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I t probably doesn’t really matter if we reform Canada’s pension system now or put a plan in place now that we can use later. Whatever we do will be of little use to anyone who works in the private sector, has no pension plan, and is near retirement.

However, we do need to do something for those who have just entered or will soon enter the work force. That is what this exercise is all about.

Grinding To A Halt

Yet, the momentum that was generated last year for pension reform appears to be grinding to a halt.

We have political waffling. Jim Flaherty, the federal finance minister, tells us that all is not wrong with the system, so pension reform can wait, especially in light of the massive deficits his government is facing. His counterparts in some provinces agree with him on that.

Economic Reality

That said, there is a solution. Instead of looking for grandiose, supplemental plans, maybe we just need to fix the plans we have. Let’s resolve the asymmetry problem with plan surpluses and deficits. Let find fund measurement methods based on the reality today, not something that was in place 40 years ago when most employer pension plans were insurance contracts. We need mechanisms which allow pension benefits to be based on economic reality today and tomorrow, not legal decisions and poor collective bargaining agreement decisions made in past decades.

Given all this, as we said earlier, it is too late for many Canadians. They will have to adjust their standards of living downwards to make their government pension and old age assistance last. However, surely we should be doing something for future workers.
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Standard Life
Isabelle Alarie is vice-president of customer service, group insurance, at Standard Life Assurance Company of Canada. She has more than 15 years in the insurance industry, including 10 years in various customer service roles.

Fortis
Simon Segall is chief executive officer of the Canadian operations at Fortis Investments. He has more than 30 years of pension and investment industry experience and has been a member of the Canadian team for more than five years.

Ontario Judges Pension Board
Paul Owens has been appointed a member of the Ontario Provincial Judges Pension Board. The former CEO of the CAAT Pension Plan is also a member of the investment advisory committees for the Archdiocese of Toronto and the Sisters of the Good Shepherd.

AGF
Peter J. Frost is vice-president and portfolio manager at AGF Investments Inc. and will assume lead responsibility for its Canadian Balanced Value Fund. An investment professional with 17 years of industry experience, he spent six years in pension consulting, two years at a bank-owned wealth management firm, and the past nine years as a portfolio manager at a leading Canadian money management firm. Robert J. Bogart is senior vice-president and chief financial officer at AGF Management Limited. He joins the firm from Fidelity Investments where, for the past 17 years, he has served as a senior finance executive for both its U.S. and Canadian operations.

MFC
Don Rich is vice-president and head of tactical asset allocation at MFC Global Investment Management. He worked previously for Harvard Management Company, which manages Harvard University’s endowment.

LAPP
Meryl Whittaker is president and chief executive officer of the Local Authorities Pension Plan in Alberta (LAPP). A practicing member of the Law Society of Alberta for the past 21 years, she has been with LAPP since 1999.

Brookfield
Angela Vidakovich is responsible for marketing and client service for the Canadian institutional investment market for Brookfield Investment Management (Canada) Inc. She has more than 20 years experience in the institutional market in Canada, covering investment management, back-office investment services, and commercial real estate.

Desjardins
Grégory Chrispin is vice-president of investments in the wealth management and life and health insurance executive division of Desjardins Group. Prior to his appointment, he was president and managing director at State Street Global Advisors Canada Ltd., where he worked since 2000.

CPBI
Peter Casquinha is CEO of the Canadian Pensions and Benefits Institute. Previously, he was executive director of the Canadian Society for Civil Engineering as well as senior deputy director of The Institute of Canadian Bankers.

Blake Cassels & Graydon
Sean Maxwell is a senior associate in the pensions and benefits group at Blake Cassels & Graydon, LLP. His practice focuses on all issues relating to pension and employee benefits plans including fiduciary duties, plan terminations, ongoing plan administration, and compliance issues. Kevin MacDonald and Lindsay McLeod, who were recently called to the Ontario Bar, have joined the pension and benefits group.

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Pension Reform Should Wait

Any new supplemental pension plan for Canadians should be delayed until the economic recovery has taken root, says British Columbia Finance Minister Colin Hansen. In a Canwest News Service report, he says if a voluntary plan to top up retirement savings was launched now, many employers would opt out on grounds they couldn’t handle the extra costs until their bottom lines have improved. This gives the federal and provincial governments time to create an effective, national plan. However, he hopes federal and provincial finance ministers can agree on a new plan at their meeting in May to present to the premiers when they meet.

Benefits Part Of Funding

Pension funds should be setting more than funding policy, says George Kiriakos, vice-president and leader of the Segal Advisors’ asset allocation committee. Speaking at a roundtable on developing investment and funding policies in uncertain times for Canadian pension plans, he said they should be setting up funding and benefits policies. These would include triggering events and would set out what those running the fund should do in the event the plan’s assets decline as a result of financial crisis or what should be done in areas such as benefits improvement as funds move into different levels of surplus. Doing so, he said, would allow them to act as these triggering events occur instead of reacting, often when it is too late.

Plan Covers Serious Illness

The Empire Life Insurance Company is introducing Vital Assist Health Benefit, a product that provides financial assistance to group plan members to help with additional medical expenses upon diagnosis of a serious illness. Offered through 20Plus, the company’s group benefits product designed for employers with 20 or more employees, it provides a $5,000 lump sum payment and reimbursement of additional medical expenses up to $5,000 over the following 12 months if a plan member is diagnosed with one of four defined medical conditions. The program applies to plan members who suffer from cancer, heart attack, or stroke or who undergo coronary artery bypass surgery.

RBC Dexia Offers Liability Benchmarking Tool

RBC Dexia Investor Services has launched a liability benchmarking tool to help Canadian pension plans align their assets and liabilities. The tool delivers information to plan sponsors on the performance of their pension funds against future obligations. It uses a library of investable Canadian bonds to build a customized liability proxy that reflects a pension plan’s unique risk preference and cash outflows, thereby eliminating the need for assumptions. The more common, but less precise, duration-matching or ‘representative benchmark’ approaches rely heavily on assumptions around discount rates and plan liability profiles.

Firm Serves Western Canada

Spectrum HR Law has opened to provide integrated HR legal solutions in Western Canada. It has brought together a team of eight lawyers with, combined, more than 100 years of experience. It will provide counsel on a number of HR legal issues including employment benefits, executive compensation, and pensions. For more information, visit www.spectrumhrlaw.com

Headed For Deflation Or Inflation

The jury is still out on whether or not we are headed for inflation or deflation. At the CIBC Mellon Presentation Series ‘Inflation vs. Deflation,’ David Horsfall, deputy chief investment officer, and Thomas Fayey, global macroeconomic strategist, both of Standish Mellon, offered their views on where we are headed. Fayey argued against inflation, noting there is currently a huge global output gap. When unemployment is high and there is excess manufacturing capacity, it usually correlates with lower inflation. He also noted this has been a jobless recovery and that it is taking longer and longer for the job market to recover after recessions. Horsfall suggested that inflation is likely because governments want it. With tons of new debt and new programs, they need inflation to overcome these.

Michel Anastassiades, Head of North America at Fortis Investments is pleased to announce the appointment of Simon Segall as Chief Executive Officer of the Canadian operations. Simon has over 30 years of pension and investment industry experience, and has been a valued member of the Canadian team for more than five years. Since joining Fortis Investments and its predecessor companies, Simon has been actively involved in building the business in Canada, while servicing institutional clients.

Fortis Investments and BNP Paribas Investment Partners are currently in the process of an integration which will create one of the world’s largest asset managers with an exceptional range of investment capabilities.
**Sun Offers Money For Life**

Sun Life Financial’s Group Retirement Services has launched ‘my money for life,’ a guaranteed retirement income solution offering both insurance coverage and investment growth potential for the Canadian group retirement market. The product offers plan members a flexible solution that has the safety of a built-in guarantee of an income stream for life, with the potential for market value growth. Plan members can guarantee their retirement income by adding it to all or some of the group plan investments held in Registered Retirement Savings (RRSP), a Defined Contribution Pension (DCPP), Deferred Profit Sharing (DPSP), and Registered Retirement Income Plans. As well, they can start collecting at age 65 regardless of when they enrolled in the plan.

**Caisse Turns To ‘Common Sense’**

The Caisse de dépôt et placement du Québec will return to “plain old common sense” when it comes to investing money that will be used to pay the future pension benefits of millions of Quebecers, says its president and CEO, Michael Sabia, in a letter published in some Quebec newspapers, set out a list of priorities to be met in the next 18 months. He said the Caisse will now only invest in financial instruments that it understands. In recent years, it suffered serious losses by investing in financial instruments such as asset-backed commercial paper. He also says the Caisse has doubled its liquidity and reduced its financial exposure to give it a solid financial foundation that can weather market turbulence.

**Hedge Funds Now Buyer’s Market**

The hedge fund industry is turning from a seller's to a buyer’s market as funds realize that they prefer more ‘sticky’ assets such as those from pensions, endowments, and foundations, says Keith Black, an associate at Ennis Knupp. He told its ‘A Sensible Approach to Investment Strategy’ conference that during the recent financial crisis, hedge funds were “really hurt” by the redemptions they had to make to high net worth and fund of funds investors. As a result, they started to switch their focus from those investors to pension funds, foundations, and endowments and were willing to make fee concessions, increase transparency, and provide more investor friendly structures to do so. This trend is also likely to accelerate because institutions now control the majority of hedge funds.

**Funding Significant Challenge**

Institutional investors worldwide rank the current funding status of their pension plans, risk management, and continued volatility as the most significant challenges to achieving their future goals, says Pyramis Global Advisors’ ‘Pulse Poll’ of Defined Benefit pension plans. One of the ways plans will meet these challenges will be through active equity management with the vast majority of pension plan sponsors believing that actively managed equity strategies will deliver returns in excess of their benchmarks in the future.
I have a confession to make. I work as a communications manager at a large Canadian pension plan, but I don’t do much communication work. Instead, I translate stuff. Your stuff. All day long. I take your curious mixture of actuarial, investment, and policy jargon and do my best to put it into a language that pension plan members can understand. Pension plan members? You remember them – the folks we work for – the ones that teach our kids, clean our hospitals, fly our jets, and give us speeding tickets when we drive too fast. And I have news for you – a dirty little secret, just between us: “They don’t understand a word you are saying. Not a bit. And they aren’t that interested, either.”

Challenging
This is why my job is so, um, challenging. First, I have to figure out what you are saying. Then I have to find the equivalent words in plain English to describe what I think you are saying. Then, I have to make it understandable, engaging, and easy-to-read for our members. All this, in just under eight hours a day. It’s hard work, so I’d appreciate a bit of assistance. After all, we both work for that same pension plan member.

To start, I know how you appreciate precise and full descriptions – how every word is important, how details are so fulfilling, and how the lawyers will snap at our heels if we don’t get the words just right. And I understand that accuracy is next to godliness. But, I don’t have 10,000 words to play with in my publications – I’m often limited to a few hundred words, sometimes less. If you could just tell me what members really need to know, and only what they need to know, I’d appreciate it.

And speaking of words ... can we ease up on the $100 variety? I know you love the way ‘actuarial valuation’ rolls off your tongue, or the delight you get in saying ‘forward foreign exchange contracts’ to your kids at bedtime. Unfortunately, my readers don’t have a clue what you are talking about.

I want to tell you a story, a famous one. It was written up a few years ago in a big American magazine, so it must be good. Seems a team of researchers got the idea of having people beat out simple tunes on a drum – tunes such as ‘Jingle Bells’ or ‘Happy Birthday to You.’ The researchers asked their drummers – in advance – to estimate how many listeners could identify the tune. Most drummers guessed that 80 per cent of their listeners would guess correctly.

Here’s what happened. After the tunes were played, and the songs were complete, ... less than 20 per cent of the listeners actually guessed right.

Lesson Here
There’s a lesson here, folks, an important one. The drummers assumed that, because they knew the tune, everyone else would know it as well. In reality, the drumming sounded like a bunch of nonsense to the listeners and hardly anybody guessed correctly.

It’s exactly the same thing with pensions – you might know what you are talking about when you write something, but few of your readers will.

Before I leave, let me give you a few more tips. First, start every project by assuming that the end reader knows nothing about the topic you are working on. Sure, you are thrilled at the new reciprocal transfer agreements you’ve negotiated, but what benefit will it bring to your plan member? Your discounted cash flows are a thing of beauty, but why should your members care? Think about how your work will benefit plan members, and be ready to explain it in their language.

Finally, once you have written something, go back over your words – at least twice – and ask yourself ‘would my mother understand this?’ If she would, then you are well on your way to producing an effective communication piece. If she wouldn’t ... head back to the keyboard and start again.

So, thanks for your help on this. I’m pretty sure your plan members will be thrilled with your newfound attention to clear and simple communications. Now, just one more thing – could you explain what a tactical asset allocation pool futures contract is? I really have no idea ...
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On the surface, it might appear that issues related to skin care have little immediate impact on the workplace. However, the hidden and visible costs for both employers and employees are sizeable as clinical experts have identified more than 3,000 types of skin disorders. These conditions can cause symptoms ranging from burning and itching to severe emotional and social distress or physical disfigurement.

One in four Canadians is a currently a skin patient and studies now suggest that we all will be at some point in our lives. Yet, those suffering from a skin disease are largely silent about their symptoms with the workplace proving a particularly uncomfortable public environment. The tendency is to avoid embarrassment by hiding the condition from others because most skin diseases are generally misunderstood.

Making Matters Worse

Experts estimate that 40 per cent of job turnover is due to stress and, of course, lost time is always a factor to be considered by employers and skin patients. Those with common skin problems and rare disorders may be at greater risk if we look below the surface.

Over and above embarrassment, insecurity, and misconceptions surrounding skin disease, the work environment may be stressful.

Recent research shows that physical and mental stress can worsen skin disorders and case flare-ups. The good news is that a whole new field of study called psycho-dermatology has emerged to help give a better understanding of the connection between stress and skin disorders. According to experts, stress has a very profound and often obvious effect on skin and can show itself in a number of different ways:

◆ Nerves in skin provide a direct neurological connection to emotions. The release of cortisol, one of the main stress hormones, can lead to changes in the skin, often with unfortunate results to the person at risk for certain skin conditions.

◆ Skin disorders associated with autoimmune reactions can be triggered or made more severe by stress.

◆ Many skin disorders themselves can lead to stress because the affected person is embarrassed or becomes isolated as a result of their condition, creating a cycle of stress-skin disorder-stress.

More Than Skin Deep

While too much work, long hours on the job, and employer pressures shoulder a portion of the blame; lifestyle choices also play a significant role so a positive work/life balance is key. Here are some questions to consider as the answers may shed some light on the next steps to supporting those around you:

◆ Can we identify the difference between a positive work challenge and a challenge that leaves us stressed and exhausted?

◆ Do we make time for the things at work that really refresh and uplift us?

◆ Are we using extra hours at work as a way to avoid issues at home?

Taking It Seriously

Unfortunately, skin and wound patients may not be receiving adequate care and attention. Research is limited and under funded and there is a national shortage of dermatologists, with half of those available due to retire in the next five to six years. Getting a diagnosis is often a long journey and finding the right treatment is rarely a simple process. However, attitudes are improving and information and support are much more available than they were in the past. Encouraging people to feel comfortable in the workplace and to seek treatment can really make a difference as can stress-reduction techniques and providing access to up-to-date resources.

One helpful organization for patients, employers and healthcare professionals is the Canadian Skin Patient Alliance, a for-patient, by-patient not-for-profit that provides assistance and education for skin patients and their families to raise awareness about the issues they face. They have a website loaded with information about skin diseases and research as well as an online Facebook-like community where people with specific skin conditions can connect. They also offer education sessions and help individuals who want to start support organizations get going. For more information visit www.canadianskin.ca and www.skinergy.ca.
Memories of the credit crisis will not fade quickly. Events in 2008 shook the financial system to its core and have raised fundamental questions about the ability of market participants to quantify, predict, and control risk. Pension funds are now repositioning themselves to reduce risk and volatility and sponsors are seeking to insulate themselves from market shocks in the future.

Asset servicing providers (commonly known as custodians) are well-positioned to assist pension funds in this process, by offering:
- Greater insight into a fund’s investment performance and risk
- Services to monitor investment mandate compliance
- Transparency and return enhancement opportunities in securities lending

De-risking Plans
Pension funds are also repositioning themselves for the future by taking another look at their long-term investment strategies. Shifts in asset allocation will bring some important asset servicing implications.

For instance, if a fund changes investment managers, pension funds can reduce trading costs and operational risk by using a transition management service. Certain transition managers can also help funds when they need to liquidate pools of distressed securities or achieve synthetic exposure to a market when an outright sale is impractical.

Pension funds will also make greater use of derivatives and alternative investments as they manage volatility and seek non-correlated market returns. Asset servicing providers are developing new capabilities that can help them control counter-party and other operational risks in derivative transactions.

Unfortunately, the demand for stronger governance is driving up administrative complexity at a time when pension funds face intense cost sensitivity. After all, pension fund executives are making crucial investment decisions and need to reduce their administrative workload.

Asset servicing providers are in a good position to help pension funds owing to their sustained focus on operational excellence, processing scale, and continuous investment in best-in-class systems.

There is much discussion about impending regulatory change in the wake of the credit crisis and this will also increase workloads for pension funds. Pension funds can assess their provider’s ability to respond to regulatory change by investigating how they are responding to changes such as IFRS.

Asset servicing providers are stepping up to support pension funds as they seek a new balance of risk and return. The industry is increasingly supporting entry into new asset classes, controlling administrative costs, optimizing returns, and providing insightful analysis.

As they seek to enhance returns, funds need providers that can help them administer and monitor all asset classes including alternatives. They must also actively monitor and maximize their available cash resources by looking for real-time cash reporting or other tools that help them manage cash.

They are also looking to protect themselves against currency risks by hiring overlay managers or by entrusting the administration of these programs to their asset servicing provider.

Securities Lending Turns Corner
In 2008, there was uncertainty and loss throughout the securities and investment industry. At the time, securities lending garnered some negative attention through the temporary (and possibly misdiagnosed) restrictions on short selling and the Lehman Brothers’ bankruptcy that triggered the industry’s first borrower default.

By contrast, 2009 brought a growing sense of con-
There were two key developments:

- The industry formed the Canadian Securities Lending Association (CASLA) to advocate for industry participants including pension funds. CASLA’s mission is to enhance transparency, promote awareness of the benefits of securities lending, ensure a secure and efficient marketplace, and promote greater cooperation between market participants and regulators.

- In its December 2009 Financial System Review, the Bank of Canada identified securities lending as a small but important “core funding market.” As such, it provides “essential funding liquidity to financial institutions and market-makers, the key providers of liquidity to the financial system.”

**Shining A Light**

Transparency in securities lending is crucial as pension sponsors manage enterprise-wide risk. They must have open communication with their agent lenders to fully understand how the program is managed for value creation and risk reduction.

We predict that the use of cash collateral will grow in Canada in coming years as sponsors seek greater returns. Although cash collateral is relatively new to many Canadian plans, it is the most popular form of collateral used around the world.

Cash collateral provides sponsors with opportunities to earn incremental income, beyond the intrinsic value of each loan, through reinvestment of cash collateral. Pension funds should look for conservatively managed programs, with strong risk management practices and a strong performance track-record throughout the credit crisis.

Pension funds are working very closely with their corporate parents, investment managers, and consultants to help them solve long-term strategic issues and to deliver against the growing liabilities of an aging workforce. Asset servicing providers are valuable partners that are helping pension funds to reduce the noise generated by greater administration, control operational risk and cost, and meet their long-term growth objectives.

David S. Linds is senior vice-president, business development and client relationship management, at CIBC Mellon Trust Company.
Many of Canada’s largest pension plans have sought exposure to infrastructure over the last decade, attracted to its combination of stable, long duration, and non-correlated returns. However, the vast majority of Canadian institutions remain on the sidelines, intrigued by its distinctive investment attributes, but wary of illiquidity and uncertain about how best to get exposure to it amidst a proliferation of infrastructure investment funds. Many also wonder how infrastructure, dependent as it is on the availability of cost effective debt financing, will fare in a world of elevated credit risk.

On the latter point, there is reason for optimism. Public-private partnerships (P3), the primary model through which institutional investors access infrastructure assets in Canada, have proven remarkably resilient in the face of the recent credit market tumult. As relative calm appears to be returning to the credit markets and governments at all levels confront the reality of rapidly expanding deficits, the prospect for private investment in Canadian infrastructure through the P3 model appears bright.

Robust Market

P3 initiatives in Canada date back to the late 1980s and early 1990s with the Pearson Airport Terminal 3 and Confederation Bridge projects. Since then, a robust Canadian P3 market has developed, particularly in British Columbia, Alberta, Ontario, and Quebec, with numerous projects in the transportation, healthcare, and education sectors. Over $5 billion of infrastructure projects have been funded via the P3 model in Canada over the last five years.

More recently, adoption of the P3 approach has accelerated, prompted by widespread concern that decades of deferred spending on infrastructure would eventually take a toll on business productivity and economic growth.

Highly publicized examples of infrastructure deterioration – such as the 2006 collapse of a bridge in Laval, QC – underscore the potentially dire consequences that can arise from years of government underfunding.

In the P3 model, the government contracts with one or more private sector companies (a consortium) to design, build, finance, and operate an infrastructure project such as a highway, healthcare facility, or courthouse. In exchange, the consortium receives a long-term contract (or concession) from the government delivering a stream of cash payments over the term of the project.

From the government’s perspective, private sector participation in infrastructure projects yields many benefits including market discipline in the form of competitive pricing and the transfer of project procurement risk – the risk of construction delays or over-runs and the risk of maintenance cost inflation – from the government to the private sector. In evaluating the merits of P3-based projects, governments must generally weigh these benefits against the costs of private procurement, namely the incremental expense of private sector debt financing over the cost of government funding.

Significant Appetite

In an environment of abundant, affordable, and flexible credit, the justification for the P3 approach is compelling. For much of the last decade, such an environment existed. Low cost, fixed price debt was available for projects of all sizes and types. Moreover, banks and other private lenders had a significant appetite for long maturity debt, which was ideally suited to funding infrastructure projects. By matching the term of the debt financing with that of the underlying government infrastructure concessions (generally 15 to 30 years), P3 consortia were able to eliminate refinancing risk and thereby gain greater certainty over the cash flow stream from the project.

By: Matt O’Brien

INVESTMENT
However, as credit conditions deteriorated in 2008 and 2009, cracks started to appear in the foundation of the P3 model.

The immediate and direct challenge to Canadian P3 initiatives was driven by the higher cost and reduced availability of private debt and lenders’ growing aversion to longer-term maturities in a volatile and uncertain credit market.

Many private European lenders who had been active in the Canadian P3 debt financing market withdrew from Canada and/or credit markets entirely. At the same time, pricing on what limited credit supply was available skyrocketed in response to an extreme widening of spreads between non-government and government bond yields.

As the credit crisis worsened in late 2008 and early 2009, governments faced increased pressure to stimulate (or be perceived to stimulate) economic activity in a very challenging environment. However, the economic challenges facing the traditional P3 model meant few, if any, P3 projects were undertaken. Somewhat surprisingly, pension funds – considered logical owners of P3 long-term debt – remained on the sidelines, choosing not to become active buyers of infrastructure debt securities.

**Need For Change**

The confluence of these factors has driven the need for change and flexibility in structuring P3 initiatives in order to preserve the strong benefits inherent in public-private partnerships as a mechanism for financing basic infrastructure.

In need of a quick response, governments announced plans to directly fund massive amounts of infrastructure spending. The Canadian 2009 Federal Budget earmarked $12 billion in additional funding for infrastructure projects to be completed by 2010. It is still unclear to what extent these funds have been invested in actual projects and, where funds have been deployed, whether these projects have been built on time and on budget.

Despite the short-term government funding solution, a number of Canadian P3 initiatives have proceeded, albeit with certain fundamental shifts in their debt financing structure and a heightened emphasis on the importance of counter-party risk.

Limited bank appetite for long-term maturities has led to the emergence of the ‘mini-perm’ structure – debt with maturities shorter than the term of the underlying P3 concession from the government. Typically, the term of a mini-perm loan is five to seven years (including the construction period), exposing borrowers to refinancing risk after the construction phase of the project is complete. As a result of this fundamental shift in the risk profile of the underlying infrastructure investment, equity investors expect increased returns.

The emergence of large syndicates of lenders has created additional complexity in P3 debt financing structures. Where agreements prior to the credit crisis were often signed with a single lender, consortia now find themselves dealing with large syndicates of lenders. With more parties at the table, many of whom are demanding greater opt-out flexibility, reaching agreement and ultimately closing on the investment becomes increasingly difficult. Project execution risk for consortia increases.

**Transfer Of Risk**

In part, the success of the P3 model hinges on the successful transfer of risk from the government to the private sector participants. Contracts are the mechanism by which these risks are transferred. For example, in providing a fixed price to design and build a piece of infrastructure, the builder assumes the risk of cost over-runs. Similarly, fixed cost maintenance or service contracts transfer the risk of cost escalation over the duration of the concession to the service provider. However, these contracts are only effective in transferring risk to the extent that the parties that stand behind them are ultimately able to meet their obligations. The recent credit crisis reinforced the existence of counter-party risk in the P3 model as no party, not even the largest financial institutions, seemed to be immune to the risk of financial distress.

Governments in many jurisdictions have recognized that the P3 model can and should be adapted to meet changing credit circumstances. In order to preserve the inherent benefits of the P3 model, a range of options to modify the P3 model in order to enhance debt availability and reduce private borrowing costs has been proposed, including the formation of new government-sponsored funds that can lend alongside private companies, the funding of infrastructure projects with a mix of public and private capital, the use of government-backed credit enhancement guarantees on private loans, and the use of tax incentives to attract capital to the sector.

Canadian provincial governments have experimented with a number of alternative P3-based approaches in response to the credit downturn. The government of British Columbia has evaluated a number of new funding models for P3, including the ‘wide equity model’ where providers of equity capital are required to fund 20 per cent of a project’s costs with equity (compared to 10 to 15 per cent equity for most conventional P3 projects). Under this scheme, investors are not required to raise private debt as the government provides 80 per cent of the project costs by way of a funding agreement which advances notional ‘debt capital’ to the project through a series of government grants. By adopting this approach, the government ensures sufficient private sector equity to preserve the risk transfer and market discipline of the P3 model, while, at the same time, taking advantage of the lower cost of government debt financing.

The governments of Alberta, Ontario, and Quebec have chosen a slightly different tack, opting instead to adopt a partial ‘direct funding’ approach. Under this model, governments fund a portion of a project’s costs themselves through milestone payments and leave the remainder to the private sector using a conventional P3 approach. For example, in a project with a total cost of $500 million, the government may directly fund $250 million leaving the remaining $250 million to be allocated between private lenders and equity holders under a traditional P3 arrangement. This approach effectively reduces the size of the private funding requirement, making it easier to finance in an environment of scarce and costly debt.

**Strong Evidence**

While no consensus has emerged around which adaptation of the P3 model works best in a credit-constrained world, most would agree that the willingness of governments to retain the basic elements of the P3 approach is strong evidence of its effectiveness as a mechanism for efficiently procuring new infrastructure investment.

Over the last few years, the P3 model has proven to be robust and able to adapt to the most difficult credit environment in a generation. With increased government and market recognition of the discipline and value created by this model, both public and private sector participants in P3 have been motivated to find ways to preserve and adapt the P3 model.

With credit markets now ‘thawing’ and increased pressure on governments to curtail spending and reign in burgeoning deficits, it is expected that the P3 model will play an even more prominent role in future infrastructure investment in Canada. Private pension plan investors should increasingly have the opportunity to invest directly in Canada’s basic infrastructure and avail themselves of the unique attributes of this distinct asset class.
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Russian academic Igor Panarin is getting a lot of play in the Russian state media these days. For the past decade, the former KGB analyst has been predicting the break-up of the U.S. this year. Until now, few have taken his argument that an economic and moral collapse will trigger a civil war and the eventual demise of the U.S. as we know it.

While comments about the moral fibre of the country are totally subjective, clearly, some of these economic elements are in play. At the American Economic Association’s annual meeting early this year, some of the leading economists in the U.S. agreed that chances for a robust and sustained economic expansion were slim.

And while a break-up this year doesn’t seem likely, it appears that the U.S. as the global economic superpower is diminishing as other countries, most notably China with its nine per cent GDP growth per year, appear poised to assume that mantle. This was predicted almost a decade ago by French academic Emmanuel Todd. In 2001, he forecast the fall of the U.S. as the sole superpower and the emergence of a multipolar world. His track record is far more enviable than Panarin’s as in 1976 (nine years before it happened), he correctly called the break-up the Soviet Union.

Facing Challenges
Clearly the U.S. economy is facing challenges.

Some predict that U.S. gross domestic product will expand less than two per cent per year over the next 10 years. This is in contrast with the typical aftermath of other steep economic downturns where the recovery sees a growth surge.

Housing continues to be problematic. Median home values fell more than 30 per cent from their 2005 peaks, reducing the wealth of U.S. consumers. Combine this with fears about job loss and unemployment and it explains why they have cut their spending and increased their savings. With consumer spending a key driver of the economy, these put a damper on the prospects for a robust recovery.

While all of this points to a slower recovery for the U.S. economy, there are signs of promise.

GE Asset Management Canada’s ‘4th Quarter 2009 Review and Outlook’ notes that for the three months at the end of 2009 there was an upturn in U.S. equity markets. It pins the stock market recovery to the unprecedented fiscal and monetary stimulus, both in the U.S. and globally, to revive the financial system after its collapse. The historic low Fed fund rate (close to zero for a full year) has also bolstered markets.

One caution is that the improvement in the S&P 500 may not be an indicator of future economic growth in the U.S. The GE paper says that, in many ways, it is becoming a global benchmark as more than one-third of the earnings in the S&P 500 companies are from outside the U.S.

Structural Headwind
Going forward, the U.S. economy’s progress will continue to be restrained by the structural headwinds associated with reducing household debt, industrial consolidation, and restructuring, a more restrained pace of credit expansion, and increasingly down the line, a rising tax burden.

The dark cloud looming is whether or not the momentum of last year and the beginning of this year can be sustained. The reality of ballooning deficits looms and as fiscal stimulus turns into a fiscal drag with taxes increasing, momentum could moderate in the last half of the year.
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As governments consider possible solutions to improve Canada’s retirement savings system, they are coming to terms with the employer-sponsored retirement plan arena which has seen dramatic changes over a period of just a few years.

Some Canadians may be surprised to learn that Defined Benefit plans lost 193,000 members from 1991 to 2006 and many of these plans are no longer open to new members. In contrast, Capital Accumulation Plans (CAPs) – Defined Contribution pensions, Deferred Profit Sharing Plans, and Group Registered Retirement Savings Plans – grew more than 70 per cent from 2000 to 2008.

One commonly held view is that only 23 per cent of Canadians in the private sector have a retirement plan at work. In reality, according to a 2008 study (Baldwin, 2008),1 more than 50 per cent have at-work coverage with CAPs providing more than two-thirds of this coverage. CAPs dominate the marketplace because employers want alternative plan designs in the face of increasing regulatory burden.

There is still room for improvement for the remaining 50 per cent of workers without coverage. As such, it’s encouraging that federal and provincial governments have agreed to a thorough review of the issues, goals, and available approaches including the contribution that could be made by CAPs. Arriving at national solutions could represent a huge step forward to help working Canadians achieve a more secure retirement.

Cost-competitive CAPs
The cost of CAPs has commonly been reported as a significant barrier to access and coverage. However, recent benchmark studies on pricing demonstrate that CAPs offer a cost-effective alternative to DB plans as well as a flexible and feature-rich choice. CAP costs remain very competitive with the costs of DB plans despite requiring significantly more member support. Canadian CAP costs are also competitive with U.S. CAP costs, even though U.S. plans have economies of scale resulting from a market 23 times larger than Canada’s.

Understanding the costs of a CAP requires an appreciation of the value of the services that plan members receive. CAPs require individual members to make important decisions based on the information provided to them. The group retirement plan industry has developed a wide range of tools and resources to help members, all within a cost structure that’s competitive with DB plans, which require minimal member services.

Government-sponsored DC Plans
One suggestion for pension reform is the introduction of a government-sponsored DC plan. If this solution is adopted, there is significant potential for confusion between the nature of a non-guaranteed government-sponsored DC plan and the existing guaranteed government pension programs such as the Canada Pension Plan (CPP) and Old Age Security (OAS).

In addition, governments would be challenged to develop the in-depth administrative support needed to educate, inform, and report to plan members. The CPP and OAS have no existing infrastructure for these important tasks.

The administration costs of government plans should not be subsidized directly or indirectly by general government revenues, nor is it appropriate to expect private industry to subsidize government-sponsored plan costs by providing systems and expertise at artificially discounted rates.

Expanding CPP
Some commentators are suggesting a significant increase in CPP benefit levels as a possible solution. Aside from the additional mandatory payroll tax to employers, the anticipated benefit provided by the CPP simply won’t be attractive to future members of the plan given that they can achieve a higher retirement income through a private plan.
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To illustrate, if a new member of the CPP was to take the current required employer and member CPP contribution and direct it to a private plan earning four per cent a year, that member would achieve a significantly higher retirement income – in some cases as much as double, depending on the amount of time invested. These calculations yield similar results even for people joining the plan in their mid-40s.

Super Fund
To lower costs of administering pension plans, the creation of a very large or ‘super’ investment fund has also been put forward as a solution. This approach doesn’t give consideration to individual investment risk. A super fund member who is close to retirement and whose benefit falls 18 per cent (average 12-month drop in large pension fund market values in 2008) may not be consolated by the fact he or she was in an ‘inexpensive’ fund (Mintz, 2009). Also, a super fund isn’t immune to investment issues such as asset write-offs and significantly negative rates of return, nor is it guaranteed that a super fund will be run efficiently.

Proposed Changes
Modifying existing pension and RRSP rules to make CAPs more attractive to employers and to address retirement income adequacy for plan members would represent a practical and effective solution to Canada’s retirement savings challenges. Changes to be made should include:

- Automatic enrolment – Plan members maximize the benefits of tax-deferred compounding and any employer contributions
- Automatic escalation of contributions – Savings increase as members draw closer to retirement
- Longer vesting periods – Employers can encourage staff retention
- Flexible contribution rates – Employers can adjust their contributions if circumstances change (with adequate notice to members)
- Approved default options – Members who don’t choose an investment are more likely to have their contributions invested appropriately
- Locking in – Members can’t make withdrawals that will significantly reduce their retirement savings in the long run
- Sponsor held harmless if complying with CAP Guidelines – Encourages new plan creation
- Tax treatment of employer contributions to non-pension CAPs should receive same tax treatment as pension plan contributions – Encourages plan creation and employer contributions

401(Canada)
In the U.S., 401(k) plans have provided a framework for employer-sponsored retirement plans that can generate sufficient retirement income for employees while providing safeguards and guidelines for employers.

A similar approach is possible in this country, with a uniquely Canadian flavour. The solution would be to recognize Group RRSPs as a formal plan type (although it could also help raise employer awareness. Regulatory bodies a mandate to promote the

A Long Way
The evolution of the DC solution in Canada has come a long way. Regulators (through the Joint Forum of Financial Market Regulators) have acknowledged the unique nature of CAPs and implemented universally adopted standards, covering best practices for sponsors, members, advisors, and service providers. This accomplishment stands as a strong example of what can be achieved when industry and government work together towards a clear goal.

Within today’s outdated regulatory framework, plan sponsors have worked diligently to engage their plan members and arrange for the support necessary to achieve the best retirement income possible for their employees. Service providers, through open competition, have evolved their product and service features to a level that is world class.

Despite these efforts, the retirement savings system in Canada needs improvement, with a particular emphasis on continuing to improve CAPs and encouraging more employers to consider them as an appropriate option for their employees. It’s encouraging that this issue is making it to the top of the political agenda.

This critical issue will affect the wellbeing of working Canadians and deserves the best efforts of all stakeholders to seek effective solutions.

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Notes:
Plan size segments are as defined in the May 2010 Deloitte/ICI Defined Contribution/401(k) Fee Study (CAD to USD exchange rates assumed to be 0.90)

U.S. 401(k) pricings are median all-in fees, as defined in the Deloitte study

Canadian CAP pricing results are based on preliminary results from the Fraser Group 2010 survey on CAP pricings, extrapolated to all CAP types and include operating expenses, GST and advisory compensation
Canadian DB pricing results are estimates only and based on proprietary consulting fee schedules, benchmarked to the CIP Pension Plan Sponsor Fee Survey 2004 as well as expenses reported in financial statements filed with the Financial Institutions Commission of B.C.

The "Mega" segment expense is considered speculative for Canadian DB and DC plans due to the limited prevalence of this size of plan in Canada.

Boomers have been making waves in the workforce for more than 30 years. This ‘larger than life’ generation, born between 1946 and 1966, are now in their 50s and 60s. They have worked hard and played hard with the long-term dream of Freedom 55.

However, visions of early retirement for many is no longer feasible. With savings shrinking and life expectancy on the rise, Boomers are postponing retirement. Surveys indicate that 80 per cent of Canadians over age 50 plan to keep working well beyond 60, even past their 70th birthday.

The workforce 55 years and older is expected to increase from 17 per cent in 2006 to nearly 23 per cent by 2016. As the workforce ages, employers are looking for proactive strategies to keep older employees engaged, keep low risk employees from becoming high risk, and manage healthcare costs. Diseases – including heart disease, cancer, diabetes, mental health, chronic back pain, and arthritis – represent the majority of the health cost pressures employers are likely to face over the next two decades.

Employers, influenced by the pending labour shortage, are motivated to keep baby boomers – their most skilled and experienced workers – mentally and physically fit for work beyond the traditional retirement age. Although managing one’s overall health requires a high degree of personal responsibility, a supportive workplace environment is crucial to maximizing health and productivity benefits.

Many of Canada’s leading employers are targeting programs to influence Boomer participation and engagement by examining their physical environment, programs and services, work/life balance policies, and culture.

The physiological changes associated with aging are real and may include increased aches and pains, changes in balance, decreased muscle mass, oxygen uptake, strength and flexibility, slowing metabolism, weight gain, reduced vision and hearing, and hormonal changes.

A supportive physical environment will help offset these changes by promoting physical fitness, healthy eating, and by accommodating for physical changes, disabilities, and/or chronic illness.

Physical inactivity is the strongest predictor of mortality, exceeding the risks of smoking, high blood pressure, high cholesterol, and obesity. In addition to the physiological benefits of physical activity, there are many psychological benefits including improved life satisfaction and enhanced mental health. Many employers of choice are investing in on-site fitness facilities to help employees get fit and stay fit.

Autoliv’s onsite fitness facility at its headquarters in Markham, ON, is used extensively by plant and office employees. Its fitness programs are designed to help employees who work on the line prevent musculo-skeletal disorders. The average age of the predominantly female shop floor group is 56. They congregate daily for spinning classes and other group fitness activities catering to all fitness levels.

At McNeil Consumer Health Care, a division of Johnson & Johnson, in Guelph, ON, a ‘Revitalization Zone’ is provided for employees that includes massage chairs, wellness books and resource materials, music, and a relaxing water feature. As part of McNeil’s overall wellness strategy, this is one of three ‘Wellness Zones’ designed to help employees invest in their ‘mind, body, and spirit’ – the Creativity Zone (Mind), the Fitness Zone (Body), and the Revitalization Zone (Spirit).

Weight gain is one of the precursors to age influenced diseases. Employers such as Husky Injection Molding in Bolton, ON, have taken a proactive approach to their food services. Husky’s food services policy is to “offer our customers healthy food choices that promote well-being and energy.” The cafeteria serves up locally grown, organic fruits and vegetables, vegetarian choices, and cholesterol smart meals.

Programs and Services

Most of us spend over half of our waking hours at work. The workplace provides a natural environment to promote health and well-being. Keeping the wellness message top of mind will, over time, influence behavior.

The first step to creating a wellness strategy is to establish a multi-generational representative healthy workplace committee or assign the responsibility to an exist-
ing group such as an occupational health committee or EAP/EFAP committee.

Then, identify the health and wellness needs and interests of your employees by conducting a confidential survey or health risk assessment (HRA). To ensure you are addressing the needs of the aging workforce, analyze responses by age group. Not only will you gain valuable information, but you will also get their attention and support.

Create an annual program plan and corresponding budget. Debrief on your plan with other stakeholders who are responsible for influencing health within the organization to ensure that programs are targeted, cost efficient, and streamlined. Include the employee and family assistance program (EFAP), occupational health and safety, and compensation and benefits in your discussions to identify cost pressures, resources, and other strategic issues.

Solicit the support of health and wellness professionals to ensure you are getting top quality programs and services. Consider hiring a consulting firm that specializes in workplace wellness to help develop your program strategy. Invest in qualified professionals to deliver your programs.

Target programs based on interest, health issues, and physical ability rather than age. Don’t assume that an employee’s health age is the same as their physical age. Sanofi Pasteur’s campus in Toronto, ON, has a company hockey league where one-third of the players are 50+ years of age.

Campbell Company of Canada’s ‘Wellness Within Program’ sponsors an osteoporosis education program called the Osteoporosis Olympics featuring the calcium calculator, calcium jeopardy, a strong bones competition with the grip dynamometer, and a grocery bag relay. Employees have an opportunity to take an annual screening test to check bone density levels to monitor the impact their diet and physical activity is having on their bones. The osteo-blast low impact muscle conditioning class is popular with the Boomer population.

Taking breaks throughout the day to rejuvenate, energize, and re-focus becomes increasingly important with age as the natural tendency of Boomers is to ‘keep working until the job is done.’

At INTRIA, stretch breaks take place every four hour shift to increase circulation, improve posture, and prevent musculo-skeletal injury. Employee volunteers participate in professional stretch break training and deliver the program.

The supply chain population at Wrigley Canada is encouraged to head to the gym on their 15-minute breaks and 30-minute lunch breaks for some light daily physical activity. No change of clothing is required.

Onsite massage provides Boomers relief from chronic pain, stiff muscles and joints, and helps reduce stress. Many employers are bringing registered massage therapy services onsite on a weekly basis and include paramedic services in their benefit plan.

Many employees do not have a family doctor and, for those that do, a significant percentage do not have regular check ups. An annual health screening provides early detection and makes it easy for employees to take preventative measures. At the Staples Canada Home Office, an annual health fair features qualified health practitioners including a dietician, registered massage therapist, physiotherapist, and chiropractor. They also bring in nurses to provide health screening for blood pressure, blood cholesterol, blood glucose, and bone density screening for osteoporosis. Employees at risk are referred to their doctor for follow-up.

Boomers are often faced with managing not only their own health, but that of their aging parents. Recognize that this stage of life brings about changes which can take a toll on emotional health. Provide resources and information on self care and eldercare and continue to promote your EFAP service. 
Work/life Balance

Work/life balance is important to all generations. While many Boomers are still enjoying their careers, they are interested in working less and are thinking ahead to their retirement by exploring their other interests and pursuing non-work related goals. Looking good and feeling good are also high on the priority list. Many are seeking new challenges and activities as they move towards retirement including strengthening social networks and being fit for grandchildren.

Boomers may be considering part-time work opportunities and the flexibility to work from home is a way to help reduce the stress and strain of commuting.

The more control employees have over their work, the greater the level of satisfaction and employee engagement. Regular feedback, performance reviews, and open communication will ensure your older employees are able to meet the demands of their jobs and feel a sense of control over their work.

Culture

Developing a healthy workplace culture starts at the top. Solicit a program champion who has the authority and responsibility to drive the program forward. Include healthy workplace principles in the corporate mission and values statements. Look for ways to create an inclusive culture respecting the value that all generations bring to the workplace. Promote healthy role models of all ages and positions throughout your organization. Ensure that management adheres to policies that promote a healthy workplace.

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Healthcare strategies and current and proposed legislation affecting plans will be among the areas covered at the International Foundation of Employee Benefit Plans’ ‘Canadian Legal & Legislative Update.’ It takes place April 29 and 30 in Toronto, ON. Visit: http://www.ifebp.org/Education/1060canupdate.htm

The 8th Annual Employer Forum on Employee Health will look at creating an effective and targeted employee health management strategy through benefits design and innovative health and wellness programs. ‘Targeting Your Strategy for Maximum Impact’ will take place May 13 and 14 in Ingersoll, ON. The Connex Health event will feature experts who have developed targeted interventions and explain how to align business strategy to employee health and wellness. Visit: www.connexhc.com

‘Navigating the New Normal’ is the theme of the CPBI Forum 2010. Sessions will focus on ‘the new normal’ that last year’s economic crisis created. It takes place June 21 to 23 in Halifax, NS. Visit: http://www.cpbi-icra.ca/

The International Foundation of Employee Benefit Plans’ ‘Concepts and Practices of Canadian Benefits for Canadian and U.S. Corporations’ will examine topics such as government-funded healthcare plans and private pensions and other retirement arrangements. It is designed for those working with Canadian employees. It takes place July 14 to 16 in Toronto, ON. Visit: www.ifebp.org

The ‘2010 ACPM National Conference’ takes place September 14 to 17 in Whistler, BC. Visit: www.acpm.com

‘Thinking Organizations … Succeed’ is the theme of the Health Work & Wellness Conference 2010. It takes place September 29 to October 2 in Vancouver, BC. Visit: http://www.healthworkandwellness.com/

A ‘Canadian Economic Overview’ will be the closing feature presentation at the CPBI 2010 Ontario regional conference. This year’s program will offer workshops in the three disciplines of pensions, benefits, and investments. It takes place October 4 to 6 in Niagara-on-the-Lake, ON. Visit: http://www.cpbi-icra.ca/
My winter reading list was full of just-published books on the financial crisis including ‘Too Big To Fail,’ by New York Times columnist Andrew Ross Sorkin, and ‘The Sellout,’ by CNBC personality Charles Gasparino. Both were entertainingly told fascinating stories of the financial firms that didn’t quite make it to this new decade.

However, these books and many others are mostly narratives of what happened, rather than deeper analysis of why this happened.

Which brings us to Enron.

**Failed Company**

This failed company has largely faded from view, other than its appearance on ‘worst financial scams of the decade’ lists. A recent 500-page book from Harvard Professor Malcolm Salter titled ‘Innovation Corrupted,’ skips the narrative form and instead provides some real analysis of the lessons to be learned from Enron’s rise and fall. Three of these lessons are relevant to today’s financial firms:

- Poor risk management leading to hubris and excessive risk-taking
- Enron’s rapid growth and early profitability eventually proved to be a disadvantage as the company believed that it could be good in everything it tried.
- And a lack of controls leads to people thinking that they were successful, when they never were.

One of the most startling pieces of analysis in the book shows that in three of the business areas that Enron was most proud of, the company actually lost close to $6 billion.

- Performance management and compensation that lead to short-term thinking and an addiction to growth at all costs
- If you want a simple way of understanding Enron’s compensation system, here are the words from the company’s president: “I’ve thought about this a lot, and all that matters is money. You buy loyalty with money. This touchy-feely stuff isn’t as important as cash. That’s what drives performance.”

Unfortunately, this method of compensation drove the wrong types of performance. Bonuses, which were usually several times the value of base salary, were calculated on the present value of deals completed during the year. This led to creative accounting about the profitability of these deals, as well as to the continued search for new deals. Bonuses were paid at the closing of the deal and there were no attempts at clawbacks if the projects didn’t turn out as planned.

- Directors who, while not legally breaching their financial duty, didn’t ask too many questions

On paper, Enron’s board of directors seemed fully capable of detecting the company’s increased risk appetite and growing ethical and financial problems. Almost half of the board, at the time of the company’s bankruptcy, had served more than 16 years and should have become highly familiar with the company’s operations. They created the sub-committees that governance experts recommended and staffed them with outside directors.

However, as the company grew, board agendas were packed with items to review and financial matters became increasingly complex. Information was sent to the board to review just hours before meetings. Transactions received only cursory review, red flags were missed, and inquiries were never fully made of management. As Salter concludes about Enron’s board, “confusion appears to have been an acceptable state of mind.”

**‘Speed Bump’**

Enron shows the disconnect between theory and practice. Risk management existed on paper, but was only a ‘speed bump’ on the road to deal approval. The compensation system was supposed to pay for performance, but instead lead to financial shenanigans.

Enron also shows that we need time for people to truly analyze what has really gone wrong in the complex financial world. So check in with me in another five or six years when I’m wrapping up my book on what went wrong in the latest financial crisis.

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**THE BACK PAGE**

By: Jim Helik

Jim Helik is a contributing author to the Managing High Net Worth course and the Commodities As Investments course published by CSI Global Education. He also teaches at the School of Business, Ryerson University in Toronto, ON.
You’ve got obligations

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