  Web: www.pictet.com  Managed Since: 1999  Canadian Clients: 2 sub-advised mandates  SRI Philosophy/Style: Clean Energy product aims to invest worldwide in shares of companies that contribute to...
and profit from, the world’s transition to less carbon-intensive energy. The Water product invests worldwide in shares of companies focused on the water related sector.

STANDARD LIFE INVESTMENTS INC. Jay Waters, Vice-president, Central Canada; 121 King St. W., Ste. 810, Toronto, ON M5H 3T9 PH: 416-367-2049 Fax: 416-367-1329 eMail: jay.waters@standardlife.ca Web: www.sli.ca Managed Since: 1999

WELLINGTON MANAGEMENT COMPANY, LLP Susan M. Pozer, Vice-president & Director, Canada, Global Relations Group; 75 State St., Boston, MA 02109 PH: 617-790-7441 Fax: 617-263-4100 eMail: smpozer@wellington.com or mig@wellington.com Web: www.wellington.com Managed Since: 1994 Canadian Clients: 1 SRI Philosophy/Style: Assists clients in the development of investment ‘screens’ or complete investment styles that seek to achieve specified investment goals while complying with the restrictions.

JANTZI RESEARCH INC. Sarah Smith, Sales & Marketing Representative; 300-215 Spadina Ave., Toronto, ON M5C 3E1 PH: 416-861-0403 Fax: 416-861-0183 eMail: contact@jantziresearch.com Web: www.jantziresearch.com

MERCER Jordan Berger, Principal, Canadian Head of Responsible Investment; 161 Bay St., Toronto, ON M5J 2S5 PH: 416-868-2830 Fax: 416-868-2131 eMail: jordan.berger@mercer.com or responsible.investment@mercer.com Web: www.mercer.com SRI Products/Services: Educate investors, identify RI opportunities for plans, integrate RI into investment policies, develop coordinated approach to active ownership, integrate ESG factors into investment decision-making, build intellectual capital, develop principles for responsible investment Managed Since: 2004 Canadian Clients: 5 to 10 at any time (project & retain) SRI Philosophy/Style: Provides consulting services to clients who wish to consider environmental, social, and corporate governance (ESG) factors within investment decision-making and to clients seeking to incorporate ethical considerations or achieve social and environmental objectives alongside financial objectives.

SOCIAL INVESTMENT ORGANIZATION Eugene Ellmen, Executive Director; 184 Pearl St., 2nd Floor, Toronto, ON M5H 1L5 PH: 416-461-6042 x111 Fax: 416-461-2481 eMail: ellmen@socialinvestment.ca Web: www.socialinvestment.ca SRI Products/Services: An association for socially responsible investment in Canada and offers networking, communications, training, and public policy services to the SRI industry. Managed Since: 1989 SRI Philosophy/Style: Mandate is to advance the concept and practice of socially responsible investment in Canada.
The single employer Defined Benefit plan had its golden age in the last century when companies adopted a cradle-to-grave benefits policy to attract and maintain a stable workforce. Companies could manage the pension risks because they competed in a relatively closed and protected business environment. With the move to freer trade and globalization, organizations have been forced to switch their business model to survival of the most adaptable. The traditional DB pension plan is a casualty of that switch. More and more workers, and now even unions, are accepting that the old model, where the employer assumed all the risks, is no longer on the table.

When we take a look at the employers, workers, and unions (where involved) that have already changed their thinking around this issue, the new model is generally a Defined Contribution plan where the employees assume all the risks.

Significantly Lagged

While Canada has significantly lagged behind the U.S. and UK in terms of the speed of transition from single employer DB pension plans to some sort of DC arrangement, it seems only a matter of time before we close that gap. With DC plan and RRSP account balances significantly reduced, especially from the 2008 stock market collapse, many boomers who were ready to retire in 2009 are rethinking those plans.

So if single employer DB pension plans are under attack and falling in numbers, and DC pension plans and RRSPs have significant flaws of their own, what are employers and employees supposed to do to better secure an adequate retirement income?

The MEPP model may be the answer, not just for unionized workers, but for all companies and employees.

Multi-employer DB Pension Plan

A multi-employer DB pension plan can be viewed as a traditional DB pension plan for employees and a traditional DC pension plan for employers.

The DC aspect of a MEPP DB plan is the fact that employer contributions are collectively bargained and the employer bears no responsibility to provide additional amounts in the event of a funding deficit. This fixed employer contribution aspect also relieves the headache of DB financial reporting under CICA, FASB, or IAS19.

The DB aspect of a MEPP is recognized in the benefit formula. A typical retirement income benefit formula would be a monthly dollar amount payable at retirement based on years of service. Other benefits – pre-retirement death, disability, early retirement, death after retirement, ad hoc inflation adjustments – are similar to that of a traditional DB pension plan.

So what’s the catch? How can a pension plan with fixed employer contributions and defined benefits work when single employer pension plans are struggling with the very same thing?

The MEPP works because accrued benefits can be adjusted up or down in the event of an imbalance between the fixed contributions coming in and the cost to provide the current benefit formula or target benefits. With this in mind, a MEPP is a form of Target Benefit plan.

While single employer and multi-employer DB plans are similar in many respects, there are some unique features, both from the employer and employee perspective, that help propel multi-employer DB plans as the potential model of choice to provide broad retirement income coverage from the workplace.

Why Employers Like MEPPs

There are strong reasons that MEPPs will remain popular as the DB pension solution for employers with union-represented workers. These include:

 seriousness of administration – MEPPs handle the administrative burden and expense of plan operations. In a MEPP, the fiduciary responsibility for running the plan, overseeing the investment of plan assets, and handling recordkeeping, as well as all compliance obligations, belongs to the plan’s trustees rather than the participating employers. Furthermore, the administrative costs are charged against the pension plan assets.
Stable contributions – The cost of a MEPP DB plan is predictable for employers in Canada because their fixed contributions are negotiated as part of the collective bargaining process. This means that employers bear no risk for negative investment returns or underfunding. In addition, solvency funding does not apply to MEPPs. A few provinces in Canada (most notably Quebec) do require deficit funding of MEPPs.

No DB accounting – The financial accounting considerations for a participating employer in a MEPP are similar to that of a plan sponsor with a DC pension plan. MEPP DB plan liabilities do not appear on the balance sheets of contributing employers.

Predictable labour costs – Contributing employers within an industry MEPP will notice that benefit costs among all of the contributing employers will become somewhat standardized. This, in turn, helps make labour costs more predictable.

Economies of scale – MEPPs are economically efficient as a result of being relatively large in relation to most of their single employer counterparts. This gives MEPPs access to high-quality professional services at much more reasonable rates, with lower fee levels on a per capita basis.

Financially solid plans – The history of MEPPs shows that these plans rarely fail (there have only ever been a couple of plan failures in Ontario). It is far less likely for MEPPs to fail than it is for a single employer, as witnessed by the current recession’s wake of company bankruptcies.

Flexible plan design – A MEPP can be designed to allow different benefit formulas or benefit scales for different employer contribution levels. In addition, MEPPs can accommodate unique plan design features for a certain group or contributing employer. One contributing employer can provide a generous early retirement formula whereas another employer might want a higher benefit multiplier.

Employees value the benefits – MEPP DB pensions are highly valued by employees. This, in turn, benefits employers to the extent that employee appreciation translates into lower turnover and higher productivity.

Why Employees Like MEPPs

What’s the attraction for employees? Well, foremost is that not many Canadians even have a pension plan and union employees are quite well educated on the importance and economic value of having a DB pension plan. There are a number of advantages to employees in a MEPP and they know it:

Predictable benefits – MEPP DB plans provide a predictable (defined) pension income at retirement. This feature is the main reason that most people would prefer a DB pension plan over a DC. In addition, a MEPP DB can provide benefits for disability, death, and special provisions to preserve plan coverage during periods of temporary unemployment. For most Canadians, the responsibility and risks associated with an individual retirement savings plan such as an RRSP is too much to handle.

Low fees and shared risk – The large number of plan participants, large pool of assets, and the nature of the MEPP plan design create a more efficient model to keep operating costs down and to pool or spread risks that can be devastating to an individual across thousands of people. The sharing of risks such as investment experience and outliving savings is a big plus for employees in a MEPP that would otherwise be very expensive to insure against those risks individually.

Portability of benefits – MEPPs are an advantage to employees who hold a series of jobs within an industry over the course of their careers; their pension coverage is seamless and benefit credits continue to be earned as long as they move to another contributing employer in the same MEPP. Typically, an employee in this situation will enjoy a much higher retirement benefit than an employee who has a number of pieces of pension plans. In addition, portability from one MEPP to another is much more frequently offered than with single employer pension plans.

Fair treatment – MEPP benefits are considered equitable because employers contribute a fixed amount per employee, regardless of the employee’s age or length of service in an industry. Workers also know that a uniform contribution structure precludes any incentive for employers to hire employees based on age or length of service. These plans are also flexible enough to provide increased credit accruals for those who work more hours.

Financially stable – MEPPs do not depend on the fortunes of a single employer and are, therefore, much more secure than single employer plans, especially in this current recession where many companies have either frozen their DB plans or, even worse, gone bankrupt. In general, MEPPs are pretty well funded and have fared well in the past decade and during this recession.

Favourable savings room – A certain class of MEPPs – known as specified MEPPs or SMEPPs – deduct much less in RRSP contribution room than single employer pension plans do. The annual pension adjustment or PA for participants in a SMEPP is equal to the employer contributions remitted on the participant’s behalf (just like a DC contribution) for the year. This is much lower than the PA for a participant of a single employer DB plan, especially at younger ages.

The Future

The vision guiding pension reform involves:

transparency in risk management
accountability by plan administrators
a voice for retirees
clear communication to plan members that nothing is guaranteed
balance between the interests of plan members/unions and employers
fund models and assumptions that mitigate risk of benefit reductions
plan designs that can accommodate increased employer and employee contributions as an alternative to benefit reductions
plan designs to consider inflation protection for pensions

The OECP report released late last year viewed MEPPs as a viable model for providing retirement income from the workplace. The OECP also suggested a new pension plan model referred to as the Jointly Governed Target Benefit Pension Plan (JGTBPP) as a solution to provide broader pension coverage for more Ontarians.

There seems to be at least a couple of groups out there that would be ideal candidates for a MEPP or target benefit plan solution. The auto sector, for instance, with the involvement of the CAW, could put together a MEPP today for future service. Professional associations represent another group that would make a great candidate for a Target Benefit plan solution, once the regulation gets amended to accommodate this type of DB pension plan.

If the goal of both regulators and the pension industry is to cast a wider net to get significantly more employers and their employees involved in the multi-employer or Target Benefit plan model, then we need to develop solutions to strengthen the model and change current pension rules to open up these types of plans to all companies, not just those involved with a union.

Kevin Sorhaitz is a principal and consulting actuary for Buck Consultants, an ACS company (kevin.sorhaitz@buckconsultants.com).
Defined Benefit pension plans throughout Canada have been affected by the stock market woes of 2008 and prevailing low interest rates. In many cases, these factors led to record solvency deficiencies and the requirement to make correspondingly higher special payments to fund those deficiencies.

Solvency funding relief was borne out of a concern that the increased pension funding costs might lead companies with limited resources to forego making desired investments in their operations in the midst of an economic downturn.

Although one might expect the response of Canada’s provincial and federal governments to be consistent given the similar nature of the issues, in fact, each jurisdiction has adopted a markedly different approach. The relief available diverges in terms of stakeholder involvement in funding relief applications, the temporal reach, and the specific types of relief available.

**Federal Government**

The federal government enacted the Solvency Funding Relief Regulations, 2009, in June 2009. Temporary solvency funding relief is made available to federally regulated pension plans by extending the amortization period from five to 10 years for solvency deficiencies emerging in the 2008 plan year. In the 2009 plan year, the employer may elect to make contributions assuming the solvency deficiency will be amortized over 10 years. In order to continue making contributions using the 10-year amortization schedule, the plan administrator must obtain, by the end of the 2009 plan year, either:

- the consent of members and retirees (described below)

If neither is obtained, the remaining deficiency must be funded over the following five years (starting after the end of the first year) in accordance with the usual funding regime.

In order to continue funding over 10 years under the consent option, consent to the amortization extension will be deemed obtained if no more than one-third of members and one-third of former members (including retirees, deferred vested members, and other beneficiaries in receipt of pensions) object by the end of the 2009 plan year.

These regulations also permit, for the purposes of the 10-year amortization payment schedule, assets to be valued using a smoothing methodology which produces an asset value in excess of the current 110 per cent limit. Any special payment reductions resulting from the higher smoothed asset value are subject to a statutory deemed trust.

**British Columbia**

The Financial Institutions Commission of BC (FICOM) has issued a policy indicating that it will review, and has the discretion to approve, applications to amortize solvency deficiencies over as long as 15 years where extenuating reasons exist. FICOM will consider a number of factors, including:

- how the extension to the solvency amortization schedule will benefit members
- how the solvency deficiency arose
- whether the special payments otherwise due would result in financial hardship for the plan sponsor and what other alternatives to manage this hardship have been considered or implemented

The consent of neither members nor retirees is
required. However, if FICOM approves the request for relief, plan beneficiaries must be informed. Significantly, FICOM has undertaken a more active role in determining the appropriateness of the funding relief than the jurisdictions which rely on stakeholder consent or in which the regulator does not have the discretion to refuse an application if stated criteria are satisfied. Consideration of the plan sponsor’s financial viability makes the FICOM approach closer to the solvency relief requirements applicable to pension plans operated in the United Kingdom.

**Alberta**

Plan sponsors in Alberta may apply to the Alberta Superintendent of Pensions for a three-year solvency funding moratorium without seeking the consent of plan members, former members, or retirees. Members are required, however, to be provided with notice of the employer’s intention to apply for relief under the new regulations. The moratorium applies with respect to new and existing solvency deficiencies. In order to take advantage of the moratorium option, plan administrators must apply to the superintendent prior to December 31, 2009. When a moratorium is elected in respect of special payments arising from the solvency valuation, all going concern special payments must be funded over the lesser of the balance remaining in existing schedules or 10 years.

Alberta also offers plans an alternative of seeking an extension of the amortization period from five to 10 years for new solvency deficiencies revealed in an actuarial report with a valuation date between September 30, 2008, and September 29, 2011, a plan administrator may:

- defer, up to one year, the start of special payments in respect of any new going concern unfunded liability or new solvency deficiency
- consolidate special payments for existing solvency deficiencies into a new five-year payment schedule starting on the valuation date of the actuarial report
- extend the period for liquidating the new solvency deficiency from five years to a maximum of 10 years

Plan administrators are not required to obtain the consent of members or former members in order to elect to defer the start of payments for one year or to consolidate existing solvency deficiencies over a new five-year schedule. However, the plan administrator must provide enhanced notice to the eligible members and eligible former members if it elects to take advantage of these options. In order to amortize a solvency deficiency over 10 years, a plan administrator must obtain the consent of eligible members and eligible former members.

**Saskatchewan**

Saskatchewan has also announced it will provide plan sponsors with solvency funding relief via a solvency funding moratorium. The moratorium applies only to new solvency deficiencies revealed in a new valuation report. Like Alberta, access to relief is available without requiring the consent of beneficiaries, but administrators must provide notice of the intention to elect solvency relief.

Saskatchewan does not require full funding on the termination of a pension plan in the normal course. However, the regulations introduce a terminal funding requirement for any plan that elects solvency funding relief. No other jurisdictions require enhanced termination funding or otherwise expressly address the possible consequences of permitting plan sponsors to contribute less into already underfunded pension plans.

**Manitoba**

Manitoba introduced the Special Payments Relief Regulations in December 2008. This regulation permits the consolidation of previous funding schedules and any new deficiencies and extends the amortization schedules for solvency funding from five to 10 years with the consent of members and retirees. The regulations permit the extension if less than one-third of members and former members and less than one-third of retirees and beneficiaries object.

**Ontario**

Ontario offers three possible options for solvency funding relief. When filing an actuarial report with a valuation date between September 30, 2008, and September 29, 2011, a plan administrator may:

- defer, up to one year, the start of special payments in respect of any new going concern unfunded liability or new solvency deficiency
- consolidate special payments for existing solvency deficiencies into a new five-year payment schedule starting on the valuation date of the actuarial report
- extend the period for liquidating the new solvency deficiency from five years to a maximum of 10 years

Plan administrators are not required to obtain the consent of members or former members in order to elect to defer the start of payments for one year or to consolidate existing solvency deficiencies over a new five-year schedule. However, the plan administrator must provide enhanced notice to the eligible members and eligible former members if it elects to take advantage of these options. In order to amortize a solvency deficiency over 10 years, a plan administrator must obtain the consent of eligible members and eligible former members.

**Québec**

Québec’s regulations have yet to be enacted. However, it has released draft regulations which propose three solvency relief measures:

- smoothing of assets over five years
- consolidation of existing solvency deficiencies
- extension of amortization periods from five to 10 years

The Quebec draft regulations require employer contributions to be based on the higher of the payments required taking into account the relief measures and a minimum contribution. The minimum contribution requirement limits funding relief to the effects of the 2008 economic crisis and does not permit employers to contribute less than they would have been required to contribute, but for the economic crisis.

**Newfoundland**

Newfoundland enacted solvency relief regulations in early 2008. The Solvency Funding Relief Regulation provides three relief options:

- consolidation of previous solvency funding payment schedules and amortizing the entire solvency deficiency over a new five-year period
- extension of the solvency funding period to 10 years for new deficiencies with the consent of members
- extension of the solvency funding payment period to 10 years by securing the difference between five-year and 10-year levels of payments with a letter of credit

The consent requirement is deemed to be obtained if less than one-third of the members and less than one-third of the former members object. When existing deficiencies are consolidated or funding is secured with a letter of credit, only notice must be given to members.

**Obtaining Consent**

Where the consent of members (or their collective bargaining agent if applicable) and retirees is required, obtaining consent will take considerable planning and may require disclosure of business circumstances to justify that the short-term relief sought is warranted. At the same time, the question of the corporation’s future financial viability and its ability to fund the pension plan in the longer-term will likely need to be addressed to obtain consent to the interim relief.

Solvency relief measures are not homogeneous across Canada and, in most jurisdictions, plan sponsors have a range of relief options available. What is common to all pension plan sponsors and administrators is that the months ahead will require due attention to the financial, human resources, governance, legal, and actuarial concerns associated with funding decisions and applications for solvency funding relief.

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Lisa J. Mills (lisa-mills@hicksmorley.com) is a partner and Natasha D. Monkman (natasha-monkman@hicksmorley.com) is an associate at Hicks Morley’s pension and benefits practice group.
Most Defined Benefit pension plans are still reeling from last year’s market collapse and many face steep solvency shortfalls. The good news is that the federal government and a number of provincial jurisdictions have introduced solvency relief measures. The challenge, however, is that those measures are often tied to strict disclosure requirements and, in several cases, require member consent.

Before electing a solvency relief option, plan sponsors need to know what’s required to meet disclosure requirements. More than that, however, they need to have a communications strategy in place to ensure messages are delivered in an effective (and positive) manner to avoid a crisis in confidence.

The existence of solvency shortfalls has left many sponsors wedged between a rock and a hard place. Under normal funding rules, plans with a solvency shortfall must take steps to eliminate that shortfall within a designated time frame. Typically, that means increasing contributions or making special payments (or, in the case of some multi-employer plans, reducing benefits). Unfortunately, the reality is that many plan sponsors (and members) simply can’t afford to dig deeper into their pockets to cover this unexpected and badly timed expenditure.

In response, the federal government and a number of provincial governments have stepped in to introduce a range of solvency relief measures.

Typically, these measures are designed to balance the need to ease solvency funding requirements for plan sponsors with the need to protect the pension benefits of employees and retirees.

While solvency relief measures give plan sponsors options for managing deficiencies, these options often come with strict and detailed disclosure requirements. And, depending on the option and the jurisdiction, member consent may also be required. Of course, as with most things pension in this country, the solvency relief measures vary by jurisdiction, as do the disclosure and consent requirements.

Devil In The Details

For example, in B.C., a plan sponsor who wants to extend the solvency amortization period must provide members with details of the extension, but does not need to obtain member consent. In Ontario, however, consent is required, except for jointly governed plans.

To get that consent, a plan sponsor in Ontario must provide an information statement to all members, former members, and bargaining agents. In addition, all bargaining agents, former members, and members not represented by a bargaining agent must receive a Notice of Objection form and be given a minimum of 45 days to respond.

Even if the plan administrator is successful in getting consent, the work isn’t done. They still have to provide members and former members with an annual progress report until the solvency deficiency is eliminated.

Keep in mind that, depending on the jurisdiction, the regulations are very specific about:

- what has to be disclosed
- how it has to be disclosed
- when it has to be disclosed

Again, to use Ontario as an example, a notice advising members that the plan sponsor intends to defer the start of any new special payments must be sent to members and former members within 60 days of when special payments would otherwise begin. Furthermore, that notice needs to include information such as:

- the valuation date of the solvency relief report
- a description of the option allowing the sponsor to defer payments
- an explanation of how benefit security could be affected

Plotting Your Strategy

Before you decide on a particular solvency relief option, make sure you’ve considered the communication challenges that go along with that option. To that end, you should:

- Familiarize yourself with the regulations. Confirm exactly what you need to disclose, how you need to disclose it, and when you need to disclose it.
- Determine if consent is required. If consent is required, do the math. Depending on the size of your plan, the cost of obtaining consent (even implied consent) can be significant. Given that it’s only new solvency deficiencies that can be amortized over a longer period, determine if the economic relief is worth the cost of obtaining consent.
Know your audience. When you start communicating solvency deficiencies, you’re opening a can of worms. A solvency deficiency doesn’t necessarily mean a pension plan is in financial trouble. However, in an era of corporate bankruptcies and pension plan wind-ups, the spectre of a solvency deficiency will – for many members – be cause for alarm.

Disclosure Versus Education

There is no question that you need to meet disclosure requirements around solvency. However, depending on your needs and objectives, disclosure may not be enough.

If you want members to understand the issues at hand, continue to feel secure about their pension, and have confidence in those calling the shots, you need to make the leap from disclosure to communication. Done well, effective communication of solvency issues can actually serve as a catalyst for improved member understanding and appreciation – and raise the bar on member engagement. That said, shifting from disclosure to communication means taking the time to educate your members. If your pension plan slips into a solvency shortfall, here are some communication tips to help ensure your members get the information they need to understand what’s going on.

Be upfront about it. For many members, their pension is the foundation of their financial future. They have a right to know what’s going on – be it good news or bad. Burying bad news will only create mistrust and heighten insecurity. And once you lose the trust and confidence of your members, it can take a long time to get it back.

Clarify it. There’s a difference between a solvency shortfall and a going concern shortfall. (A solvency shortfall is based on the assumption the plan will be wound up as of a specific date. A going concern shortfall is based on the assumption the plan will continue to operate indefinitely.) Make certain your members understand the difference and why it’s important – particularly if your plan has a solvency shortfall, but not a going concern shortfall. Let members know that DB pension plans are required (by law) to fund on a solvency basis, but point out that pension plans are designed to operate indefinitely. After all, someone starting off in the plan today, may still be collecting a pension 30, 40, or even 50 years from now.

Put it into context. Context is crucial. Somehow there is comfort in knowing that others are in the same boat or that you’ve survived similar rough seas before. For example, paying a buck a litre for gas doesn’t seem so bad when you know our friends in Europe are paying $1.50 or more. Likewise, members of a DB pension plan are more likely to accept news of a solvency deficiency if they know that most other DB pension plans are in the same predicament.

Explain it. If you have a solvency shortfall, there’s a reason. Give that reason. Explain how you ended up with the shortfall – and what you are doing to eliminate it. In the end, members may not like what they hear, but they’ll be more likely to support your solvency relief measures. In addition, members will feel more confident about the future if they can see that you are closely monitoring the situation and have a clear-cut strategy for eliminating the shortfall.

Member Understanding

Solvency relief measures may ease the financial pressure, but strict disclosure requirements can increase the pressure on the governance side of the equation. That said, there is an opportunity for plan sponsors to enhance member understanding and appreciation – if they are willing to shift gears from disclosure to education.

Ted Thaler is a senior consultant in the communications practice of Eckler Ltd. (tthaler@eckler.ca)
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Public health officials are busy preparing for what could be a new wave of H1N1 flu cases as students return to school, and the regular flu season begins in the fall. However, it seems that many companies don’t feel the same urgency to prepare. Up to 87 per cent of Canadian companies still don’t have a contingency plan to deal with a situation like a pandemic, says a survey by the Canadian Manufacturers & Exporters.

The case for a business pandemic plan is strong. In a moderately severe pandemic, the Public Health Agency of Canada predicts that between 15 per cent and 35 per cent of Canadians could become ill and between 11,000 and 58,000 deaths could occur.

The agency says businesses should plan for one-third to one-half of their workers being absent for about two weeks at the height of a severe pandemic, which could last about eight weeks.

Pandemic Planning And Communication

Now that we have established that the H1N1 pandemic could have a serious impact on your workforce, what can you do to help prevent the spread of the virus within your workforce? It is all in the planning. Planning for a pandemic will support your employees and strengthen your corporate reputation with clients and business partners.

There are three stages of intervention for pandemic planning and communication.

♦ Pre-Pandemic Stage

As part of your overall business continuity planning, we recommend developing corporate policies and procedures to create awareness among your employees regarding the pandemic and methods to prevent the spread of any virus.

You do not need to re-invent the wheel. Public health units will share their pandemic plans with the public. Once you identify your company’s fundamental needs, devise your plan.

The plan should be tested more than once to ensure all of the ‘wrinkles’ have been ironed out before heading into the actual pandemic stage. We suggest you inform your clients and suppliers if the pandemic test involves any disruption in normal service delivery. Employees should also be made aware of any tests they are not participating in that may affect their workday. This could include anything from checks of servers and software to department-specific drills.

♦ Pandemic Stage

Communication to your employees regarding the status of H1N1 in the local community, such as school closures, and about on-going operational aspects of your organization will be essential, especially if it becomes necessary to have employees work from outside the office. It is during this stage that the most aggressive methods of control will be put into place. The following options are available to help you maintain a healthy and productive workforce:

☐ Social Distancing Measures: These measures can significantly limit the spread of infection and are fairly easy to implement. These include, for example, cancelling face-to-face meetings and client functions. These measures, however, will disrupt business practice and require strict compliance to be effective.

☐ Tele-working: With today’s technology, it is easier than ever to have employees work from a remote location, such as the home, in order to limit contact and the spread of infection. This measure, however, requires specific IT capabilities and infrastructure resources.

☐ Communication: Updates on your company website, mass internal emails, or intranet bulletins will help ensure that your employees and clients feel connected.

☐ Vaccines: The H1N1 vaccine will reportedly be ready by mid-November in Canada, but it will likely not be available to everyone at the onset. Instead, it may be distributed in a staggered approach in an effort to vaccinate particular groups.

♦ The Post-Pandemic Stage

This stage focuses on communicating updates to employees, clients, and business partners, in addition to providing an assessment of your status following the pandemic.

Regardless of what measures you take in terms of managing the pandemic threat in your workplace, it is essential that communication between all stakeholders and employee education are maintained in order to ensure that everyone is ready and the impact is minimized.

Susan Novo is manager of health and disability services at Cowan Insurance Group (susan.novo@cowan-group.ca).
Is Extra Layer Of Government Outdated?

Sir:

Your point that we leave “…the administration and regulation of one of the most important issues in our lives to a collection of provincial fiefdoms and baronies” can be applied to just about everything done by a provincial government, except maybe tourism.

Why indeed do we need provinces at all? Don’t we all want the same standard of healthcare and education regardless of what part of Canada we live in? Why are we paying for an extra level of government?

It seems to me that a lot of our political environment is a holdover from 150 years ago and the joke certainly is on us that in an instant communication and information age, we still need all the layers of government that used to exist primarily due to geographic travel constraints.

When I hear arguments that we have to fund Catholic schools because it’s in the BNA Act of 1867, my response is always, “yes, and back then they used to hang 10-year-olds for stealing bread. What’s your point?”

We change some laws, but not others, and often the rationale for which ones get left in the dustbin of history and which ones are (for the moment) carved in stone, is whatever suits those in government themselves.

Mark Tilley, CMA
‘Taking Care of Business’ will be the focus of a keynote address by Ian Percy, an organizational psychologist and author, at the ‘13th Annual Health Work & Wellness Conference 2009.’ It takes place in Gatineau, QC, September 30 to October 3. Visit: http://conferences.healthwork-andwellness.com/

Osgoode Professional Development’s ‘Canadian Securities Law and Practice’ course offers a comprehensive, practical understanding of current Canadian securities law and practice. It takes place September 30 and October 7, 14, and 21 in Toronto, ON. Visit: http://www.osgoodepd.ca/cle/2009_canadian_securities/index.html

The ‘2009 CPBI Ontario Regional Conference’ will feature a stream directed at small business for the first time. Sessions planned will look at topics such as executive retirement arrangements for the small employer, CAPs for small business, and managing group benefits risk for the small employer. It takes place October 5 to 7 in Collingwood, ON. Visit: http://www.cpbi-icra.ca/en/regionalpage.ch2?region_id=6&uid=Ontario389

Appointment Notice

Anthony Cardone
appointed Senior Vice-President, Corporate Strategy and Development
The Standard Life Assurance Company of Canada

Joseph Iannicelli, President and CEO of The Standard Life Assurance Company of Canada, is pleased to announce the appointment of Anthony Cardone to Senior Vice-President, Corporate Strategy and Development.

In his new role, Mr. Cardone coordinates the development of Standard Life’s strategic business plans in Canada and explores new market expansion and innovation opportunities. He also oversees the building of the Company’s brand and value proposition, and represents the Canadian operations in many global initiatives of the group Standard Life plc.

Mr. Cardone has over 20 years of experience in the financial services industry. He joined Standard Life in 2000 and held various executive positions most recently as Senior Vice-President, Group Savings and Retirement. He was previously Senior Vice-President, Marketing, Standard Life Mutual Funds, and Vice-President, Marketing and Sales Development, Retail Markets. Prior to joining Standard Life, Mr. Cardone held several executive positions in the consumer banking and wealth management sectors.

The Standard Life Assurance Company of Canada is one of the leading companies in the financial services industry in Canada. With 2,000 employees based at its corporate headquarters in Montreal and in other major business centres across Canada, it provides asset-managing services for retirement, investment and protection to more than 1.3 million Canadians, including group insurance and retirement plan participants. The company is a member of Standard Life plc, a major international financial services group headquartered in Scotland.

STANDARD LIFE
As the summer of 2009 ends, and as we enter our third year of economic troubles, people continue to look for the ultimate causes of today’s problems. There is easily enough blame to go around and in the minds of the public looking for culprits and easy answers, the list includes:

- A crisis of confidence
- A ‘black swan’ event (an occurrence that is thought to be impossible and that could not exist in the world, yet which is discovered to happen more often than ever thought)
- Greed
- Lack of credit

All of the above factors are important, and all played some part, but emerging evidence points to something less esoteric and more fundamental: the sharp decline in U.S. residential house prices.

‘Jingle Mail’

And while we all read stories of vacant condo developments in Florida and new phrases like ‘jingle mail’ (when homeowners send their keys back to the bank that holds their mortgage) enter our lexicon, the numbers that underlay these stories are truly staggering.

Standard and Poor’s estimates that the S&P Case-Shiller Home Price Index will continue to decline through 2010, leaving it down to about 40 per cent from its peak. If the economy falls into a deeper recession, then change this forecast to 50 per cent (with the declines of 60 per cent in some locations).

It is hard to argue with these forecasts when you look at current mortgage delinquency rates. Jumbo mortgage delinquency rates (delinquency being defined as those mortgages where no payment has been made for at least 90 days, foreclosure, or ownership of the home by the lending institution) range between 7.4 per cent for mortgages issued in 2005 to 10.2 per cent for 2007 mortgages (as of April 2009).

However, when you get into the subprime world, the numbers are just horrible. The so-called ‘negative amortization mortgage’ – those fine products where the borrowers, after years of making monthly mortgage payments, end up with a principal balance actually higher than when they first took out the mortgage – have total delinquencies today of between 36.9 per cent and 44 per cent. The true ‘subprime’ mortgages are even worse than this, with current total delinquencies of between 42.2 per cent and 50.1 per cent.

Further Decline

In other words, about half of the subprime mortgages out there aren’t paying anything to the lender, leading to lender ownership of housing assets (that have since declined in value from when the mortgage was first given), which are then sold quickly onto the market, which in turn causes a further decline in house prices, which affects all lenders out there, and so on and so on.

While government bailouts seem to be the current answer of getting out of the resulting mess today, what can we do to prevent this the next time? Guidance comes from academic Robert Shiller (of the S&P Case-Shiller Home Price Index), whose recommendations include improved disclosure so that low-income earners understand what mortgage products they are buying (see the negative amortization mortgage above).

As well, Shiller and others are not of the camp that says ‘derivatives caused this mess,’ but rather they are looking at ways that derivatives could help create a more liquid market for real estate. More broadly, they are looking towards markets, not governments, to hedge the very real financial risks that individuals face. These yet-to-be developed products include home equity insurance contracts, which would protect homeowners against declines in the value of their homes.

All this gives us some hope that, once we make it out of this crisis, the next one won’t be equally severe. History repeats, but never repeats itself in exactly the same way.
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