GROUP BENEFITS AND GROUP RETIREMENT

Annual Report & Directory

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Failing To See The Big Picture

a report from the World Economic Forum on long-term investing. It contends that onerous constraints on pension schemes are hindering long-term investing and risking global economic instability. The report claims mark-to-market accounting and new solvency rules starve financial markets of long-term capital by encouraging pension funds to focus on short-term market values. The result destabilizes global financial markets by depriving them of liquidity.

Consider The Source

Granted, we do need to consider the source. The report’s steering committee included representatives from APG, the Ontario Teachers’ Pension Plan, and CalSTRS – all of which are pension funds.

We’re quite certain that if a steering committee of accountants did a similar report, the destabilizing factor would be that pension funds are putting too much into short-term investments when they should be going for the instant financial gratification of short-term returns on the balance sheet. Regulators could conceivably argue that a failure to ensure solvency of pension funds could mean a reduction of purchasing power for retirees 40 years from now which will impact consumer spending and have a negative effect on the global economy. And our group of retirees would be arguing that anything that impacts their benefits today will cause global economic instability.

And we don’t want to overstate the enormity of the problem. The pension funds that threaten global economic stability are Defined Benefit pension plans, which, as we all know, are in decline. The Towers Watson’s ‘Global Pension Assets Study’ says that DB is only really common in Japan and Canada. Based on results of a recent Towers Watson Canadian study, Japan may soon be alone in that regard.

Future Obligations

Still, this report seems odd because we have always been told that pension investing is a long-term proposition. Yet, clearly the accounting and solvency rules are forcing plans to respond not to the long-term liability, but to the immediate financial environment and where a pension plan stands today in terms of its future obligations.

Much of what we are doing today in terms of accounting and regulating is based on a pension system that was created, what, 40 years ago. Would DB pension funds look the way they do today if the consultants, plan sponsors, lawyers, and regulators could go back and redesign them? And even if we designed a plan that worked now, would it still work in 40 years? And would it matter if we didn’t look beyond the narrow confines of employee pension plans? After all, that is exactly what we do now – focus inwards on pensions instead of outward on social and economic impact.

Besides, even if the World Economic Forum is right and what we are making pension funds do today is going to create global economic instability, is there anyone, anywhere who is going to do anything about it?

By Joe Hornyak
Executive Editor

We are all guilty of tunnel vision. Our focus is on our own little spheres of influence and we fail, for the most part, to see the big picture and are virtually clueless on where we fit into it.

So if you are a pension fund, your focus is on providing employee pensions. If you are a pension fund regulator, your keen powers of observation are on making sure the plans follow all the rules regardless the impact on the economy or the employer. Plan members should be interested in how their plans are doing and planning for their retirement (and the operative word is ‘should.’) Retirees do pay attention, but seem inexplicably worried that their employer pension will be taken away tomorrow. And it goes on and on and on.

But, sometimes we hear about things that should – and the emphasis is again on ‘should’ because it seldom is – make us stop and think. One example is...
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Rotman

Rob Bauer is associate director, programs, and Ann Henhoeffer is associate director, business development and operations, at the Rotman International Center for Pension Management (Rotman ICPM) at the University of Toronto’s Rotman School of Management. Bauer, a professor of institutional investors at Maastricht University in The Netherlands, has had a long affiliation with Rotman ICPM as a board member since it was founded in 2005. Henhoeffer had held the position of associate director, operations and planning.

STYLUS

Matteo Verrilli is vice-president, co-portfolio manager of funds, and a senior member of the investment committee at STYLUS Asset Management. He was previously a senior vice-president at CPMS.

Manulife

Mark Bishoff is director, client service in Canada, for Manulife Asset Management. Based in Toronto, ON, he is responsible for managing Canadian institutional and sub-advisory client relationships. Previously, he was with State Street Global Advisors, Ltd (Canada), where he was responsible for business development, relationship management, and sales and marketing efforts in Ontario. Les Young is director of fixed income product management in Canada. Previously, he worked as a manager for its marketing group. Mark Bankay is director of product development in Canada. He is responsible for the firm’s Canadian institutional and sub-advisory product development efforts. Before joining the firm, he worked at Hartford Investments Canada.

18 Asset

Kerry Yuan is an investment analyst at 18 Asset Management. She will create and run quantitative investment models and make investment recommendations to the CIO.

Great-West

Anthony Cardone is regional vice-president, eastern region, group retirement distribution, at Great-West Life Group Retirement Services. Prior to joining Great-West, he held several senior executive positions in group retirement with global organizations.

BNP Paribas

Rosanna Carusone is head of marketing operations, North America, for BNP Paribas Investment Partners. Within this newly-created position, she will be responsible for building its brand across all of North America. Over the past eight years, she has led its marketing efforts in Canada.

Mackenzie

Gary A. Wing is executive vice-president, institutional division, at Mackenzie Global Advisors. He will lead the strategic growth and development of its integrated institutional division’s business. Most recently, he served as senior vice-president of institutional business at a leading Canadian-based investment management firm.

Aon Hewitt

Wade Harding is a senior vice-president in Aon Hewitt’s Halifax, NS, office. He is also a member of the health and benefits practice national leadership team. Previously, he was a partner at a large national consulting firm and has managed benefit consulting practices in Halifax, Vancouver, BC, and Toronto, ON.

CC&L

Peter Muldowney is senior vice-president, institutional strategy, at Connor, Clark & Lunn Financial Group. His role, which is new to the firm, was created with a view to helping pension plan sponsors better understand both the investment challenges they face and the portfolio management solutions that may be suitable for them.
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**Global Absolute Return Strategies Fund**

![Graph showing performance of Global Absolute Return Strategies Fund](image)

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¹ The Fund aims to achieve 6-month LIBOR +5% on a rolling three-year basis which is a proxy for equity-like returns. ² Standard Life Investments, 06/12/06 to 02/28/11. Fund performance based on institutional pooled pension fund, gross of fees. ³ Source: Standard Life Investments, 07/01/06 to 02/28/11. Volatility of Absolute Return is the annualized standard deviation of monthly absolute returns. ⁴ MSCI World volatility 07/01/06 to 02/28/11 17.16%. Volatility of Benchmark Return is the annualized standard deviation of monthly MSCI World (€) returns. ⁵ As at 12/31/10 Source: Standard Life Investments. Standard Life Investments Inc., with offices in Calgary, Montreal and Toronto, is a wholly owned subsidiary of Standard Life Investments Limited. Standard Life Investments Limited is registered in Scotland (SC 123321) at 1 George Street, Edinburgh EH2 2LL. Standard Life Investments Limited is authorized and regulated in the UK by the Financial Services Authority. Calls may be monitored and/or recorded to protect both you and us and help with our training. © [2011] Standard Life, images reproduced under license.
Crisis Refocuses Pension Plans

The financial crisis of 2008-2009 has refocused pension plans in North America, the U.K., and Northern Europe on defining and solving the risk management challenges they face in the decade ahead, says research by Pyramis Global Advisors. Respondents in the U.S., Canada, and Europe said that the top four lessons they learned from the financial crisis were the need for more downside protection (62 per cent), improved risk management (54 per cent), a better match of assets and liabilities (49 per cent), and a realization that they were less diversified than they thought (42 per cent). The top concern cited by pension plan sponsors was their current funded status (23 per cent), followed by volatility (21 per cent) – either volatility of a plan’s funded status or asset volatility – and a low-investment-return environment (19 per cent). In Canada, ‘solvency ratio’ was cited by 23 per cent of plans as the top concern.

Belief Systems Need To Change

Investors need to change their belief systems, says Jean-François Tardif, a former lead portfolio manager for Sprott Asset Management hedge funds. Speaking at AIMIA Canada’s ‘How the Pros Hedge their Books’ session, he said the belief that markets would always go up may no longer be true. “We’re in a different world,” he said. There have never been so many issues such as the massive debt and deficit in every developed country. The U.S. deficit is so large that it has to increase revenue by 50 per cent just to break even. On top of that, there are financial woes facing Ireland, Greece, and Spain. To compensate for these problems, central banks all over the world are printing money and it’s not just the U.S., he said. “China has been printing money for years and years” and this is why its foreign reserves are so high. As a result, asset managers are facing issues and problems they have never before seen in their careers.

ESG Provision May Have Profound Impact

An Ontario budget provision modeled on a 2004 provision in the UK could have a profound impact on how pension funds deal with environmental, social, and governance factors when it comes to their investments, says Dr. Matthew Kiernan, founder and chief executive of Inflection Point Capital Management. Speaking at the Legg Mason ‘Global Investment Forum,’ he said the province says it will require funds to report publically to what extent they are using ESG considerations and, if not, why not. It’s “either comply or explain,” he said and, based on the experience in the UK, this should have a profound effect. Regardless what it is called – ESG, SRI, or sustainable investing – it is not about ethics, he said. They are a recognition of global mega trends and a recognition that they have an impact on industries. In many cases, it comes to identifying the quality of management. For those who dismiss ESG because there are no metrics to measure it, quality of management cannot be measured either, he said, yet ultimately it is a consideration in all active investment decisions.

Mental Health Advisory Board Created

The rising cost of mental health in the workplace has prompted Morneau Shepell Ltd. to establish a Mental Health Advisory Board to help advise its clients. “The advisory board is a broad-based, platform for collaboration,” says Karen Seward, executive vice-president, marketing and business development. “We are looking to create innovation in employee health.” The Mental Health Commission of Canada estimates that mental illness costs the Canadian economy $51 billion a year in terms of healthcare service use, lost workdays, and work disruptions.

In Memoriam

Gary Nachshen, a partner at Stikeman Elliott and one of Canada’s premier pension and benefits lawyers, passed away suddenly while on vacation with his family in the Turks and Caicos.

Born on December 8, 1959, in Montréal, QC, he joined the Montréal office of Stikeman Elliott as a student in 1986 and joined the partnership in 1996. One year later, he relocated to the Toronto, ON, office and was named head of the pensions and benefits group.

Involved over the years in the Ontario Bar Association, the Canadian Bar Association, and the International Pension & Employee Benefits Lawyers Association, he was cited in March 2011 as one of Canada’s premier pensions and benefits lawyers in a directory produced by UK publisher Chambers Global and he received accolades from The ‘Best Lawyers in Canada,’ the ‘PLC Which Lawyer? Guide,’ and the ‘Lexpert/American Lawyer Guide to the Top 500 Lawyers in Canada,’ among others. He also acted in an executive and advisory role on several pensions, benefits, and tax committees in the profession.

He is survived by his wife Julie and his children Thomas and Emma.
Safe Harbour

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**NEWS**

**Emerging Markets Rise More Than BRICs**
The rise of emerging markets is more than just a Brazil, Russia, India, and China (BRIC) story, says research from State Street Global Advisors’ (SSgA) active emerging markets investment team. It shows that since January 1997, BRICs have underperformed a group of smaller countries within the emerging world. As of March 2011, non-BRIC smaller emerging market countries outperformed BRICs by 39 per cent. The smaller emerging countries consist of Chile, Colombia, Czech Republic, Egypt, Hungary, Israel, Peru, Poland, the Philippines, Thailand, and Turkey. The research also shows that with stocks trading at 11 times forward earnings, the broad emerging market asset class is not in a bubble.

**Northern Trust Celebrates 20 Years In Canada**
Northern Trust has marked a milestone in Canada with the 20th anniversary of its Toronto office and Canadian subsidiary. Established on April 8, 1991, as Northern Securities Services, Canada, Ltd., in July 1993 it was licensed as a trust company under the Trust and Loan Companies Act, the first foreign-owned bank to do so and changed its name to The Northern Trust Company, Canada. The Canadian office has offered global custody and a variety of related services as well as asset management services which have expanded to include investment outsourcing programs for pension plans, real estate, and index fund management.

**ADDENDA**
The following was not available for the Managers Of U.S. Assets directory in the February issue of Benefits and Pensions Monitor:

**MFS INVESTMENT MANAGEMENT**
Sarah Donahue, Director, Relationship Management, Canada; 500 Boylston St., Boston, MA 02116 PH: 617-954-7496 Fax: 617-210-8869 eMail: sdonahue@mfs.com Website: www.mfs.com Total U.S. Assets Under Management For Canadian Pension Funds: $38.

The following was not available for the Directory of Global Custodians and Recordkeepers in the February issue of Benefits and Pensions Monitor:

**SSQ FINANCIAL GROUP**
Martin Leclair, Vice-president, Business Development; 110 Sheppard Ave. E., Ste. 500 Toronto ON M2N 6Y8 PH: 416-840-0507, ext. 4699 Fax: 877-669-1881 eMail: martin.leclair@ssq.ca Website: www.ssq.ca

The following was not available for the Directory of Money Managers in the October 2010 issue of Benefits and Pensions Monitor:

**OPTIMUM ASSET MANAGEMENT INC.**
Patrick Lamontagne Senior Vice-president, Development; 425, de Maisonneuve Blvd. W., Ste. 1740, Montreal, QC H3A 3G5 PH: (514) 288-7545 Fax: (514) 288-4280 eMail: plamontagne@optimumasset.com Website: www.optimumasset.com Investment Professionals: 12 Established in: 1985 Style – Size Bias: All Cap Style Bias: Value Management: Active Fixed Income: Active & Passive
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Bruce Curwood  
Director, Investment Strategy  
416-640-2473

Tom Lappalainen  
Senior Consultant  
416-640-2472
Editor’s Note: With 18 years as director of investments for The Winnipeg Civic Employees’ Benefits Program – and close to 40 years as an investment manager altogether – Rick Abbott is quite familiar with “the landmines” facing pension plan sponsors and the challenges the industry, as a whole, must overcome.

Abbott, who retired in June 2010, was born, raised, and spent most of his professional life in Winnipeg, MB. He began his career in Toronto in 1970 with the Bank of Nova Scotia. Following that, he got his start managing pension funds back in Winnipeg for clients of Great-West Life, where he spent 14 years.

In 1992, he took on the role of director of investments for the $4.5 billion city of Winnipeg fund and the Winnipeg Police Pension Plan. He became chairman of the board of the Pension Investment Association of Canada (PIAC) in 2004. In September 2010, he was awarded PIAC’s ‘Chuck Harvie award for distinguished service.’

Abbott spoke to Benefits and Pensions Monitor’s George Di Falco about the lessons he’s learned throughout his career, his proudest moments, his greatest mentor, and the tough road ahead for pension plan sponsors in Canada.

Q: Looking back, what were some of your proudest professional moments and accomplishments?
A: Over the years, it was being able to avoid the landmines. One of my predecessors at the city of Winnipeg fund, Terry Lang, gave me a very memorable quote. He said that ‘We are the honeypot and the bears are always watching for that honey,’ meaning we were a pool of assets that a lot of people wanted to make a management fee on, so you had to be quite discerning about who you let in your office and what opportunities you pursued. There were hundreds of opportunities we didn’t pursue, which turned out to be reasonably wise decisions. Then there are the ones that you do end up pursuing which do not turn out so well, the ones that get all the headlines. I’m proud that we avoided bad headlines and kept unwise decisions to a minimum in our organization.

Q: Were there any people that had an impact on you and your career?
A: Marshall Smith was a mentor. He was chief investment officer at Great-West Life when I worked there and when I moved to the city of Winnipeg, he was my chair of the investment committee. He passed away this past December and his daughters wondered what it was like to work for him. During his eulogy, I responded that he was a no-nonsense person that always wanted the straight goods, and that you had to be prepared when you made a presentation to him. He was of the highest integrity.

Q: What do you think of the Canadian pensions and investments industry today, compared to when you started out?
A: For the majority of my career, I was dealing with the phrase: ‘the magic of compound interest.’ But on the asset side of your balance sheet, it is no longer there because interest rates are one, two, three per cent. On the liability side, the magic of compound interest is still there but, unfortunately, the math is not working these days for pension funds. A number of them require in excess of four per cent real returns in order to meet the benefits that were promised years ago.

When I got involved with the city of Winnipeg’s plans, 70 per cent of the portfolio was in the Canadian bond market, which had a 14-year duration. The performance was outstanding. As a result, there were massive surpluses and the benefits of the plan were very affordable and quite generous. That is all changing for all pension plans of the world.

Plus, people are living longer and the benefits are just too rich for what the outlook for the investment markets is today.

Q: What is your outlook on the pensions industry in Canada, and what will it take to overcome the challenges ahead?
A: I think the large plans like Teacher’s and the CPPIB have the staff and resources for the appropriate due diligence on non-publicly traded transactions. But the smaller plans with limited resources are reliant upon outside advisers. There is going to be increased risk on these non-publicly traded transactions, the structures, the legalities, the taxes, all those ramifications that plans are forced to get into because of where interest rates are at today.

Everyone is buying time at this point to stall the inevitable tough decisions that are going to have to be made. Those tough decisions are increases in contribution rates and having people work longer before they are entitled to their benefits and retirement packages. Obviously, the unions will want to stall those decisions as long as possible.

There might have been a reprieve in the last year with the Canadian stock market going up 14 per cent. We might have bought ourselves another year before those tough decisions have to be made. Unless the outlook for the investment market changes quite dramatically, most people will not see the returns that are going to be necessary to pay the required or the promised benefits as outlined now.
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Cooperating in building the future

Life, health, retirement
Is smoking bad for business? You bet. Employees who smoke are at a higher risk of developing cancer and respiratory ailments, take more frequent breaks, and have been shown to trigger higher insurance premiums.

Not surprisingly, the Canadian government forks out about $3 billion annually to cover healthcare costs for smoking-related illnesses and lost productivity is said to drain a further $8 billion from our economy, according to Health Canada.

Limited Smoking

Fortunately for all of us, smoking is becoming less popular with increased awareness of the health risks, improved smoking cessation programs, the introduction of a variety of quit smoking medications, and significant decline in the number of locations where Canadians can legally smoke. As a result, the number of smokers over age 15 is down from 25 per cent in 1999 to 18 per cent in 2009 across Canada, according to Statistics Canada.

While a declining number of smokers is good news, it’s still not good enough. The latest research clearly demonstrates that smoking-related health problems still put a huge strain on our healthcare system and second-hand smoke is putting the health of non-smokers in jeopardy as well.

Lung Cancer

The chronic disease most frequently associated with smoking is lung cancer. Medical researchers estimate that more than 90 per cent of lung cancers in men and at least 70 per cent in women are directly caused by smoking. Symptoms include a cough that gets progressively worse and doesn’t go away, chest pain, coughing up blood, and frequent bouts of bronchitis or pneumonia.

A cough that just won’t go away may also be indicative of throat cancer, which often appears as a result of smoking. Sore throat, difficulty breathing, ear pain, and a lump in the neck or throat are also warning signs.

Oral cancer can be found anywhere in the mouth, including the lips, tongue, gums, and palate. Some long-term smokers with oral cancer are affected by a sore throat that won’t heal, loose teeth or dentures, problems speaking, and ongoing bleeding. A word of warning, there are currently no standard or routine screening processes in place for oral cancer, meaning that those at risk must keep an eye out for the signs and symptoms themselves and ask a doctor or dentist for testing.

We now know that smoking increases the risk of breast cancer in all women by a staggering 50 to 70 per cent and second-hand smoke increases the same risk in pre-menopausal women by 40 to 50 per cent. In addition, smoking is the direct cause of 80 to 90 per cent of all cases of emphysema.

Any of the aforementioned conditions usually require lengthy, expensive, and often risky procedures or treatments, which, in many situations, compromises time at work and may leave the patient unable to continue working as they did before.

Role Model

Leading by example is one of the most valuable things managers and senior executives can do. Start at the top. If you or members of the management team are smokers, do your best to quit for good. You can’t be a role model for a healthy workforce or expect your employees to quit smoking if you are outside smoking with them.

Ensuring a healthy work environment that encourages smokers to quit and protects non-smokers is extremely important.

Offer tips and consider providing employees with an incentive to quit smoking. Some folks have tried holding workplace competitions and rewarding those who quit and stick with it. Research shows that the more people who know that a person is trying to quit smoking and offer support, the easier it is for the person to be successful.

With solid smoking cessation plans in place, your risk of losing key players due to health issues will fall, as will the number of unnecessary breaks former smokers take during the day.

A happy, healthy employee is the best employee. Take a stand now and take steps to create your very own ‘Smoke-free Work Place’ today. After all, quitting is contagious.

Are You Letting Your Productivity Go Up in Smoke?

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

HEALTH MATTERS

By: Caroline Tapp-McDougall

| 14 | Benefits and Pensions Monitor – April 2011 |
Innovative doesn’t even begin to describe it.

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While major financial crises differ from one another, the fundamental challenge of each remains the same: creating portfolios that are immunized against the kinds of major, unforeseen shocks that deeply affect investor wealth.

In order to best determine the types of portfolio tools to employ against these types of market shocks, it may be helpful to first recalibrate our idea of market risk.

**False Sense Of Security**

The classic bell-shaped normal distribution is used across the financial industry and figures prominently in advanced risk techniques such as the now infamous Value-at-Risk, an ineffective risk model that creates a false sense of security. It is well understood by academics and market practitioners that financial market returns are not normally distributed. Most financial statistics are borrowed from the physical sciences. These statistical methods are vital for getting a man on the moon; but when used in finance, which is substantially driven by the emotions and often irrational behaviour of investors, they can be dangerously misleading.

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**Tail-Hedging: Protecting Against Extreme Events**

Relying solely on past statistics may lead to a complacency that can magnify the impact of unexpected ‘Black Swan’ events. To borrow from Nassim Taleb in ‘The Fourth Quadrant’: “A turkey is fed for a 1,000 days – every day confirms to its statistical department that the human race cares about its welfare ‘with increased statistical significance.’ On the 1,001st day, the turkey has a surprise.” Chart 1 could describe the profits of numerous financial institutions such as MBIA and Freddie Mac leading up to 2008.

Financial crises have occurred within a far shorter time period than academics and Wall Street would have us believe. From the collapse of the Japanese stock market in 1989 to the 2008 global banking crisis, many major market events with severe consequences for investors have occurred during the past 25 years, posing unique portfolio protection challenges for individual and institutional investors alike.

Risk in the modern global context is viral. In a world where financial institutions, businesses, and governments are inter-connected in ways that are often hard to measure, much less ascertain, and where leverage through the use of debt has become so prevalent, a large enough crisis will affect all assets and regions just like it did in 2008, driving asset correlations towards one and rendering naïve portfolio diversification virtually useless.

**Varying Degrees**

There are a few alternative investment strategies that, to varying degrees, are effective in protecting portfolios against these types of periods of severe market stress. Trend-following is a liquid and diversified managed futures strategy that generates profits during periods of broad-based trends and is effective in downward-trending markets. Short Selling is an equity strategy that performs strongly during bear markets but also benefits from the increased visibility of corporate mismanagement and fraud.

However, one of the most effective portfolio tools available to guard against these events is tail-hedging, a highly positively-skewed, equity options strategy which provides uncorrelated asymmetric alpha in all market environments by exploiting fat-tails mispriced by option markets.

With limited risk exposure, this options strategy provides very strong positive returns that serve to hedge out the losses of an equity investment. Importantly, it is not only robust to banking crises, but highly profitable during market crises.

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**Mechanistic Approach**

One final note on the use of this type of protection strategy: it is valuable to remove, where possible, reliance on timing decisions to guide the hedging activity. ‘Black Swan’ events are unexpected by their nature, so it is wise to try to avoid ‘putting protection on’ as markets are collapsing. A mechanistic approach to an options hedge can be a cost effective way of reducing that timing risk and ensuring that it, like the insurance on your home, is always in place when it’s needed.

Investors interested in an ‘always on’ portfolio protection strategy against major market events would be well served to understand the nature of tail-hedging more fully and seek out those who are expert in its application.
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Probably, there are few more complex, time-consuming and frustrating issues confronting today’s HR professionals than employee mental health problems. Not only are they the leading, or near leading source of health-related costs for most employers, but also they leave many HR professionals shaking their heads in bewilderment over the extent to which claims for mental disability and related medical leaves are valid.

And yet part of the problem is the way in which the HR profession itself is structured and oriented toward certain priorities to the neglect of other imperative courses of action.

In this article, we describe the parameters of the problem and suggest some possible ways of resolving, over time, the excruciating dilemma faced by so many HR professionals.

The Paper Trail Priority

On the one hand, HR is called upon, as a priority, to process claims and administer benefits according to plans that allow people who present with mental health problems to be away from work for sometimes long or unpredictable amounts of time.

Often driven by corporate policies, this process calls for a rule-based, bureaucratic response: making sure the right forms are filled out, making sure the employee’s doctor signs off on reasons for absence etc. Failure to do this properly can, and does, land the employee in hot water. In addition to this:

◆ Some doctors like to sign off employees who are their patients for longer than necessary to protect themselves from the bother of having to reassess them and provide yet more documentation of their disorder. Obviously, this practice, while perhaps understandable from the overworked doctors’ point of view, increases the cost burden on the employer. And yet this practice is unwittingly encouraged by HR’s heavy reliance on paper trails to confirm that employees are, or appear to be, entitled to benefits.

◆ Some HR professionals, believing they are acting on behalf of their firms, like to think they can delegate responsibility for the ongoing assessment of mentally troubled employees to insurance providers or consultants and wash their hands of the responsibility to accommodate or even act carefully toward the employees in question. This belief in the legitimacy of delegation has led to several cases in which courts and tribunals have had to adjust the thinking of employers with the blunt instruments of the law.

◆ Rule-based responses often miss the forest for the trees in complex cases and compound the original problem. In fact, few cases are alike in every detail and using a one-shoe-fits-all approach can lead to insensitivity and injured feelings that, in turn, can lead to conflict and litigation.

No doubt HR is frustrated with the number of cases in which they suspect malingering or fraudulence: but the system actually encourages the appearance of this type of behaviour because when it is difficult for employees to speak about real problems honestly, it becomes attractive to just play the system: get the forms filled out and go off on sick leave. The employee may not even know or really believe that they have a mental health problem, but rather than discuss the real nature of their problems, it is often easier to just create and then follow a paper trail that allows everyone to indulge in the complacent fantasy that if the rules are being followed, everything is alright.

The HR Dilemma Of Mental Disability At Work

The Psychologically Safe Workplace Priority

A psychologically safe workplace is one in which every reasonable effort is made to protect the mental health of employees from negligent, reckless, and intentional acts on the part of their fellow employees, their managers, and supervisors. The duty to provide a psychologically safe workplace, under the new and still emerging legal requirement to provide a psychologically safe workplace, but this is the last thing removed from the bureaucratic, rule-bound response because it requires creativity and a resolve to influence senior management to address often systemic issues within the organization of work that may be upstream drivers of downstream mental injuries.

HR is increasingly called upon to respond to this new and still emerging legal requirement to provide a psychologically safe workplace, but this is the last thing removed from the bureaucratic, rule-bound response because it requires creativity and a resolve to influence senior management to address often systemic issues within the organization of work that may be upstream drivers of downstream mental injuries.

The dilemma for HR is in order to stem the tide of paper work and monetary loss generated...
by its pursuit of the first priority, HR needs to spend more time and develop more self-confidence around its pursuit of the second priority. But how can this be done when the demands of each priority place conflicting demands on the time and energy of HR professionals? To be clear, it is apparent that many non-medical or questionable leaves for mental health reasons are a result of employees and HR implicitly agreeing that it is easier to fill out a form that requires little evidence of real disability than it is to have a conversation about what may actually ail an individual. These are not fraudulent cases, they are simply products of a normative bureaucratic, rule-bound system of governance that permeates our workplaces. We estimate that about a third of all employee claims for mental disability could be prevented if it were possible to have safe conversations about job performance problems thought by the employee, the supervisor, HR, or all of the above to be associated with mental health issues.

So how can we make it safer for employees and HR to have conversations in which the real nature of a difficulty is explored within the parameters of the employee’s right to privacy? Clearly this goal is not going to be achieved simply by wishing it to be so or by paper policies that remain posted on boardroom walls but never hit the shop floor. And just as clearly, we recognize that HR is not usually in a position to direct how the organization will or will not address issues of human governance, even though the expertise of many HR professionals lies in this direction of providing working environments that are psychologically safer, efforts to do so are less likely to engender hostile reactions and are more likely to be welcomed. For this to occur, employers must understand the need to enhance the psychological safety of their organizations and commit resources to its achievement. While direct appeals to employers by consultants from outside may help, HR can, and must, exercise influence upon them also.

Modern HR professionals are increasingly attuned to the requirements of the psychologically safe workplace and often have the knowledge and skills to recommend what needs to happen to bring their organizations closer to the goal. As evolving expectations of HR as a profession expand to embrace a responsibility and an ability to sway employers in the direction of providing working environments that are psychologically safer, efforts to do so are less likely to engender hostile reactions and are more likely to be welcome. If only to save themselves grief, HR professionals need to push the envelope and assume ownership of the responsibility to advocate for psychologically safe workplaces.

**Resolving The Dilemma**

The essence of any strategy that will allow HR to remove itself from the prongs of the dilemma we have described is for the profession to direct more energy toward the psychological safety priority which will predictably result in having to spend less time on the paper trail priority.

For this to occur, employers must understand the need to enhance the psychological safety of their organizations and commit resources to its achievement. While direct appeals to employers by consultants from outside may help, HR can, and must, exercise influence upon them also. Modern HR professionals are increasingly attuned to the requirements of the psychologically safe workplace and often have the knowledge and skills to recommend what needs to happen to bring their organizations closer to the goal. As evolving expectations of HR as a profession expand to embrace a responsibility and an ability to sway employers in the direction of providing working environments that are psychologically safer, efforts to do so are less likely to engender hostile reactions and are more likely to be welcomed. For this to occur, employers must understand the need to enhance the psychological safety of their organizations and commit resources to its achievement. While direct appeals to employers by consultants from outside may help, HR can, and must, exercise influence upon them also.

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**Strategic Priorities for HR**

In a forthcoming guide for employers, ‘Preventing Workplace Meltdown: avoiding legal liability for mental injury,’ the authors say there are three fundamental imperatives that underlie the employer’s duty to provide a psychologically safe workplace. These are:

- Keep job demands reasonable and adjust them to individual capacities – Employers are responsible for determining what excessive and unreasonable demands mean in relation to individual employees and for taking appropriate steps to adjust the situation where required.

- Make it safe to speak up – There is a responsibility to create an atmosphere of basic trust in which workers who report to you or for whom you have obligations feel safe in declaring problematic situations, circumstances, and conditions which are affecting, or might affect, their job performance. This includes the responsibility to learn about critical vulnerabilities among your workers.

- Monitor and respond to warning signs of conflict among workers – Employers must be aware of, and take proactive steps to amend, situations of interpersonal conflict that could foreseeably give rise to mental injury. This includes the responsibility to appoint supervisors and managers who meet a floor standard of interpersonal competence (aka ‘emotional intelligence’). Almost all the problems that give rise to legal actions involving alleged injury to mental health in the workplace can be traced in one way or another to a failure to act upon these three imperatives.

**Cultural Priorities For HR**

Most HR professionals will have at least a passing acquaintance with the concept of emotional intelligence (EI) or, more generally, interpersonal competence. Some will have a deeper knowledge of the resources currently available to help enhance the EI of employees.

Knowing how to implement the requirements of EI at a cultural level is a foundation for the psychologically safe workplace. For these purposes, embedding the requirements of EI at a cultural level means making the use of three principles a normal practice in the workplace. These are:

- Awareness, which prevails when there is a high level of awareness among team or work unit members concerning who is influenced by their words and actions and how they are influenced.

- Understanding, which prevails when there is a high level of understanding among team or work unit members concerning the legitimate needs, interests, motives, and points of view of others.

- Carefulness, which prevails when team or work unit members habitually act upon their awareness and understanding by taking all reasonable precautions to avoid doing foreseeable harm to one another.

Collectively, these requirements are known as the ‘Neighbour at Work’ principles. They can, and should be, implemented at all stages and phases of the employment relationship.

So, for example, new employees – particularly new people managers and supervisors – should be recruited and hired based on the use of EI criteria in addition to whatever technical requirements are in place. Similarly, training, promotion, and evaluation functions should all be carried out in accord with the requirements of EI. There is a particular need to have EI injected into the everyday activities of teams regardless of the setting in which they function.

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3. See [www.neighbouratwork.com](http://www.neighbouratwork.com) for details.
While the pension debate continues with some interesting ideas for the future, the finish line still seems far off and the path uncertain.

On the one hand, we have those who feel that the future viability of traditional Defined Benefit plans is merely a stock market rally and/or increased bond yield environment away. Others are ready to move forward with fixed employer contribution pension plans – Defined Contribution and Target Benefit pension plans. And somewhere in the middle, there is a very small group of people quietly wondering why jointly-sponsored pension plans aren’t getting more air time.

But let’s back up a few steps. Much of the concern about the current state of pensions started with the acknowledgement that the number of DB pension plans was decreasing. People began to realize the effect that the potential bankruptcies of a few high profile companies would have on thousands of Canadians and their ‘guaranteed’ pension income.

‘Pension Coverage’

Then the discussion shifted more towards ‘pension coverage’ – more specifically, the number of Canadians that do not have access to an occupational pension plan and the strain that will eventually put the government.

And during all of this, we spent a fair amount of time discussing the ‘pension income adequacy’ of DC plans, and the financial literacy of plan members who are bearing the risks and decisions that are big part of these plans.

The debate seems to be back to which is the better design, DB or DC. But regardless of the retirement savings or pension vehicle, what’s really at stake is whether the plan will provide adequate pension income in retirement.

I would suggest that if we start with pension income adequacy for the 30-something plan member, and make it affordable for both the employer and member, then we have addressed the biggest problem. We would then be in a much stronger position to tackle how to get more employers and workers involved in occupational pension plans – that is, increasing pension coverage.

The debate should be less about DB versus DC and more about:

- How much to contribute (employer and plan member) each year for a given starting age and expected retirement age
- How to maximize the monthly pension that a dollar contributed today should realistically be able to produce at retirement
- How to minimize the risk of the expected pension income ending up much smaller than needed
- What systems and controls are needed to mitigate the risk of individual plan members and plan sponsors taking actions that run counter to the purpose of the plan

Let’s start with the DC plan that has, so far, been lacking for many working Canadians in the private sector.

With the average employee expected to bear all financial risks associated with his or her retirement savings, is it realistic to expect everyone to become financially literate? Most of us don’t want to learn all the complex details of how to fix our own car; similarly, the average Canadian needs someone else to take care of most of the financial decisions required as part of a retirement savings program.

‘Accidental Pension’

Pension income adequacy, or a targeted amount of retirement income, is a function of the number of years of plan participation, the amount of contributions made each year, operating expenses, investment returns, and bond yields at retirement, plus the number of years the pension will be paid (a.k.a. longevity risk). It’s no wonder that the traditional DC plan with do-it-yourself (DIY) investing has been referred to as...
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Workforce Analytics Certificate Program
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Workforce Analytics is a science-based, quantitative approach to measuring the success of human resource programs. This two-day certificate program, produced in partnership with CMA Ontario, provides the analytics foundation you need to quantitatively understand, assess, and demonstrate the role and value of human resources and human capital programs in your organization.

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The Heart
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The Art
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www.hrpa.ca/springconferences

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an ‘accidental pension.’

While DC has fixed a lot of problems for employers, it hasn’t been nearly as effective in helping plan members generate an adequate level of retirement income. The current DC retirement savings model, which has employer contributions of less than five per cent, member contributions of less than three per cent, and members making fund selections, is woefully inadequate to be seriously considered a DB replacement.

While a good plan design and a well-considered investment fund line-up can improve the outcome for DC, it doesn’t go far enough to address all of the inherent shortcomings of the DIY approach.

There has been much talk about improving the DC plan platform, developing innovative solutions, learning from our global counterparts, and the like. We are at the tipping point of a DC transformation. There is an opportunity for all stakeholders – government, plan sponsors, plan members, service providers, and consultants – to take action and fix what we all know is broken.

**Dynamic DC**

The dynamic DC, the enhanced DC plans of the future, will be able to accomplish the top priorities for any retirement savings program. It will provide a pre-set target retirement income, a replacement ratio of 60 per cent to 80 per cent for people earning $50,000 to $100,000, with government pensions included in the analysis. It calls for an employer contribution of at least five per cent of base pay, with a possible profit-sharing component. Member contributions will be based on targets that auto-escalate with age. Investment decisions will be outsourced as in DB plans, eliminating the need for plan members to manage assets, by hiring a fiduciary investment manager; and the asset mix for any individual will be based on his or her age and risk profile. It will have features that take advantage of favourable annuity markets along the way. It will be managed by a pension committee with member representation to monitor individual plan member performance towards target benefit and provide education that focuses on saving. It will provide ‘safe harbour’ rules that protect employers from legal liability risk if they adopt a specified governance, risk management, and compliance system to run and oversee the pension program.

As we search for solutions for both employers and employees, it is our industry’s responsibility to develop an easy to implement and pragmatic solution that meets the needs of employers and workers. If we can fix the DC pension plan first to provide adequate pension income then we can move on to other retirement savings vehicles and ultimately to tackle the pension coverage issue in Canada.

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For many Canadian companies, employee benefits decisions are often shared by two decision-makers (or co-pilots) – the human resources department and the finance department. And often, the objectives of these departments can feel disconnected. HR wants to ensure the best possible coverage (to ensure being an ‘employer of choice’) and finance wants the lowest price and the best value. Employees just want to know that their employer is providing competitive benefits (and that everything is covered).

With three distinct interest groups to satisfy, how can you ensure that your employee benefits plan is competitive, affordable, sustainable and good value?

Smart employers are using these ‘Best Practices’:

- **Apply the appropriate funding models to each line of benefit**
  Employee benefits can be split into two types of coverage – experience rated benefits and fully insured benefits. But what is the difference?
  Experience rated benefits include drugs, dental, vision, and other repetitive, known events and comprise roughly 80 per cent of the benefit plan costs.
  Insured benefits include life, long-term disability, AD&D, travel insurance, and other unknown, catastrophic events. These benefits make up the other 20 per cent in plan costs.
  For the experience rated benefits, there are a range of funding models available including fully insured, administrative services only (self-funding), defined contribution, and retention accounting, to name a few. A good analysis will include recommendations for each kind of funding model for each type of benefit within your benefits plan. Many employers are using different funding models within their plan to extract the maximum value at the minimum cost. For example you can switch your health and/or dental coverage to ASO and leave the LTD, life and AD&D fully insured.

- **Risk Management – how to achieve unlimited coverage with limited risk**
  It’s important to balance the appropriate funding models with a sound risk management strategy. Your consultant will assess your firm’s risk tolerance and personality, market conditions, and products available to meet your company’s risk profile. Insurance can be purchased on a relatively low-cost basis for fully insured benefits such as life, LTD, travel, stop loss for extended health, and other catastrophic risks.
  In the extended health benefit, the real risk is in catastrophic drug coverage. By purchasing a solid stop loss coverage, the company and employees can enjoy unlimited coverage, but limited risk. This ensures that the employer does not expose itself to adverse risk. In all cases, the risk management strategy should be reviewed by an expert at least annually to match the employers’ evolving needs with the risk products in place.

- **Administration – third-party administration is changing the game.**
  In the past, most employers purchased their benefits plan from one insurance company at a time. That insurer then delivered all the service to the employer and its employees. Over time, employers realized that they did not have to purchase all products from one ‘store’ and began to source solutions from multiple underwriters.
  This led to the introduction of third-party administrators (or TPAs), which evolved to suit the demanding needs of employers and their ever-growing appetite for diversification. When using a TPA, an employer can purchase insurance from multiple insurers at the same time, but enjoy a consolidated bill, reporting, fulfillment, and claims adjudication. The TPA then delivers the service to employers and employees through state-of-the-art administration systems. By creating a more flexible environment for the employer, TPAs have experienced considerable growth in Canada over the last decade.
Wellness – promoting good health to employees helps to lower long-term health costs

Today, employers realize that the majority of their employee benefits costs are driven directly by the health of their employees. If their employee base is relatively healthy, they will enjoy a lower ‘per employee’ cost than an employer who has a large number of less healthy workers who are obese, smoking, or stressed.

Forward thinking employers are developing wellness strategies to help lower their costs over the long term, enhance worker productivity, reduce absenteeism, and positively impact employee morale. It stands to reason that if employees quit smoking, enjoy better nutrition, and de-stress, the need for prescription drugs (which address complications arising from these conditions) will be lowered over time.

Wellness choices are endless and include nutritionists, smoking cessation programs, stress reduction courses, on-staff nurses, flu clinics, health risk assessments, and many other available programs. Many are now being offered on a complimentary basis when included in the employee benefits program.

Value Added Programs – get more value without increasing your costs

The cost of supporting an employee benefits program has skyrocketed over the last two decades to become one of the single largest expenses for an employer. Because of this large expenditure, there is a lot of competition among insurers and providers who are now beginning to ante up by providing a long list of value-added programs and products to their core plans. Today, it is not unusual to find complimentary employee assistant programs, wellness programs, trip cancellation insurance, and other enticements thrown in with the core life, LTD, and extended health and dental programs.

As employers become more knowledgeable in their purchase decisions, more and more of these value-added programs will become available. It’s yet another way for an employer to get more value for their dollar without increasing their benefits expenditure.

Service Level Guarantees – better reporting and written guarantees

Traditionally, an employer would meet with their benefits consultant annually to discuss trends, costs increases, and review their plan design. As the employers’ spend increases on benefits, it makes more sense to review the trends, costs, and reporting on a more frequent basis than once per year.

Today’s employer has grown far more demanding in the level and frequency of customer service required. Written service level guarantees – including detailed reporting, quarterly meetings, long-term rate guarantees, and establishing committees to ensure good governance and compliance – help meet this demand.

Benchmarking and Plan Design Optimization – compare your program to your competition and the national average

There are a staggering number of plan designs available to the average employer. Yet, for the most part, they can be remarkably similar. Employers should be aware that they are the masters of their plan design. Recent innovations in product, flexibility, and administration make it that much easier to customize a plan design to suit unique employee needs.

How can a ‘one size fits all’ benefits program address the needs of a multi-generational workforce? Should you consider stratifying your plan to create classes for executives, management, full-time, and part-time staff?

Conducting a benchmarking exercise is a good start to determine how your plan compares with the competition and with the national averages. From there, you can align your plan design with your company goals and objectives. Plan design optimization and benchmarking are good ways to ensure that every penny spent on benefits is a wise expenditure.

Disability Management – align your short- and long-term disability program

Going to work is one thing. Returning to work after a disability is entirely another matter. Many Canadian employers are mismanaging their short-term disabilities (STDs) to the point of negligence. Some employers choose to ‘self-manage’ their STDs, which leads to issues created by conflict of interest, lack of privacy, and lack of expertise.

The best practice in disability management is to have a written policy on both short- and long-term disabilities and to use an integrated, professional supplier for both. Helping employees return to work as quickly as possible and with dignity is as much an art as it is a skill. And it is best left to the experts.

Reporting - detailed regular reporting is a must

By receiving detailed monthly reports by certificate, by line of benefit, and by product, an employer can skillfully assess their benefits costs, strategy, and future. The level of reporting in today’s benefits world has fallen behind the employers’ needs in our real-time environment. Many providers have recognized this and are offering more reporting options to suit both HR and finance’s unique needs while remaining within the privacy guidelines. Interpreting these reports regularly along with your consultant is key to this best practice.

Employee Communications – deliver the message consistently and clearly

To be an employer of choice is to purchase a cost effective and competitive benefits plan, and then effectively communicate the value to employees. A structured communications program doesn’t need to be complicated, only clear. Top employers know this and create professional communications to all level of employees. Communications can be customized by class, by department, and even by age to effectively express the value to each group of employees.

By addressing each of these 10 best practices, HR can create an employer of choice environment, while ensuring that finance receives the maximum value for the best price.

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## DIRECTORY

### GROUP BENEFITS & PENSIONS

**INDUSTRIAL ALLIANCE, INSURANCE AND FINANCIAL SERVICES INC.** Scott Heard, Assistant Vice-president, Sales & Marketing; 1080 Grande Allée O., Quebec City, QC G1K 7M3 PH: 416-585-8911 Fax: 416-598-5131 eMail: scott.heard@inalco.com Web: www.inalco.com Net Premiums - Group Life: $92.2M Group Health: $654.2M ASO: $116.2M Client Profile (By # of Employees) 1 to 100: 1,972 101 to 500: 441 501 to 1,000: 59 1,000+: 68

**SUN LIFE FINANCIAL** Diana Deverall-Ross, Assistant Vice-president, Group Marketing & Communications; 225 King St. W., Toronto, ON M5V 3C5 PH: 416-408-8930 Fax: 416-595-1436 eMail: diana.deverall-ross@sunlife.com Web: www.sunlife.ca Net Premiums - Group Life: $627.9M Group Health: $2,762.3M ASO: $3,783.6M Client Profile (By # of Employees) 1 to 100: 1,605 101 to 500: 345 501 to 1,000: 58 1,000+: 61

**SSE FINANCIAL GROUP** Carl Lafllame, Vice-president, Sales & Marketing; 2525 Lau- rier Blvd., Box 10500, Quebec City, QC G1V 4H6 PH: 418-650-3457 x6598 Fax: 418-652-2737 eMail: carl.lafllame@sse.ca Web: www.sse.ca Net Premiums - Group Life: $102.6M Group Health: $827.8M ASO: $24.8M Client Profile (By # of Employees) 1 to 100: 9,500 101 to 500: 400 501 to 1,000: 55 1,000+: 50

**MANULIFE FINANCIAL** Marilee Mark, Vice-president, Marketing, Group Benefits; 380 Weber St. N., Waterloo, ON N2L 4V7 PH: 519-594-9177 Fax: 519-883-5711 eMail: marilee.mark@manulife.com Web: www.manulife.ca/groupbenefits Net Premiums - Group Life: $573M Group Health: $3,172M ASO: $2,631M Client Profile (By # of Employees) 1 to 100: 14,628 101 to 500: 1,049 501 to 1,000: 251 1,000+: 423

**RBC INSURANCE** John McMeans, Vice-president, Sales, Brokerage, Life & Health; 6880 Financial Dr., Mississauga, ON L5N 7Y5 PH: 905-606-3463 Fax: 905-813-4774 eMail: john.mcmmeans@rbc.com Web: www.rbcinsurance.com Net Premiums - Group Life: $28.4M Group Health: $216.5M Client Profile (By # of Employees) 1 to 100: 4,112 101 to 500: 938 501 to 1,000: 105 1,000+: 150

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**BUCK CONSULTANTS** Marina Scassa, Director, Global Identity Marketing; 155 Wellington St. W., Ste. 3000, Toronto, ON M3V 3H1 PH: 416-865-0060 Fax: 416-865-1099 email: infocanada@buckconsultants.com Web: www.acsbuckcanada.com Client Profile (By # of Employees) 1 to 100: 40 1,000+: 50

**CO-OPERATORS LIFE INSURANCE COMPANY** Ken Richards, Manager, National Sales & Service; 1920 College Ave., Regina, SK S4P 1C4 PH: 800-263-9120 x5004 Fax: 416-249-5318 eMail: ken.richards@cumis.com Web: www.co-operators.ca/life/groupretirement Group Pension Premiums & Deposits: $62.4M Group Pension Assets: $942.9M Client Profile (By # of Employees) 1 to 100: 99 101 to 500: 10 501 to 1,000: 11 1,000+: 3

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PH: 514-350-8700 x2335  
Fax: 514-285-8766  
eMail: david.charbonneau@dfs.ca  
Web: www.desjardinsfinancialsecurity.com  
Group Pension Premiums & Deposits: $598.3M  
Group Pension Assets: $3,232.2M  
Client Profile (By # of Employees) - 1 to 100: 5,695  
101 to 500: 186  
501 to 1,000: 23  
1,000+: 15

GREAT-WEST LIFE ASSURANCE COMPANY  
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eMail: jeff.aarsen@gwl.ca  
Web: www.greatwestlife.com  
Group Pension Premiums & Deposits: $4,826M  
Group Pension Assets: $35,596M  
Client Profile (By # of Employees) 1 to 100: 7,035  
101 to 500: 1,048  
501 to 1,000: 143  
1,000+: 132

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eMail: renee.lafalame@inalco.com  
Web: www.inalco.com  
Group Pension Premiums & Deposits: $631.7M  
Group Pension Assets: $7,132.2M  
Client Profile (By # of Employees) 1 to 100: 7,803  
101 to 500: 353  
501 to 1,000: 28  
1,000+: 26

LA CAPITALE ASSURANCES ET GESTION DU PATRIMOINE  
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Fax: 418-644-4352  
eMail: dean.bergeron@lacapitale.com  
Web: www.lacapitale.com  
Group Pension Assets: $2M  
Client Profile (By # of Employees) 1 to 100: 4  
101 to 500: 353  
501 to 1,000: 28  
1,000+: 26

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Nancy Campbell, Assistant Vice-president, Marketing - Group Retirement Solutions; 25 Water St. S., Kitchener, ON N2J 4A9  
PH: 519-747-7000 x237414  
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eMail: nancy_campbell@manulife.com  
Web: www.manulife.ca/gro  
Group Pension Premiums & Deposits: $2,786M  
Group Pension Assets: $19,128M  
Client Profile (By # of Employees) 1 to 100: 4,117  
101 to 500: 762  
501 to 1,000: 94  
1,000+: 78

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Group Benefits
Appointment Notice

Barry Noble
Vice President, Distribution and Business Development

Brett Marchand
Vice President, Sales

Sue Reibel, Senior Vice President of Group Retirement Solutions (GRS) announces that Barry Noble has been appointed to a new role as Vice President, Distribution and Business Development. Barry’s substantial experience within the group market, combined with his knowledge of the industry, make him ideal in this newly created role overseeing the expansion of Distribution networks and the development of strategic initiatives.

Brett Marchand has been appointed Vice President, Sales. In this role, Brett has accountability for the national network of sales professionals who support the consulting and brokerage markets.

Group Retirement Solutions provides a variety of plans, investments and services that support the retirement savings needs of Canadian plan sponsors and their employees.

More than one in five Canadians are served by Manulife. Manulife provides individual life and health insurance, wealth management, banking, group benefits, group savings plans, plus services to alumni and professional associations across the country.
Waiting for long bonds to rise is a risky approach to de-risking Defined Benefit pension plans, says Greg Hyatt, general manager, pension plan management, at Canadian Pacific.

In a presentation at the Conference Board of Canada’s ‘2011 Summit on the Future of Pensions: Rebuilding Pensions, Rethinking Retirement,’ he said sponsors today are paying for the fatal mistake “we all made, and actuaries have to take responsibility for this as well,” when designing plans 30 years ago. They were designed on the premise that the assets would be put in balanced funds; equities would outperform bonds by three per cent; and the discount rate would be 7½ with a four per cent rate of return on bonds. The belief was this would continue indefinitely.

Unfortunately, that premise was reached just as a 27-year bull bond market was starting, says Leo J. de Bever, chief executive officer and chief investment officer, Alberta Investment Management Corporation. He told the same gathering that most people in asset management today have only worked in a bull bond market. However, there are only two periods in history where bonds have had a significant return – after World War I and the period that has just ended. During the latter, he notes, it was easy to make money with bonds returning CPI+8. “I expect we’re coming into a period where bonds have minimal impact like the period from 1930 to 1980.”

And this could pose serious problems for private sector pension plans. Many are waiting for an opportunity to move into fixed income to de-risk, says David Service, director of Towers Watson investment services. Its Canadian pension survey shows many of these plan sponsors plan to move money from equities to fixed income over the next 12 to 36 months.

The shift is pronounced among sponsors of plans with assets of more than $500 million. Here, 63 per cent plan to increase their fixed income allocation over the next three years.

However, many of these private sector plans are waiting for long bond yields to rise before taking any action.

Many may never get to make the switch to de-risk their plans because, as de Bever says, “going into long bonds was an excellent idea 15 years ago, but it is a bad idea today. If you switch into long bonds today, you are locking into a low return for next 15 years.”

So what are plan sponsors to do? Benefits and Pensions Monitor turned to some of Canada’s leading fixed income portfolio managers for their thoughts.

Stuart Graham, president, & Jafer Naqvi, senior associate, PIMCO Canada

In the past, there was very little difference between fixed income managers and investors often paid active fees for passive results. High coupons and falling yields generated fixed income returns at or above pension fund return objectives, making low alpha an acceptable reality.

With bond yields currently at approximately 3.4 per cent, the simple math shows that pension funds are now going to face a difficult hurdle with meeting actuarial required returns in the five to seven per cent range.

Pension funds have to balance this low yield reality with a need to match liability relative risk. This means that domestic fixed income, the asset class that best matches liabilities, has a growing impact on total plan returns. As a result, alpha from bond portfolios matters more than ever.

The good news is that there are now options available that can add fixed income alpha while still controlling risk.

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For capital markets globally. The bursting of the mortgage-fueled credit bubble and the resulting recession have cast a long shadow over the global economy, weighing on economic activity and keeping unemployment rates high.

In this environment, pension plan sponsors are increasingly focused on reducing risk by seeking fixed income benchmarks that better match their liabilities. Plans also want active fixed income managers to add value relative to their benchmark while protecting against the risk of negative returns resulting from a move to sharply higher yields.

Uncertainty regarding the timing and type of measures used by policymakers to unwind aggressive monetary stimulus and address ballooning deficits is expected to keep both economic and market volatility at elevated levels. Inflationary pressures are likely to continue building despite recent efforts by some developing market central banks to tighten monetary policy and dampen activity.

The recent acceleration of the U.S. economy should continue, providing a boost to Canadian exports. However, rising oil prices stemming from unrest in the Middle East and potential supply chain disruption arising from the destruction in Japan have increased uncertainty around this view. Nonetheless, we expect the Bank of Canada to begin raising interest rates in the second half of the year in response to stronger than expected growth and inflation.

The current and ensuing period of heightened volatility should provide opportunity for active fixed income managers to outperform client benchmarks while providing the desired downside risk protection.

Active duration and term structure strategies, effective when yield curves deviate significantly from levels suggested by underlying fundamentals, are currently attractive. Given low yields and expectations that the Bank of Canada will push overnight rates higher, we have positioned client portfolios with shorter than benchmark duration and yield curve flattening exposures.

To protect against negative portfolio returns, we have allocated to ‘tail risk’ strategies that shield portfolio values from sharp increases in bond yields. Finally, we continue to maintain selective overweight exposures to high quality credits where downgrade and default risks are very low and spread levels offer attractive liquidity premiums.

Darren Ducharme, chairman and CEO, Baker Gilmore and Associates Inc.

The last several years have been a volatile period for capital markets globally. The bursting of the mortgage-fueled credit bubble and the resulting recession have cast a long shadow over the global economy, weighing on economic activity and keeping unemployment rates high.

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Pension funds have always held a good chunk of their assets in fixed income; it has been part of their traditional asset mix as bonds are considered to have a less volatile return profile and are an almost sure bet not to lose capital in uncertain times.

Of course, we know one can lose money with bonds, in terms of market value when interest rates go up, but also when the securities in the fixed income portfolio have a risk profile far different than the traditional government bonds usually held for capital preservation. The last crisis showed how much financial engineering can produce so-called fixed income securities with embedded risks that were not always well understood.

After such a difficult cycle, and with the rate structure so low, bonds have now moved from the traditional asset mix decision set of tools to the forefront of asset-liability matching. Liability driven investment (LDI) strategies are now widely implemented. Bonds are a natural match for liability cash flows and the return of the fixed income portfolio gets second rank after its ability to match the liability changing present value.

As for the traditional fixed income portfolio, finding higher returns is not easy these days. International markets are increasingly correlated and the yield pick-up from investing in foreign bonds is not always that great. Clearly, in the sovereign bond world, the real game is to increase risk and go for those juicy spreads offered by emerging countries or take a contrarian view and bet on those troubled issuers like Greece, Spain, Portugal, and so on. The currency risk can be hedged.

And then there is the usual way of overweighting corporate and provincial bonds at a much higher rate. Investment grade credit bonds still offer hefty spreads despite their fantastic run of the last 24 months. High yield credits are also available, but that market is mainly U.S. and global.

So, opportunities exist, but clearly expectations of high returns are not in order. The investor basically has two choices – buy the yield and hold to maturity or have a portfolio tilted according to the desired risk profile and have it managed actively. Indeed, in the current environment, active management can provide value in rate expectations and sector and security selection. We should all remember that as yields declined, the sensibility of a small change in interest rates is far greater than before.

As for credit and security selection, no one wants to go through another credit crisis again. Active management, with little constraint, is still a good path toward higher returns.

– michel.pelletier@standardlife.ca

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After years of thinking about how to make pensions more understandable and fair, I analysed the principles developed under the Retirement 20/20 initiative of the Society of Actuaries. Inspired by the call for papers in 2009, I put forth my model, an approach developed for a prior paper and upgraded for Retirement 20/20.

As it turned out, my paper, ‘The Total Career Benchmark Model – A Pension Model for Retirement 20/20,’ was selected as one of four award winners of the 18 papers submitted. My thrill was not only the excitement of receiving the award, but my increased confidence in the Total Career Benchmark (TCB) model after reading the review by the expert judging panel.

Three Key Shareholders

In accordance with the principles of the Retirement 20/20 initiative, we must make sure that any new or adjusted system does, in fact, meet the needs and goals of all three key stakeholders – society, employers, and individuals – in a fair manner that builds on current strengths and eliminates current weaknesses. I strongly believe that the TCB model is doable and sustainable in a cost-effective manner.

I fully recognize the behind-the-scenes complexities of the model and that significant research, development, and adjustment will be needed for a complete phase in. But, I have no doubt that the implementation can be successfully done by the experts we already have within the system.

Behind-the-scenes aspects of the TCB model will be complex, but the end product will be standardized in a manner that is much simpler than the current system. This is done by transferring the skills of the expert staff within the retirement industry away from time wasted on the current ever-increasing stack of bureaucratic requirements to developing creative risk management solutions using advanced technology.

Under the TCB model, standard Pension Units are used to effectively pool both investment and longevity risks nationally. This permits the funders of pensions (the employers and employees) to have broad access to reasonable costs, minimal risk, and equitable tax sheltering. Planning for retirement will become much easier and more consistent on a country-wide basis as everyone will be speaking the same pension language. The target pension will always be how many units you need and will not vary in quantity by generation because of the benchmarking.

A very key TCB feature is the standardization used for pension accrual. The TCB tools permit traditional plan sponsors such as employers and unions to sponsor plans consistent with their goals and needs without taking on huge fiduciary responsibilities, huge governance risk, and potentially huge financial risk. Furthermore, they can do so without becoming insurers.

The self-employed and individuals without an employer sponsored plan will have access to all the necessary tools to accumulate a safe and adequate pension. Under the TCB model, all tax sheltered retirement savings represent deferred income rather than current assets.

In the end, under the TCB model, individuals have the equivalent of an individual Defined Benefit plan with adjustment features available to reflect both personal and market changes. Each plan sponsor – whether the employer, the union, or the self-employed – can use modern tools to develop a plan consistent with their needs and goals.

Pension Units

The risks are transferred to financial institutions which provide annuities for country-wide, age-specific plans (one for each year of birth) to which each individual belongs as soon as they submit an income tax return. Upon filing this first tax return, there will be online access to a retirement account which includes a lifetime account – in which Pension Units are accrued – and a personal account – in which funds are accrued for personal post-retirement needs.

Here’s how Pension Units work. For a person who is still working, and under age 65, each unit provides a deferred lifetime annuity equal to the current year’s YMPE divided by 1,000 – $47.20 in 2010; $48.30 in 2011. The number of units to aim for, as well as the tax shelter limits in any year, is dependent on an annual service factor which restates income as a multiple of the YMPE. You do not have to track your income, or projected pension, in dollar amounts because you are instead benchmarking both income and pension relative to the YMPE. You
watch the dollar amounts grow as you move through your career, but you do not have to guess what they will be when you retire!

To allow for personal and career pattern differences, the maximum contribution period will mirror the Canada Pension Plan (currently age 18 to age 70). This will, however, be split into three separate periods to recognize that people phase both into and out of their careers. The annual and career targets and career tax shelter limits will be based on the 35-year long middle period, called the Designated Pension Accrual Phase. Service factors earned during the two remaining periods (the phase in and phase out periods) can be used to top up benefits accrued during the accrual phase. Contributions can be made to both the lifetime and the personal accounts, sometimes in cash and other times in units, during all three periods. The TCB Model will phase out the current system and rebuild it in a manner which increases its strengths and eliminates its weaknesses. This is done by using modern technology to link individual retirement savings to the CPP, without an actual expansion of the CPP. The CPP is a secure foundation for Canada’s retirement system. We should build upon the concrete strength of the CPP foundation without building high cement walls which limit both employer and employee rights to plan in accordance with their own needs and desires. Major differences in circumstances must be recognized.

Root Of The System

The TCB link to the CPP is at the root of a system which includes a simplified and predictable lifetime component and a very flexible personal component for each individual. The lifetime component covers the critical longevity aspect with the insurance of an annuity. The personal component recognizes that there are significant differences from person to person and gives people the ability to tailor other retirement benefits to their own personal needs. Regardless of a pension plan’s design, all individuals will have the same ability to tax shelter income over a career and, further, to not suffer any loss in pension value if they change jobs.

Tools under the TCB Model are such that individuals and employers will transfer the risks to the markets in a manner which is cost-effective and safe. The necessity for society to monitor will still be present, but this will be greatly simplified and more transparent.

Under TCB, a current DB plan which provides for 1.4 per cent of earnings up to the YMPE and two per cent of earnings above the YMPE would change to a ‘14 plus 6’ plan. Suppose a member of a ‘14 plus 6’ plan had earnings that were double the YMPE, in other words an Annual Service Factor of two, in a given year. This member would receive 34 pension units (14 times the total factor of two, plus six times the portion of the factor greater than one, which represents income above the YMPE). In 2010, these 34 Pension Units would provide an annual deferred pension amount of $1.604.80 (34 times $47.20) at age 65.

Prior to retirement, this pension amount would grow at the same rate as the YMPE. After retirement, the pension amount would be indexed at the same annual rate as the CPP. These accrued Pension Units would be part of this person’s lifetime account. This member would still have tax shelter room to purchase another six units since the tax shelter room for the lifetime account in any year is 20 times the service factor to a maximum of 60 units. Any other person, with the same income, would have the same tax sheltered access to pension units, but might have to pay for more than six if their employer’s plan is not as good or if there is no plan at all.

Start From Scratch

Under the Retirement 20/20 initiative, I had the advantage of being able to start from scratch. There have been many good ideas presented by various stakeholder groups and researchers on how to fix the current pension system. Unfortunately, we are at a time when renovation is no longer effective and rebuilding is needed. Renovation can be much more difficult and costly. Renovation can also limit your options if it is simply an expansion of the foundation. Many of the current suggestions add some strength, but they do not remove some significant weaknesses. In many ways, and for many people, our system does work. However we must try to move to the laptop, for everyone, rather than repairing, and making bigger, our slide rules and typewriters.

The strengthening suggested under most proposals tends to be in the universality of coverage. The fundamental weakness that is not removed is the ability of a large segment of society to tax shelter a much higher proportion of deferred income in a manner that is highly dependent on the pension plan design (DB, DC, RRSP). This fundamental weakness is largely non-transparent and takes advantage of both young plan members and those who change jobs frequently or have unusual career patterns. Unfortunately, within the current system even the best plans are such that there is significant unfairness which results in non-transparent transfers of deferred income from one member to another. The TCB model achieves the needed universality of coverage while, at the same time, eliminates these weaknesses.

The Society of Actuaries’ goal (through Retirement 20/20) – to design a modern retirement system from the ground up – is a very worthy one. We need to start over, have open minds, and be willing to embrace innovation. I believe this can be accomplished through the TCB model. Do you?

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Pension reform activities in the last few years are the first of their kind in over 20 years. They started with expert commissions and consultations across Canada, followed by bills and regulations introduced in the last two years. Different jurisdictions in Canada have introduced legislative changes during this time. Most notable among them are the federal jurisdiction, Ontario, Manitoba, and Prince Edward Island. Although other provinces have not yet proposed any concrete legislative changes, they have embarked on consultations or discussions regarding pension reforms. The most recent one is New Brunswick which announced in the fall of 2010 that it would establish an expert panel for consultation on ensuring the protection and sustainability of private pensions.

- **Federal Jurisdiction**
  Most of the legislative changes are contained in Bill C-9 (Jobs and Economic Growth Act) and Bill C-47 (Sustaining Canada’s Economic Recovery Act). Key changes introduced by these bills include immediate vesting, the inability of employer to declare a partial wind-up, a requirement of full funding on plan wind-up, permitting the use of letters of credit in lieu of solvency payments, a workout framework for distressed pension plans, an increase of the permitted surplus threshold of a registered pension plan to 25 per cent of the plan liabilities under the Income Tax Act (Canada), arrangements to deal with the benefits of unlocated beneficiaries, enhanced disclosure to members, the use of electronic communications with members and the pension regulator, and a limited ‘safe harbour’ for Defined Contribution pension plans.

Most of the changes in Bill C-9 have not yet come into force. Regulations for the implementation of some of the changes in Bill C-9 were released recently. Changes in the regulations include limits on the use of letters of credit in lieu of solvency payments and setting 85 per cent as the solvency ratio at which plan amendments are void.

Most of the key changes in Bill C-47 are now in force, except the changes relating to electronic communications and the limited ‘safe harbour.’

Other legislative changes include new solvency funding rules based on three-year solvency ratio averaging, requirement of a five per cent solvency margin for contribution holidays, and the removal of the five per cent, 15 per cent, and 25 per cent quantitative limits on the investment of pension funds in real property or Canadian resources properties. These changes have come into effect.

- **Ontario**
  Most of the legislative changes are contained in Bill 236 (An Act to Amend the Pension Benefits Act) and Bill 120 (An Act to Amend the Pension Benefits Amendment Act and regulations). Key changes include immediate vesting and locking-in, a requirement of a five per cent surplus cushion for contribution holidays, requirements for most pension plans to be administered by pension committees, and an administrator’s responsibilities for plans where members direct the investment of the solvency payments, a workout framework for distressed pension plans, an increase of the permitted surplus threshold of a registered pension plan to 25 per cent of the plan liabilities under the Income Tax Act (Canada), arrangements to deal with the benefits of unlocated beneficiaries, enhanced disclosure to members, the use of electronic communications with members and the pension regulator, and a limited ‘safe harbour’ for Defined Contribution pension plans.

Most of the changes in Bill 236 are not yet in force and details need to be set out in regulations for full implementation while most of the changes in Bill 120 have already come into effect.

Proposed regulations relating to funding relief for certain public sector plans and pension division on marriage breakdown respectively were introduced earlier this year for public comments.

- **Manitoba**
  The pension reform changes are contained in the
pension fund. All changes have come into force, except the amendments regarding the pension committee as plan administrator (which amendments will come into force on May 31, 2011).

♦ Prince Edward Island

Comprehensive pension legislation, substantially similar to the pension legislation of Nova Scotia, was tabled for first reading in December 2010 and the period of submissions expired in January 2011. Notable features of the pension legislation include the provision of ‘grow-in’ benefits and maximum vesting requirements (instead of providing for immediate vesting).

♦ Quebec

There have been some notable bills and regulations introduced in Quebec. Regulation was introduced to complement and provide details to the changes contained in Bill 30 (An Act to Amend the Supplemental Pension Plans Act) (e.g., conditions for the use of letters of credit to fund solvency liabilities and details regarding ‘adverse deviation’ where the provision of a reserve is required).

Bill 129 (An Act to Amend Various Provisions respecting Supplemental Pension Plans, particularly concerning payment options in the event of employer’s insolvency) includes changes such as the extension of access to the option to transfer benefits to be administered by the Régie to members of plans of insolvent employers and the extension of the use of letters of credit to fund solvency deficiency to employers of multi-employer pension plans. Changes in Bill 129 are now in force.

♦ Others

It is of interest to note that the Canadian Association of Pension Supervisory Authorities (CAPSA) released the Guidelines on Fund Holder Arrangements and issued draft guidelines on prudent investment practices and pension plan funding policy in March 2011. Comments on the draft guidelines can be submitted by June 1, 2011.

The federal and provincial finance ministers have agreed to introduce a ‘Pooled Registered Pension Plan,’ but this is still at a very preliminary stage.

Impact Of Changes

The legislative changes introduced by most jurisdictions illustrate attempts by the legislature to strike a balance of providing more flexibility to employers and enhancing the protection of the benefits of plan members. These changes have long-term significance on employers and plan members and on modernizing the pension system.

♦ Employers

Pension plans need to be administered in accordance with the applicable pension legislation in force from time to time. When legislative changes come into force, an employer needs to review its pension plans to determine whether plan amendments are required to reflect the legislative changes. If a pension plan has members in more than one jurisdiction, the administration and the review and amendments (if required) of the plan text can be complicated. The timing for the adoption of plan amendments and the cost of preparing the plan amendments are typical issues faced by an employer, particularly since different legislative changes come into force at different times.

Changes in the funding rules such as permitting the use of letters of credit to fund solvency deficiency in the federal jurisdiction, Quebec, and Ontario and the use of solvency ratio averaging in the federal jurisdiction will be welcome changes to employers as measures to address ‘cash trapping’ problems under the current funding requirements. Under the current rules, an employer needs to make contributions to a plan which are required under the solvency rules, but may not be required in the long run. Once such contributions have been made to a plan, they cannot be easily withdrawn by the employer even if there is a surplus in the future. The difficulty in withdrawing surplus by an employer is partly addressed in Ontario by relaxing the surplus withdrawal rules.

The cost of maintaining a pension plan to an employer (as sponsor) will likely increase as a result of some of the changes. The most notable changes which have a cost effect are the introduction of immediate vesting (federal, Ontario, and Manitoba) and the extension of ‘grow-in’ benefits in Ontario to members whose employment is involuntarily terminated without cause. Immediate vesting is relevant to all types of pension plans, whether DB or DC, and its impact will likely be more pronounced for employers with short-term employees.

Extended ‘grow-in’ benefits in Ontario will only affect employers with DB pension plans and employers with more employees of seniority will be more likely to feel its impact. Having said this, some of the reform changes, such as the removal of the concept of partial wind-ups (federal, Ontario), will likely simplify the pension system.

One of the major concerns of an employer in offering a DC pension plan is exposure to law suits from its employees. The introduction of a limited ‘safe harbour’ in the proposed federal changes will provide some comfort to employers with federally-regulated pension plans. However, the effectiveness of this limited protection depends on the regulations which are yet to come. The Manitoba legislation sets out the responsibilities of a plan administrator of a pension plan where members direct investment, but it does not offer any ‘safe harbour.’

♦ Employees

Flexibility in the funding rules may affect the security of benefits from the employees’ perspective. This new flexibility is counter-balanced by measures to protect the benefits of members. Such measures include limiting the use of letters of credit for solvency funding. In addition, some jurisdictions also introduce a requirement for a cushion before an employer can take a contribution holiday and impose restrictions in effecting plan amendments to enhance benefits.

Immediate vesting and extended ‘grow-in’ benefits in Ontario may well be liked by employees as such changes will result in access to more savings for retirement.

Legislative changes in some jurisdictions include enhanced disclosure to plan members. Enhanced disclosure means more transparency of plan administration to members. However, it also means increased administrative costs.

Towards Modernization

There are a number of changes which are ‘neutral’ to employers and employees as steps towards modernizing the pension system. Such changes include allowing the use of electronic means for communicating with the pension regulator and members (proposed federal changes), removal of the quantitative limits on the investment of pension funds in real property or Canadian resource property (a federal change which affects jurisdictions which adopt the federal investment rules), and the increase of a permitted surplus threshold of a registered pension plan under the Income Tax Act (Canada).

There are also measures to increase the powers of the pension regulator which are consistent with their risk management roles and the enhancement of benefit protection. These include the broad discretion of the federal pension regulator to require filing of additional actuarial valuations and to appoint an actuary for a plan and the extended access to the option of transferring benefits to be administered by the Régie for members of pension plans with insolvent employers under the Quebec rules.

The changes introduced in the last year or so are only the beginning. It is anticipated that 2011 and 2012 will be years of action for pension reform changes. Stay tuned!

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Effective July 1, 2010, there were two sets of governing rules in the Excise Tax Act that will significantly increase the cost and complexity of managing a pension plan.

The first set of rules dealt with Selected Listed Financial Institutions (SLFI) and the provincial allocation that calculates the potential over or under payment of the provincial portion of the value added tax (PVAT) that was borne by the pension plan. For example, in Ontario’s case PVAT is eight per cent.

The second set of rules dealt with the 33 per cent rebate limitation that applies to the plan or plan sponsor on GST/HST paid or deemed payable on pension administration and management services supplied to or deemed to be resupplied to the pension plan trust.

All this is further complicated by the harmonization of sales tax in Ontario and B.C.

Is Your Pension Plan An SLFI?

Employers or plan sponsors who are not financial institutions, or had very little to do with SLFI rules in the Excise Tax Act (ETA) in the past, may now have to concern themselves with these rules due to the expanded definitions included in the draft regulations proposed by the federal department of finance (Backgrounders released on May 19, 2010, and June 30, 2010) and due to the harmonization of sales tax in Ontario and B.C.

According to part IX Section 149(1) (ix) of the ETA, financial institution includes “an investment plan which by definition in 149(5) (a) encompass a trust that is governed by a Registered Pension Plan.” Therefore, pension plans are considered to be Listed Financial Institutions (see also GST/HST Memorandum 17.6 issued by Canada Revenue Agency). However, in order for the SLFI rules to apply, both of the following tests have to be met:

◆ A listed financial institution (as described above) at any particular time during the taxation year; and

◆ The financial institution (in this case the investment plan) has a permanent establishment in a participating province (HST province) and a ‘permanent establishment’ in any other province (non-HST province).

In the past, based on the traditional income tax concept of ‘permanent establishment (PE),’ a company could take the position that because it does not have an office, factory, place of business, or assets outside Ontario, the second test is not met and, arguably, the SLFI rules do not apply. In light of a proposed expanded definition of PE (regulations 400(2)) for pension plans, PE will now be based on where the members reside and this notion applies to all members of the plan and not to active members only. This would necessitate the validation of members’ residence annually as of a particular date (usually September 30 or the latest valuation date). What this means is if the plan has members in one or more HST province (B.C., Ontario, Nova Scotia, New Brunswick, and/or Newfoundland and Labrador) and members in one or more non-HST province, the plan is a SLFI.

Take for example a situation where a plan has members in both Ontario and Alberta. Before July 1, this plan was not subject to the SLFI rules simply because both permanent establishments were in non-participating provinces. Put it another way, there was no PE in an HST participating province and thus the second test is not met. Finance Canada is also making amendments to the regulations such that if the pension plan has a PE in two or more participating provinces, SLFI will also apply. This is done to account for differences in the HST rate amongst the participating provinces.

The government also indicates that for the purposes of the second test, Quebec is not considered to be a participating province.

It is important to determine whether one’s pension plan is a SLFI because:

◆ The tax calculations may apply to determine over or under paid HST for the plan

◆ The pension plan may be required to register for HST

◆ The pension plan may be required to file returns that account for HST

◆ The pension plan may have to file certain elections to address reporting, compliance issues, or...
How SLFI Works?

The purpose of the rules is to level the competitive playing field between service providers in a non-HST province with service suppliers in an HST province.

Special Attribution Methods (SAM) are codified in the legislation to determine the net tax liability for the provincial component of the HST (PVAT) based on the amount of GST paid nationally, prorated amongst provinces based on certain criteria such as residence of plan members. Conceptually, a pension plan with 50 per cent of its members in Ontario and 50 per cent of the members in Alberta would pay Ontario PVAT (eight per cent) only on 50 per cent of its input costs.

Since the rules are complex, the dynamics of the calculation can be best illustrated with some examples.

If the plan is subject to the SLFI rules, the SAM formula must be applied by the pension plan administrator to determine the amount of over or under paid HST: (GST paid X provincial allocation X provincial VAT rate/GST rate) – PVAT paid.

Let’s look at some examples.

If an investment or asset manager based out of Ontario invoices the plan $100,000 on September 1, 2010, and charges HST at 13 per cent, the net GST paid is $5,000; the provincial VAT paid (Ontario) is $8,000; provincial allocation – liabilities (based on actuarial valuation) attributable to members in an HST province as a percentage of liabilities attributable to members in Canada is 60 per cent in Ontario and 40 per cent in Alberta. SAM would be calculated as:

- PVAT liability = ($5,000 X 60% X 8%/5%) = $4,800
- Less PVAT paid of $8,000
- Net result = overpaid HST of $3,200

The pension plan is, therefore, eligible to file an election to transfer the rebate to the plan sponsor.

The SAM would be calculated as follows:

- PVAT liability = ($5,000 X 60% X 8%/5%) = $4,800
- Less PVAT paid of $0
- Net result = underpaid HST of $4,800

The pension plan is, therefore, liable for additional tax of $4,800 (4.8 per cent which is 60 per cent of the eight per cent attributable to members in Ontario). The blended net tax rate is, therefore, 9.8 per cent in this scenario.

Note that the blended net tax rates are identical in both examples which confirms the tax equalization theory enunciated by Finance Canada. Essentially, all things being equal, regardless of where the services are acquired, the net tax rate remains the same for the pension plan after the SAM adjustment.

HST Rebate

In advance of the court decision on General Motors of Canada Limited (2008 TCC 177, 2009 FCA 114), Finance Canada announced a 33 per cent GST rebate limitation for employer-sponsored pension plans. Draft legislation was released on September 30, 2009, and these new pension rules were included in Bill C-9 which received Royal Assent on July 12, 2010. These rules would apply retroactively for year-ends of pension plans that begin after September 22, 2009.

The heart of the issue in the General Motors case was whether the employer or the plan sponsor was entitled to input tax credits (ITC) in respect of GST paid on the investment management services. The tax court found in favour of the taxpayer. The crown appealed to the federal court of appeal and lost.

Prior to the enactment of the 33 per cent rebate limitation, a plan sponsor could be entitled to full input tax credit on certain pension management costs if the fact patterns were substantially similar to those in the General Motors case and satisfied the conditions outlined by the tax court and later affirmed by the federal court of appeal.

If the pension is a SLFI, which more plans are likely to become after June 30, 2010, the 33 per cent rebate will generally apply to both the net PVAT and GST paid by the pension. In other words, the 33 per cent rebate will apply to the plan’s PVAT liability as determined under the SAM formula ($4,800 in the first example) and to the pension plan’s GST liability ($5,000 in example one), assuming that these are not excluded activities.

Therefore, for a SLFI, the packing order is to perform the SAM calculation first, then apply the 33 per cent rebate calculation.

An election will also be made available to allow employers to jointly elect with the pension plan to transfer the rebate to the employer. The pension plan will be required to register for GST/HST in order to file the election.

Internal Costs (Deemed Supply)

What adds insult to injury is the fact that employers are now required (effective for tax years that commence after September 23, 2009) to self-assess GST/HST on the value of pension administration services that are deemed to be provided by its employees to the pension plan, with the exception of ‘excluded activities.’

Excluded activities are left out of the self-assessment because since full ITCs can be claimed, self-assessment would only result in a wash on the employer’s GST/HST return.

For all other activities performed by the employees, self-assessment would result in additional GST/HST tax liability since only 33 per cent of the amount of the tax is recoverable and self-assessment was not a
requirement prior to these rules.

Last but not least, the rebate rules would apply regardless of whether the pension plan trust is invoiced for the value of these services.

**Reporting And Compliance**

In light of the legislative changes, one needs to carefully examine the potential application of these rules and the impact to the employer’s pension plan.

The new reporting requirements and calculation rules would depend on whether the pension plan is a SLFI and administratively whether the trustee or the plan sponsor will perform the filings and the required tax calculations.

If the plan is a SLFI, it would likely have to file GST/HST returns to determine and report the net tax adjustments including the PVAT liability or refund and the amount of the rebate transferred to the employer.

In order to facilitate compliance with the SLFI filing obligations, three new elections have been proposed by the federal government (see GST/HST Notice 255 July 2010).

- Reporting entity election – allows for the filing of the return by the employers or plan sponsors, instead of the trustees; if a consolidated election has not been filed, the plan administrator will be filing the return with the plan’s own GST/HST registration number which necessitates the registration of the pension plan for GST/HST
- Consolidated filing election – allows for the filing of a single consolidated return for two or more pension plans; this election can be made only if the fiscal year ends of the pension plans coincide
- Tax transfer election – allows for the transfer of the net tax refund or liability determined by SAM (over or under PVAT) to the plan sponsor

As of this date of writing, the prescribed forms have not been published. However, when all three elections are filed and are in effect, the tax adjustments from all pension plans within scope are transferred to the plan sponsor in total. This would alleviate any cash flow issues that may be created if the liability or refund is left within the pension plan. Still, the pension plan may have to pay a significant liability at year end or wait more than a year to obtain a refund.

**Extremely Complicated**

Because these rules are detailed, extremely complicated, and fairly new, this article should only be read as a quick overview of how pension plans may be impacted. Uncertainties regarding the interaction between different pieces of tax legislation before and after harmonization, and the potential anomalies that could result, will no doubt continue to be flushed out as more and more pension plans, their trustees, and custodians work through these complications with legal and tax counsel.

But one thing is certain, at a time when finance ministers across the country are looking for ways to enhance Canada’s retirement income system and to promote private sector pension coverage; one would be tempted to question the merits of these increased tax costs and complexities that are being dealt to pension plans.

In order to encourage businesses to maintain or increase pension coverage or to encourage those who do not offer pension plans currently to offer them in the future, the government needs to create a positive environment for pension plans within a voluntary system. Perhaps before introducing new legislation, the government should perform an impact analysis and ask ‘if the business has the option of determining whether pension plans should be offered to their employees given the legislative complexities, the added tax cost, and costs of administering the plan, would they?’

Winston Woo, CA, is director, taxation and pensions, at AGS Automotive Systems.
The Next Wave

FORUM is the CPBI annual national conference that brings together professionals from the pension, employee benefits and institutional investment industries.

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The 41st IBIS Academy will take place May 2 to 6 in Vienna, Austria. The two-track Academy, comprising the five-day institute (for training and certification) and the three-day conference (for industry leadership discussions), aims to promote industry growth and provides multi-nationals with knowledge and resources on international pensions and employee benefits in markets around the world. Visit: www.ibisacademy.com

Employee life and health trusts and what accounting changes mean to pension funds will be among the topics examined at the International Foundation of Employee Benefit Plans’ ‘2011 Canadian Legal and Legislative Update.’ Sessions will also look pension and benefit cases before the courts and the future of funding and investment guidelines. It takes place May 10 and 11 in Ottawa, ON. Visit: www.ifebp.org

Dr. Raymond Fabius, chief medical officer, Thomson Reuters, and author of ‘Population Health: Creating Cultures of Wellness,’ is a featured speaker at this year’s Connex Health ‘Employer Forum.’ He will look at areas such as prominent diseases affecting employees and benefit costs, the physical
impact of the psycho social environment in the workplace, and drug plan formulary decisions and the impact on benefit plans and employees. It takes place May 11 to 13 in Niagara Falls, ON. Visit: www.connexhc.com

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Appointment

Jeff Aarssen, Vice-President, Group Retirement Services Sales & Marketing is pleased to announce the appointment of Anthony Cardone to the position of Regional Vice-President for the Eastern Region, Group Retirement Distribution.

Anthony joins Great-West Life with over 20 years’ experience in the Wealth Management and Corporate markets, including insurance and banking.

Prior to joining Great-West, Anthony held several senior executive positions with global organizations establishing a successful track record in the group retirement industry with responsibilities including: division leadership, strategic planning, product development, marketing and business development.

As Regional Vice-President for the Eastern Region (Eastern Ontario, Quebec and the Maritimes), Anthony provides client-focused leadership and direction for the successful management of regional operations. His mandate includes the expansion of market share and development of client relationships and new business in the region.

For a complete listing of upcoming events, visit www.bpmmagazine.com/benefits_events.html

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Who would think that this could ever happen, a radio ad selling a point of view about pensions? No, it wasn’t about money, which people seem to sometimes care about, or even about financing their own retirement, which they seem to care less about. Instead, it is about our public pension system (the Canada Pension Plan).

Well, in select markets, radio ads are currently running that guide you to the site www.betterpensions.ca, a site which promotes a certain viewpoint about the CPP.

We will let other people in the pages of this magazine now and in the future debate the fundamental merits of the issue of expanding/tinkering with/leaving alone the Canada Pension Plan. Instead, I want to focus on the communication aspects displayed by the commercial and the website. Plan sponsors always talk about communicating with their member, especially on the Defined Contribution side. So is there anything that we can learn here when it comes to getting plan members excited about the dull world of pensions?

Simple Steps
Yes, it turns out that there is. Follow these three simple steps:

♦ Appeal to the Heart, Not the Head
There is a large body of literature that notes that most people do the wrong things with their money. Both behavioural finance and examples from DC plans show that people, on average, under-invest, diversify improperly, have inflated expectations of their own stock-picking abilities, and a host of other problems.

On the mutual fund side, there is again repeated evidence on the underperformance of many ‘professional’ money managers, the relatively large fees (relative to funds available in other parts of the world) charged for many mutual funds, and the John Bogle mantra that these small differences in fees add up over the long-term, to the detriment of the individual investor.

♦ Use Real Small Numbers for Costs and Real Big Numbers For Benefits
The website proposes a doubling of CPP benefits paid for by an increase in CPP taxes each year for seven years. “For a worker earning $47,200 or more per year, the initial cost of gradually doubling future CPP benefits works out to about 9 cents an hour or $3.57 a week. That’s less than the cost of a newspaper subscription.” True. And this would double the maximum CPP benefit, in current dollars to $1,868 per month. So here the costs are reduced to an hourly rate, while the benefits are seen as a monthly rate.

Of course, you can present the same data the other way around, by taking total costs for the seven years, and then converting the new benefit to the hourly amount. You could just as easily, and truthfully, say that this plan would cost $1,299.48 (for the seven years) to achieve a CPP maximum benefit of $11.68 an hour, which I would note is barely minimum wage.

♦ It’s Us Against Them
Make your option the best and, indeed, only option. “Our plan offers a better minimum pension to everyone … Workers wouldn’t fear losing their pension plans given the misdeeds of Bay Street and Wall Street.” And RRSPs aren’t any better option. “The majority of (RRSP) contributions were made by those who earn more than $80,000 per year.” So your retirement options are plans ruined by greedy financial professionals, or else a plan used by the wealthy.

Something Different
Makes me want something different.
People who run pension plans speak of wanting to engage their members. I can guarantee you that by using these three communication devices, your members will be engaged, or even enraged.
Employees are looking for answers to common personal finance questions...

...and one of Canada’s favourite personal finance experts can help.

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With her no-nonsense style, Gail provides insights about managing personal finance and saving for retirement. Help your members boost their financial literacy and engage them in a better financial future.

Find out how Gail can help your members - visit www.manulife.ca/GVO
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