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DECEMBER 2011

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Do We Learn From The Past?

By: Joe Hornyak, Executive Editor

Those who cannot remember the past, are condemned to repeat it.

That is a quote from George Santayana, a philosopher, essayist, poet, and novelist who lived from the middle of the 19th Century to the middle of the last. Others have said more or less the same, most recently, American businessman Donald Trump – “In life you have to look at past events, and that’s called history. Too many countries, too many businesses, have been destroyed by not studying history.”

So clearly, we are aware that by studying history we can avoid the mistakes of the past. So, why don’t we?

The federal government proposal for Pooled Registered Pension Plans (PRPPs) comes to mind.

Start by replacing PRPP with Registered Retirement Savings Plan (RRSP). Introduced in 1957, the RRSP’s purpose was to promote savings for retirement by employees. Introduced in 2011, the PRPP is a plan which will allow employees at businesses without pension plans and the self-employed to save for retirement.

That is eerily similar. Also eerily similar were the concerns circulating in the early 1950s about the adequacy of employer pension plans and the benefits available to retiring workers.

Fast forward to the middle of the first decade of this century and we have debates on pension coverage and the decline of employer sponsored pension plans. One proposed solution was to increase the CPP, but that was rejected at this time on the grounds that the current economic conditions could not support a cost increase to businesses.

In 1957, when RRSPs were put in place, eight years later, the CPP was established.

If we have learned from history, can we expect CPP benefits to be hiked in eight years?

The first thing you – our loyal reader – should notice about this issue of Benefits and Pensions Monitor magazine is our new look.

CEO D. Brian McKerchar and our resident art director, Keith Boa, carried out a total redesign from the nameplate through the table of contents to the departments, articles, and directories.

The plan was to use larger graphics and white space to keep the magazine from being visually overwhelming. And we even increased the size of the type to make easier to read.

However, what has not changed is the content. We will continue to provide insightful information to help plan sponsors manage their pension and benefit plans.

This issue has one other change. However, few of you will have noticed it.

We’ve gone ‘green.’

Our magazine is now printed on Forest Stewardship Council-certified paper products. This certification ensures that the paper used is environmentally appropriate from the forest floor to the shipping door.

So welcome to the new look, environmentally friendly Benefits and Pensions Monitor. We hope you enjoy it and welcome any comments. Just eMail me at jhornyak@powershift.ca.
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**Russell**

Don Ezra is co-chairman, global consulting, at Russell Investments. He joined the firm in 1984 and was the first president of Russell Canada. Now, he will work alongside the Canadian institutional team. Renata Klemensowicz is senior institutional sales and client service associate. She has been with the firm for more than 27 years. Ralph Loader is chief strategist, institutional Canada. He brings more than 35 years of institutional investment experience to his position which will see him provide senior level direction in strategic and business planning.

**Industrial Alliance**

Sandra Moroz is associate director, customer relations; Toms Lokmanis is investment specialist; and Maria Amoroso is a senior financial education specialist at Industrial Alliance’s Toronto, ON, group savings and retirement sales and service office. Moroz will have the responsibility for the servicing of all clients in Ontario and Western Canada. Lokmanis will be responsible for supporting business development managers in new investment only sales and for servicing investment only and CAP clients in Ontario and Western Canada. Amoroso will service clients in Ontario.

**Invesco**

Anik Paquet is vice-president, institutional investments, Eastern Canada, and Cinnamon Russell is vice-president, institutional investments, Western Canada, for Invesco Canada. Most recently, Paquet was a principal at Mercer Investment Consulting. Russell is returning to the west coast after heading up the national accounts team of Invesco in Toronto, ON.

**T. Rowe**

Bruce Winch is director of business development for T. Rowe Price Canada. He will be responsible for sales and related new business development activities in Canada, working out of the firm’s Toronto, ON, office. He has more than two decades of industry experience, most recently with Invesco Ltd. where he served as senior vice-president, institutional investments, with oversight responsibility for institutional sales and client service activities in Canada.

**HOOPP**

Jim Keohane will become president and CEO of the Healthcare of Ontario Pension Plan (HOOPP) at the beginning of 2012, following current CEO John Crocker’s planned retirement which takes place at the end of December. Keohane, currently its CIO and senior vice-president, investments, has led the transition of its adoption of a liability driven investment strategy enabling it to maintain its fully funded status.

**Caisse de dépôt**

Pierre Miron is executive vice-president, operations and information technology, and member of the executive committee at the Caisse de dépôt et placement du Québec. Prior to joining the Caisse, he held various management positions with CGI Group.

**Manulife**

Adam Neal is Canadian head of sales and relationship management for Manulife Asset Management. He was previously with Pyramis Global Advisors where he was responsible for institutional investment management sales focused on the Defined Benefit, foundation, and endowment marketplace in Ontario and Western Canada.

**Brandes**

Scott Fraser is regional director for Southwest Ontario at Brandes Investment Partners & Co. He has more than 15 years of industry experience and was most recently a regional sales manager at a Canadian investment firm.

**Addenda**

Brian Minns is sustainable investment specialist at Addenda Capital. Most recently, he was with the responsible investing team at the Canada Pension Plan Investment Board.

Submit your People items for consideration for publication in Benefits and Pensions Monitor to:

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PRT Possible DB Solution

Ailing Defined Benefit pension plans could be rescued by insured pension risk transfer (PRT) solutions, says a report by Dietrich & Associates, Inc. ‘Pensions Risk Transfer Solutions: Adding Guarantees to the Defined Benefit Fixed Income Conversation’ says while the benefits of PRT solutions are clear to professionals who have experience working with these institutional insurance products, they are not part of the broader pension investment conversation which relies on more traditional market valued (non-guaranteed) investment products. PRT solutions come in many different shapes and sizes, but all employ financial guarantees backed by the large, well-capitalized life insurance companies.

Workplace Health Strategies Needed

Canadian employers need a comprehensive set of strategies to promote healthy workplaces, says Emmanuelle A. Gaudette, manager, prevention and health promotion, at Standard Life. In the ‘Key Factors for Effective Workplace Prevention and Health Promotion’ session at the Conference Board of Canada’s ‘Benefits Summit 2011,’ she said healthy workplaces are necessary because the disability costs in Canada are huge. Since the cost of disability and healthcare are directly related to employee health risk factors, a strategy to change employee behaviours and management practices to create healthier workplaces can pay off for employers and employees, she said.

Policies Attempt To Counter Minimum Contribution Trend

Funding policies appear to be an attempt to counter the trend towards minimum Defined Benefit pension plan contributions, says Lorraine Allard, a partner in the tax group at McCarthy Tétrault. Speaking on ‘Defined Benefit vs. Defined Contribution: The Pros And Cons Of Each From A Legal Perspective’ at its ‘First Annual Pension Seminar,’ she said, however, there is no statutory requirement to have these documents. She called the CAPSA guideline unclear as it requires employers to draft these policies even though it is the administrator who governs the plan. And it does not articulate its purpose except to say that it is meant to establish a framework for taking into account relevant factors where listed.

Extra Contributions Good Idea Today

Defined Benefit pension plan sponsors may want to consider making additional contributions to their underfunded plans now, says Andrew Hamilton, of Aon Hewitt. He told the session ‘Pension Plan Funding – Are we having fun yet?’ at the ACPM Ontario Regional Council’s ‘impACT 2011: From Family Law to Funding – Key Concerns for Plan Sponsors in Ontario’ that companies are doing well now and sitting on record amounts of cash. Besides the benefits of a tax deduction for these extra contributions, there are a number of other considerations. For example, reaching an 85 per cent solvency funding ratio would take them past the threshold for annual valuations.

ADDENDA

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

**HAHN INVESTMENT STEWARDS**

**SSQ FINANCIAL GROUP**
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LETTER

**PRPPPP Article Misses Boat**

Well there are so many holes in the assertions made in the article ‘Will PRPPs Exist In Group RRSP Twilight Zone’ by Greg Hurst in the October issue of Benefits and Pensions Monitor that I will look at only a couple.

The first is the suggestion that these plan members are left on their own with no plan sponsor to help them. In most cases where a licensed broker has sold a group RRSP, these plan members are transferred into a section of the Universal program that is identified by the advisor and the plan member now has access to individual advice and the ability to access enhanced payout products in many cases.

Secondly, the suggestion that banks are a great way to go as they are regulated is disingenuous, as many of the retail mutual funds so lovingly sold under KYC (Know Your Client) have deferred sales charges and higher overall management expense ratios.

Lastly, if a plan member opts for the safety of guaranteed investments, the insurance platform is more competitive and more flexible than any bank plan.

In the case where no advisor exists, often the plan member benefits from slightly better fees, plus they can have access to internal licensed advisors if provided by the insurer.

It is also important to note that several of the insurance providers also offer the same IMF as the source plan so if this is a big concern, it is easily negated without having another set of rules and regulations to further complicate the poor plan sponsor’s life.

Neil T. Craig BA, RPA
Senior Pension Consultant
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Personalized Funds Improve Outcomes

Personalized risk-based target date funds would improve investment outcomes for the 80 per cent of Canadians who are not members of a public sector pension plan, says PÜR Investing Inc. Its research paper, ‘What DC Plan Members Really Want,’ published in the ‘Rotman International Journal of Pension Management,’ says RRSP investors, DC plan participants, and those considering the proposed Pooled Registered Pension Plan program can benefit. “Simply targeting a level of replacement income and having professionals managing their investments would be welcomed by many who are currently required to do it themselves,” says Mark Yamada, president and CEO of PÜR Investing Inc. and the paper’s co-author.

Incentive Pay Encourages Health Program Participation

While incentive pay to encourage participation in health and productivity programs is a common practice in the U.S., the number of organizations implementing this strategy in Canada is on the rise, says a new survey from Towers Watson. Its ‘2011/2012 Staying@Work’ survey shows a quarter (26 per cent) of Canadian employers are planning to offer some type of financial reward in 2012 to individuals who participate in their health management programs, from the 13 per cent who currently do so. In 2011, health and productivity costs as a percentage of payroll totaled just over 17 per cent in Canada, up from 12.6 per cent in 2009.

Sandvik Developing Global Strategy

Sandvik AB will develop a global pension risk management strategy in more than 15 countries, including Canada. The global engineering group, headquartered in Sweden, will use Mercer to provide multiple global actuarial, pensions, and benefits services for more than 40,000 employees internationally.

Clients Positive Towards Gold, Some Bonds

Schroders’ intermediary clients from Europe, the Middle East, and Latin America have positive sentiment towards certain government bonds and gold. Its research reveals almost half believe that German, UK, and U.S. bonds will yield between two to four per cent in five years’ time and 31 per cent believe the same bonds will yield four to six per cent. Attitudes towards gold are optimistic with almost 40 per cent believing that the gold price will reach at least $2,000 per ounce in two years.
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What began 25 years ago as a Defined Contribution plan for homemakers and farmers without access to traditional retirement plans has grown into a fund serving more than 30,000 members, including small businesses and employees throughout Saskatchewan and the rest of Canada.

Warren Wagner is the chairman of the board of trustees for the Saskatchewan Pension Plan (SPP). He says the plan is designed to be flexible, portable, and voluntary, making it an attractive choice for those looking to accumulate retirement funds for themselves or their small business employees without having to deal with complicated and time-consuming requirements.

Q: What options are available with SPP?
The plan has two options. The balanced fund is where the majority of funds are situated and these are professionally managed. We also have a short-term fund where people may choose to start to move their money out prior to retirement, as they are getting closer to ultimately withdrawing their funds from the plan.

Q: How do members stay informed?
We deliver education programs through newsletters, on the website, and through the telephone contact centre. At the moment, we are trying to drive more traffic to our website and enhance the information capabilities there. Most people are searching the site for answers and then calling the toll free line for additional information. We are looking at not giving advice so much as education whether it is financial literacy or just knowledge about the pension plan itself. It’s actually a virtual plan so access to the plan and interaction with members is primarily through telephone and Internet.

Q: What is SPP’s understanding of the proposed Pooled Retirement Pension Plan (PRPP)?
In many respects the Saskatchewan Pension Plan is today a model of what we see being described for the future PRPP. We have a broadly based plan that’s available to employees today where there are no requirements to build anything different and there is no new administration required. What our team has today, tomorrow we could call it a PRPP and start accepting more contributions.

Perhaps the only area we would have to look at would be our small business plan. We currently have the ability to organize plans for small business. However, because we are an agency of the Ministry of Finance, we operate under different legislation. At this time, the maximum contribution is $2,500 a year. We have a number of people that use SPP as a Small Business Pension Plan and it operates with the same options and managed expense ratio.

The opportunity for us to build on that under a PRPP model is quite extensive.

Naturally, we support the idea of having cost-effective access to retirement plans for Canadians and we have a record of doing that for more than 25 years at a managed expense ratio of around one per cent with very high customer satisfaction. In the conventional marketplace, that is less than the two to 2.5 per cent for some retirement or mutual fund products. So, clearly people would have an advantage if they had been with us for 25 years.

If we look at the keys for the PRPP, we are talking about accessibility to a pension product that is easy to understand. SPP is an easy-to-understand plan with a history of excellent management and good governance.

Q: What do you see as the draw for members coming from outside the province?
About five per cent of our members do not live in Saskatchewan. We’ve had people who have heard of us through their own research or news of pension reform and have joined. Typically we don’t market outside the province, but as a virtual plan we can be accessed from anywhere.

Q: Has there been government interest from outside the province?
The Saskatchewan Minister of Finance, Ken Krawetz, has spoken about SPP to his counterparts many times and we have provided input to the Financial Services Group that worked on behalf of Minister of State (Finance) Ted Menzies and Federal Finance Minister Jim Flaherty to prepare a plan to go forward for a PRPP. I believe other provinces have a general awareness of how SPP functions. As provinces discuss what they want the PRPP to look like, I believe it will come up more because we are not just a theoretical model. We are a working model with a 25 year operating record and have the practical knowledge.

Daniela DiStefano is staff writer for Benefits and Pensions Monitor

ddistefano@powershift.ca
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In January 2006, ONCAP invested $25MM to acquire CSI and in November 2010 ONCAP sold the company to Moody’s Corporation for $155MM. The investment generated an IRR of 57.2% and a 5.8 times multiple of capital. ONCAP, in partnership with operating company management teams, invests in and builds shareholder value in North American small and mid-size companies that are leaders in their defined market niche and possess meaningful acquisition and organic growth potential. ONCAP is the mid-market private equity platform of Onex, one of North America’s oldest and most successful investment firms committed to acquiring and building high-quality businesses in partnership with talented management teams. www.oncap.com

PRIVEQ

PRIVEQ invested $3.5MM in Hallcon in September 2001, and via a recap in September 2007, another recap in April 2009 and a sale to Southfield Capital Advisors and management in April 2011, PRIVEQ has received proceeds of approximately $30MM to date – with additional proceeds likely to come. To date, the investment has generated an internal rate of return (IRR) of 32.7% and a multiple of 8.5 times original investment. PRIVEQ Capital Funds is a private equity firm specializing in lower mid-market equity investments into profitable and growing companies that require capital for expansion or for management buy-outs/buy-ins. PRIVEQ was founded in 1994 and is based in Toronto, Canada. www.priveq.ca

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It’s A SAD Time Of The Year

By: Caroline Tapp-McDougall

While it’s normal for most of us to experience a mild winter ‘slump,’ the shorter days and early evenings may also result in full-blown depression. The culprit – Seasonal Affective Disorder (SAD) – is a form of depression specifically related to seasonal change that affects women more significantly than men.

Research finds that those who live in northern countries are more susceptible to the winter form of SAD than those who live near the equator, so Canadians are particularly at risk. It is estimated that as many as two to three per cent of Canadians will experience SAD at least once in their lifetime. SAD accounts for approximately 10 per cent of all cases of depression and it’s more common among adults over the age of 20 than it is among children and teenagers. For reasons unknown, the risk tends to decline after age 50.

Rhythms And Patterns

While there is no definitive answer, theories about the causes of SAD focus on our circadian rhythms which are physical, behavioural, and psychological changes that occur over a cycle of approximately 24 hours. While these circadian rhythms are produced internally, they are also greatly influenced by the amount of light in one’s environment. Less light means that melatonin, a hormone that regulates our sleep/awake schedule, is generated in larger quantities, making us prone to feel tired and drowsy. Simply put, people with SAD may produce too much melatonin.

The symptoms of SAD vary from person to person, but they typically appear in October and November, worsen in January and February, and lessen in March/April. The most common indicators of SAD include:

- low energy/fatigue
- irritability, anxiety, and/or despair
- lack of concentration
- social withdrawal

Many of these symptoms mimic those of other types of depression or chronic physical conditions which can make SAD difficult to diagnose. As a result, it is generally considered a last resort when other explanations have been ruled out and obvious changes in mood and behaviour have been observed for at least two consecutive seasons.

SAD may be hard to identify within the workplace, so awareness is key. It is important to keep an eye out for those who may be at particular risk and take steps to keep a person’s mood and motivation steady throughout the year.

Of note, individuals who have rotating shifts and fluctuating sleep routines may be at increased risk of SAD because their serotonin levels have been shown to be lower. These workers have also been shown to sleep 1.5 hours less than those with permanent daytime jobs (that is, those with hours between 7 a.m. and 7 p.m.) and they usually present with more symptoms of stress and health complications.

Promoting socialization, exercise, and frequent breaks can help reduce the negative effects of isolation and fatigue and foster a positive work environment.

Since a healthy diet can make a world of difference, increasing the availability of healthy foods in the workplace may be a priority in your ongoing campaign to support employee wellness.

Doing things that make a person feel good can improve their mood. Encouraging activities such as having fun in the sun and 30 minutes of exercise a day are what experts recommend to raise spirits since exercise has been shown to relieve stress, increase energy levels, and boost mental health.

As with most health conditions, the earlier treatment begins, the better. Sufferers should not feel as if they have to tough it out on their own.
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Professionals responsible for the investment direction of their organization’s pension funds are invited to request a membership information package.

Pension Investment Association of Canada
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Solely domestic Canadian property investors looking to broaden their property holdings globally may not consider the European property market as part of the potential investment opportunity set given the Eurozone crisis. Uncertainty around how the debt crisis gets resolved makes it difficult to quantify the risk around the potential outcomes.

So it is only prudent for domestic Canadian property investors to ask ‘Why invest in European property when the Canadian economy and property markets remain some of the strongest in the developed world?’ Although a valid question, broadly passing over an entire region as economically and politically diverse as Europe creates a risk of failing to capture micro market dynamics.

In our opinion European retail, in particular, provides significant upside potential relative to the other property types in Europe because of its distressed pricing levels and income defensive nature.

Varies Considerably

For investors not familiar with the European retail property market, it varies considerably across the continent due to differences in economic growth, consumer preferences, and supply constraints. So although Southern Europe, for example, is likely to experience a prolonged period of poor retail sales growth as government spending is cut and economies are restructured, retail assets could trade at attractive pricing levels. Investors interested in taking on less risk may find Germany and the Nordics appealing as these economies remain much stronger with much stronger consumer spending growth projected. As well, more bargains in property will be found in the Eurozone should it enter another recession. Such bargains are unlikely to exist in Canada as investors flock to Canadian property given its safe haven status, pushing up prices.

Canada has much stricter land use regulations which has prevented an onslaught of new retail supply over the years, particularly that of big box retail. Few supply constraints exist in Spain and Eastern Europe while Germany and the Nordics have much stricter planning controls on new shopping centre development, aiding stronger rental growth. Development funding from either equity or debt sources is projected to remain very restricted across the entirety of Europe which should help limit oversupply and any subsequent rental declines.

Investment opportunities within the retail property type in Europe are supermarkets and discount retailing. These are low risk, defensive assets which could suit investors looking to remain on the lower end of the risk spectrum. Retail properties have more defensive income properties relative to the other property types in Europe such as office or industrial. For example, retail income streams are more secure for multi-tenant shopping centres than for single tenant offices or distribution warehouses. Supermarkets are increasingly selling a wider range of non-food goods to take advantage of their buying power and lower property costs. This has eroded high street and shopping centre market share in non-food sales, particularly in the United Kingdom. Such assets still look attractive even in markets where the overall retail spending outlook.

Distressed Selling

For investors looking to take on more risk, attractive opportunities exist among shopping centres in the southern peripheral countries where some assets are trading at 70 per cent plus discounts from 2007 prices due to distressed selling.

Investing in European retail properties may seem quite risky given the uncertainty facing the Eurozone, but there are potentially attractive investment opportunities for investors along the entire risk curve. Investors looking for less risk should focus on supermarkets with long leases in Germany or the Nordics, while those looking to take on more risk should focus on the southern peripheral countries where deep discounts can be found.

John Danes is head of European office research and Melissa Reagen is head of property research – Americas at Aberdeen Asset Management.
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For guidance to the potential opportunities within international real estate markets and more information on Aberdeen’s global property expertise, please contact Renee Arnold on 416-777-5570 or visit us at www.aberdeen-asset.ca.

1 September 30, 2011. 2 The Institutional Real Estate Letter-North America, October 2011. This information is not intended as an offer, recommendation or advice with respect to the purchase or sale of any security, and is for informational purposes only. The views expressed herein are not intended to be relied upon as a forecast or guarantee of future results. Investments in property segregated mandates and property pooled funds may carry additional risk of loss due to the nature and volatility of the underlying investments. Property segregated mandates and property pooled funds may not be available for investment by Canadian investors unless the investor meets certain regulatory requirements. There is no recognized market for property and there can be delays in realising the value of property assets.
Benefits and Pensions Monitor set the tone for its editorial coverage with the very first issue.

That ‘newspaper-ish’ looking issue had, as its main headline, an article by Dr. Ken Dychtwald, a psychologist, gerontologist, documentary filmmaker, entrepreneur, and author of 16 books on aging-related issues, which warned about the ‘Age War In 2011?’

Twenty years later, more and more warnings are being heard about the impact of aging Baby Boomers on not only the pension system, but the healthcare system and, according to a report by the Canadian Centre for Policy Alternatives, the tax system as they turn to the government for financial assistance in their old age.

Never Heeded

Sadly, Dychtwald’s warning was never heeded. The pension system in Canada was been allowed to erode prompting many to now question the adequacy of savings for retirement given the recent financial crises and the pessimistic view on financial markets going forward.

Today, Benefits and Pensions Monitor’s relationship with Dychtwald comes full circle. His article on page 22, ‘Is Retirement Getting Better or Worse?’, looks at the views and attitudes of boomers on longevity, money, and how they will spend their retirement.

It also kicks off our ‘20 Years Of Industry Change’ which features industry leaders from across the board looking at the changes over the past years, significant events, and trends as well as offering their thoughts on the present and what the future will bring. Along the way, a few even wish the magazine ‘Happy Anniversary.’

The section also includes a listing of the various industry participants who have sat on the Benefits and Pensions Monitor editorial advisory board (see the chart on this page). From the beginning, board members have had a valued role in setting the magazine’s direction and providing valuable feedback on each issue.

Since Day One

We continue our ‘20 Years Of Industry Change’ report with a letter from John McLaine, who has been publisher of the magazine since day one. It can be found on page 69.

Finally, pages 70 and 71 provide a pictorial look back at the celebrations that marked the magazine’s original milestones.

We hope you enjoy what follows and invite you to save this issue to compare it to the thoughts and views that come from the authors who contribute to our 25th Anniversary issue.

Editorial Advisory Board

Since the launch of Benefits and Pensions Monitor in December of 1991, the editorial advisory board has played a significant part in setting the editorial direction of the magazine.

To mark the occasion of our 20th Anniversary, we would like to acknowledge the contributions of these people:

John Andrew  Randy Bauslaugh**  Helen Bain  Michael Beswick  Paul Black**  Wendy Brodkin**  Sylvie Charest**  Rudy Dabideen**  Kevin Dougherty  Michael Dougherty  David French*  Cathy Honor  Tony Houghton  Greg Hurst**  Joan Johannson**  David Jones  Louise Koza  Paul Lewis*  Frank Livsey*  Patrick Longhurst  Marilyn Lurz**  Karen Matsubayashi**  Mary McLaughlin**  Karen Millard  John Mills  Mark Newton**  Cathy Honor  Tony Houghton  Greg Hurst**  Joan Johannson**  David Jones  Louise Koza  Paul Lewis*  Frank Livsey*  Patrick Longhurst  Marilyn Lurz**  Karen Matsubayashi**  Mary McLaughlin**  Karen Millard  John Mills  Mark Newton**  Steve Nowers  Graeme Ozburn**  Ted Patterson**  William Pezaro*  Stuart Plummer**  John Poos**  Paul Pugh  Patricia Smith  Marcelle Sprecher  John Storie  Gary Stoller  Irene Stone*  Angela Vidakovitch**  Robert Weston**  * Member of original board  ** Currently member of board
Exactly 10 years ago, in 2001, Age Wave, in partnership with SunAmerica Financial Group and Harris Interactive, conducted the ‘Re-Visioning Retirement Study.’ This groundbreaking investigation was the first to look beyond basic financial and demographic issues to reveal the emotions, attitudes, expectations, and behaviours of pre-retirees and retirees. The study revealed that the majority of Americans thought they’d be able to comfortably retire in their early to mid-60s. And, thanks to a lifetime of savings, guaranteed company pensions, and rock solid government entitlements, most thought they’d be able to afford decades of non-working leisure.

Then things changed … dramatically. Rocked by events and reactions associated with 9/11 and then the recession, the stock market showed virtually no net gain during the last 10 years and many people saving for retirement suffered losses in both investments and home values. Unemployment rates are now hovering near 10 per cent, making it difficult for many to get by, let alone save for retirement. And the government is running a $1.3 trillion deficit, putting into question the sustainability of retirement entitlements such as Social Security and Medicare. At the same time, the massive baby boomer generation has begun moving into their retirement years. This vast generation has begun moving into their retirement years. This vast generation has begun moving into their retirement years. This vast generation has begun moving into their retirement years.

The 2011 survey of men and women aged 55 and over revealed that while many were shaken up over this past decade, they are emerging wiser, more disciplined, and with a new, more pragmatic approach to an entirely new kind of retirement.

It found 78 per cent of the respondents said that they can still have a fulfilling retirement by being more financially disciplined. In fact, most believe they can still ‘get there from here’ – although, for many, ‘there’ is now envisioned more realistically. For example, in one of our focus groups, a pre-retiree said that before the recession he was hoping that in his retirement, he’d get to play all great golf courses in Europe. Now, he said, he’d be quite satisfied to play all great public courses in New Jersey!

When we asked the survey participants if they’d like to live to 100, a whopping 67 per cent said yes! But longevity has its potential problems. Their biggest worries about living a very long life were:

- losing their health
- being a burden on their family
- running out of money

On the other hand, they viewed the key benefits of extended longevity as:
- continuing to remain productive
- developing deeper relationships with their family
- the chance to be around to witness new discoveries and watch the world evolve

What the pre-retirees in the study told us is that if you’re going to wind up living to 80, 90, or even 100, it would probably be wise to work longer. Whether driven by financial practicality or a desire to live a more engaged and productive life, 77 per cent of pre-retirees say they would ideally like to include some work in their retirement. And when we point-blank asked what the primary reason would be, the number one response was the stimulation and satisfaction that continued work offers. Money was also important, but it ranked second.

People increasingly recognize that new economic realities and new retirement dreams mean new financial solutions are needed. People have become far more cautious and now say that protection from losses is the top priority for retirement investments. And what did these 55 plus men and women say was their biggest financial worry at this stage in their lives, it was the unpredictability of tax increases downstream.

One of the interesting insights that emerged from the study had to do with asking retirees from all walks of life if they had retired earlier or later than they had planned. While nine per cent reported that they had retired later, more than five times as many (49 per cent) said that they had retired earlier than they had planned. While it’s natural to think that early retirement is most likely a sign of financial success, it’s not anymore. The top reason people give for early retirement is unexpected health problems.

Many people now recognize that...
retirement preparation is not a do-it-yourself project and that they need guidance to set a new, more predictable path toward successful retirement. Many now strongly feel that financial education should be a lifelong process, with 92 per cent saying that financial management should even be a standard part of high school education.

And yesterday’s version of the fast-talking stock broker is passé. Today, people want a financial advisor who listens and understands what is important to them. They’re seeking a trustworthy advisor who speaks their language and can help them identify solutions that are specific to their needs and priorities.

Is Retirement Getting Better Or Worse?
We asked all 1,000 or our pre-retirees and retirees whether they thought that retirement would be better or worse for the boomers. And the answer we heard was ‘it will be both.’ People said that boomers will have less government entitlements, less money, and less respect from younger generations (which probably won’t bode well for their receipt of intergenerational entitlements). On the other hand, they believed that in this new era of retirement, compared to previous generations, boomers will be more active and youthful, more likely to continue to learn and grow in maturity, and that they’d ultimately be living more interesting lives.

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Investment:

Where Are The Good Old Days?
By: J. J. Woolverton

One of the problems in being around this industry too long is being around this industry too long. There have been numerous changes over the decades – but, what would any industry be without evolution?

It is time to take a trip down Memory Lane.

Pre-’60s
This was the time when pension plans were just getting off the ground. The investment side of the pension equation was managed by the institutions – mainly the banks, trust companies, and, to a lesser extent, insurance companies. These institutions had prior relationships with either the institution itself (e.g., custodian services) or with senior management. Fixed income dominated the investment structure – with mortgages being one of the asset classes. The other asset classes were bonds, cash, and Canadian equities. It was simple.

The investment approach was purely qualitative. There were no benchmarks, no measurement services, and no consultants. The portfolio managers set investment policy based on their outlook for the components of the capital market. Investment managers refer to this period as ‘paradise lost.’

The ’60s
Very few changes took place in this decade. The institutions still dominated. Balanced fund management was the vehicle of choice and ‘active’ management began to arrive. In the prior decade, pension investments were, typically, a small part of the whole corporate-institutional relationship, and, as a result, the monies were managed, basically, for ‘free.’

In this decade, investment counseling firms began to emerge and brought in a new concept: fees-for-service. Unfortunately, as these counseling firms began to compete, they were up against the institutions which charged very low fees (if any). As a result, to this very day, we have, basically, the lowest management fees of any developed country. The plan sponsors win.

Let’s add U.S. equities to the investment structure. This was not considered as an asset class at this stage as Canadian money managers used U.S. stocks as a way to complement their Canadian holdings by adding industries not available in Canada (e.g., drug companies, high-tech companies, manufacturing, and consumer staples).

The ’70s
More counseling firms began to arrive in this decade; however, the ground-swell was yet to come. This decade witnessed the most significant growth in pension assets. As a result, pension fund sponsors began to diversify, not only by asset class, but, also by manager – thus began the era of ‘specialty’ management.

There was one major black cloud that occurred in this decade: the introduction of the Foreign Property Rule – setting a limit of 10 per cent on foreign holdings for pension funds. This ‘forced’ Canadian money managers to stay at home and, to this very day, this would prove to be the greatest negative impact on the growth of Canada’s money management community. As most firms around the world were building up global expertise, Canadian firms fell behind as it was not economical to build global expertise for only 10 per cent of the pension pie.

Performance measurement took hold in this decade with the introduction of peer group samples.

This was also the last decade where the investment manager ‘ruled’ the investment policy decision.

Enter the age of the consultant.

The ’80s
Forty per cent of the investment counseling firms that were around for the next three decades had their beginnings between January 1, 1980, and December 31, 1985. Consultants took over the role of formulating asset mix policy – previously the realm of the portfolio manager. Specialty management continued to grow and new asset classes emerged (international equities, real estate, venture capital, and cash).

Whereas the ’60s and ’70s provided a low-return investment environment, the ’80s delivered mid-teen returns for the North American equity market. As well, bonds produced double-digit returns. Life was good.

Consultants found that managers had style – and began to place managers in well-defined boxes.

The ’90s
There were more changes in this decade than in any previous decade. This was the decade of the proliferation of investment products and investment vehicles – indexation became popular, and new asset classes were added (Canadian small cap, emerging markets, asset-backed securities, real return bonds,
country funds, high-yield corporates, hedge funds, private equity, etc.).
Up until this decade we had heard the term ‘globalization; however, now it became a reality.
For the Canadian money management community, there was more competition from outside our borders. This was the result of the Foreign Property Rule being raised to 20 per cent, putting Canada on the radar screen for foreign money management organizations. Twenty years ago, there was one firm in the top 40 managers that was 100 per cent foreign owned. Today there are 16 that are 100 per cent foreign owned.
This was also the decade where the consulting community handed over the reins to the plan sponsor, as plan sponsors began to treat the pension fund as a business division of the company.

Although the ’90s still provided low double-digit returns for the North American capital market, cash flows from pension plans began to slow. This was also the decade where there was a mass exodus from Defined Benefit pension plans to Defined Contribution plans – perhaps good for corporations, but, so very, very bad for plan participants.
As well, we moved away from peer group performance measurement to benchmark-driven comparisons.

The Aughts
The ‘lost’ decade. Capital market returns fell well below expectations. We began the decade with the second worst recession on record since the Depression and finished the decade with the worst recession since the Depression. The lower returns resulted in an increase in the unfunded ratio of pension plans – which is where we are today.
The good news for the plan sponsors was the elimination of the Foreign Property Rule, creating the opportunity to place more monies outside of Canada. As luck would have it, Canada then became the best performing world market over the decade. Timing is everything.
Liability driven investing became popular in this decade. Over the five decades, we moved from asset mix policy through asset/liability matching to LDI – basically, just the order of the names changed. Also, a new asset class: infrastructure.
One other major change over the past five decades has been in the ‘time frame’ used for measuring investment success. In the ’60s, the most popular benchmark at the total fund level was the Consumer Price Index. This provided money managers and plan sponsors with a time horizon of around 10 years. In the ’70s and ’80s, the time frame declined to around four years – with peer group comparisons being the most popular measurement tool. In the ’90s and Aughts, the time frame shrank again to less than three years as performance was now against various indices. Manager turnover within the investment management structure has increased in each of the past five decades.

The Future
Going forward, life gets a lot more complicated. Political events will have a negative impact on shaping the economies of many countries around the world – resulting in a more risky investment environment throughout the decade. As well, below-average returns from capital markets will result in larger pension deficits, as performance is not likely to match the internal hurdle rate of most pension plans. For the capital markets as a whole, there will be more regulation and legislation which will cause more uncertainty. Risk might not be rewarded.

Legal:

Pension Law Developments – The Last 20 Years
By: Justice Eileen E. Giluse
What has happened in the field of pension law over the last 20 years? It is that question which I have been asked to address in this article. The answer to that question begins with an observation about the ‘Pension Benefits Act, R.S.O. 1990, c. P.8.’ While there is comparable legislation throughout most of Canada, for ease of reference I will refer to the legislation simply as the PBA.
The PBA is unusual legislation. It contains no stated objectives or goals. It sets out no guiding principles. There are no provisions that govern contentious issues such as surplus ownership and contribution holidays. Instead, the provisions in the PBA are directed at more discrete issues such as eligibility requirements for membership in a plan, vesting, locking in, portability, employer contributions and interest (the 50 per cent rule), and the disclosure of information.

Fallen To The Courts
This is not a criticism of the PBA. It is an observation that helps us understand what has happened in the field of pension law in the last 20 years. Because the PBA does not establish a framework of general legal principles governing pensions, that task has fallen to the courts. Thus, the past 20 years have seen an unprecedented number of pension cases before the courts and the emergence of a legal framework within which disputes and problems in the pension field can be resolved.
This development has been accelerated by the large number of pension cases decided by the Supreme Court.
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of Canada. Beginning with *Schmidt v. Air Products Canada Ltd.* (Schmidt), which was decided in 1994, and ending 16 years later with the most recent case of *Burke v. Hudson’s Bay Co.* (Burke), Canada’s highest court has decided no fewer than eight pension cases. Apart from Schmidt and Burke, it rendered decisions in *Monsanto Canada Inc. v. Ontario (Superintendent of Financial Services)*; *Boucher v. Stelco Inc.*; *Bank of Nova Scotia v. Thibault*; *Bisaillon v. Concordia University (Bisaillon)*; *Buschau v. Rogers Communications Inc.* (Buschau); *New Brunswick (Human Rights Commission) v. Potash Corporation of Saskatchewan Inc.* (Potash); and *Nolan v. Kerry (Canada) Inc.* (Nolan).

This list does not include the numerous Supreme Court of Canada decisions in which pensions provide the factual impetus for the litigation, but which are decided based on constitutional and family law principles.

The pension law cases decided by the Supreme Court can be grouped into two categories. The first category consists of single issue decisions. While each of the cases in this category resolves an important issue, the reasoning is based on the application of existing legal principles from other areas of law, rather than on the development of general legal principles applicable to the field of pension law. In this category, I would place cases such as Potash and Bisaillon. In Potash, the Supreme Court held that age discrimination is permissible and employees must retire by the age specified by a term of the pension plan, so long as the term is contained in a “genuine” pension plan. In Bisaillon, the Supreme Court held that plan members do not have access to the courts to resolve pension disputes if they (or at least a majority of them) are covered by a collective agreement and the collective agreement refers to the pension plan.

The second category of cases consists of those which have helped to develop the framework of general legal principles mentioned above. I would place cases such as Schmidt, Buschau, and Nolan in this category. A brief comparison of the conclusions reached in these three cases is illustrative of the development that has taken place in the courts over the course of the past two decades.

**Foundational Case**

*Schmidt* is the foundational case in Canadian pension law. It warrants frequent rereading. For the purposes of this article, the point to take from Schmidt is found at paragraph 90: “if the pension fund (or any part of it) is impressed with a trust, all issues relating to pension
It’s more than a group of employees…

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benefits and surplus entitlement must be decided based on trust principles, rather than according to contract law. In short, if pension assets are held by way of a trust, trust principles apply to resolve pension disputes.”

However, both Buschau and Nolan make it clear that trust law principles do not always prevail, despite the fact that, in both cases, the pension assets were held in a trust. In Buschau, the pension plan members sought to rely on the trust rule in Saunders v. Vautier,12 which enables beneficiaries to end a trust. The Supreme Court refused to apply the rule. In Nolan, the court held that plan expenses could be paid for from the trust fund and the company was permitted to “cross subsidize” as a means of satisfying its contribution obligations.

‘BECAUSE THE PBA does not establish a framework of general legal principles governing pensions, that task has fallen to the courts.’

What do we make of these apparently contradictory legal conclusions? Do trust principles apply or not? Do they always ‘trump’ other considerations? The answer to these questions lies in recognizing that the decisions are only apparently contradictory. When the reasoning behind the court’s conclusions in these cases is closely examined and understood, it is clear that the court continues to recognize the foundational principles laid down in Schmidt, but that the legal challenges in Buschau and Nolan called for a more nuanced legal response.

It would have been nice to give a simple answer to the question of whether trust principles always apply and/or ‘trump’ other considerations. Simplicity has a great attraction, particularly in legal matters. Among other things, it promotes certainty and predictability.

Nuanced Legal Answers

On the other hand, an overly simplistic legal model would hamper the courts’ ability to construct appropriately nuanced legal answers. Can one achieve clarity and certainty without sacrificing fairness and flexibility? In my view, the development of pension law over the last 20 years has been characterized by a balancing of these competing goals.

I offer two concluding comments.

First, pension law is a very new area of law. The legal system has done a remarkable job of establishing and developing a framework of principles for this new area in record time. Where other areas of law have taken hundreds of years to develop, pension law has undergone much of its foundational development in under two decades. While credit for this lies with the courts, much credit must be given to the lawyers who argued the cases in the courts and those behind the scenes who worked with the lawyers. I am firmly of the view that the quality of decision-making in the pension field reflects the quality of that advocacy.

Second, while the field of pension law has undergone rapid development, there are a number of important issues that have yet to be explored. While it is always risky to engage in crystal ball gazing, I would hazard to venture that one such area is the fiduciary obligations of those involved in plan administration. Issues include:

▶ Who is a fiduciary?
▶ What is the nature and content of the fiduciary obligations that are owed?
▶ To whom are the duties owed?
▶ When?
▶ How are such duties properly discharged?
▶ Does it matter if the pension plan in question is a Defined Benefit or Defined Contribution plan?

Limited guidance can be found on this matter in the PBA;13 thus, if history is any indication, it will fall to the courts to develop the necessary general principles and framework. In meeting this challenge, I expect that the courts will be required to again make decisions based on reasoning that meets the competing goals of simplicity and flexibility.

So, stay tuned for what will undoubtedly prove to be another interesting 20 years in the field of pension law! BPM

Justice Eileen E. Giliese, of the Superior Court of Appeal, is a former Superior Court Justice and is dean and professor of law of the Faculty of Law, the University of Western Ontario.

12. (1841), Cr. & Ph. 240, 41 E.R. 482.
13. See s. 22 of the PBA.

Pension Reform:

Two Decades Of Pension Reform

By: Ian Markham

What an era of pension regulatory change we’ve lived through over the past 20
years ... and what more is yet to come.

In this magazine’s inaugural issue in December 1991, the editorial by its then editor, Robin Schiele, focused on the new regulatory system governing tax rules for retirement savings, which had gone through a tortuous process of increasingly complicated proposals during the 1980s. Twenty years ago, that complex new system was in the forefront of pension stakeholders’ minds and it has since had a significant effect on individual savings patterns.

In the mid-1990s, as the weaknesses of the pension adjustment mechanism within the tax system became widely felt by mobile workers, we saw the re-introduction of pension adjustment reversals. However, that did not alter the conclusion reached by many plan sponsors that the system made Defined Contribution plans appear more attractive than Defined Benefit arrangements. Administrative complexity began to motivate some private sector employers to adopt simpler designs such as group RRSPs.

Pension Standards

The 1990s also saw changes to pension standards in some of the provinces with a shift to two year vesting, minimum employer contributions to DB plans, and spousal protection, amongst other changes. Solvency funding had been imposed as a means of enhancing benefit security in the event of plan wind-up in that round of reforms, which had begun in some jurisdictions in the mid-1980s. However, in those days, long bond yields were at such high levels that solvency valuations were somewhat ineflectual and caused little distress. Gradual phase-in of the new solvency funding rules at the time (and the 1993 ‘too big to fail’ compromise in Ontario) meant that the full burden of solvency funding did not hit until after the market events of 2001-2002.

An oft-voiced frustration by plan administrators in the 1990s was the lack of uniformity between jurisdictions – oh, if only that were still the largest frustration we now faced in the regulatory system! In retrospect, those were indeed the good old days.

Back in the early 1990s, human resource officers played a critical role in decisions about pension plans. This continued through the late 1990s. The stories of the day were employer contribution holidays and plan surpluses being used to finance early retirement windows and improvements. This era ended in the 2001-2002 ‘perfect storm’ of falling equity markets and decreasing long bond yields. The impact of the market changes were amplified by the ending of the initial phase-in period allowed by some jurisdictions for solvency funding, as well as the maturing of employee populations – both of which became major forces driving up employer DB contributions.

Canadian and international accounting rules for pension plans also moved to require mark-to-market discount rates and increased disclosure. As a result, senior finance officers have increasingly become the primary decision-makers regarding pension plans and they tend to frame decisions in terms of the financial risk to the corporation, with less emphasis on facilitating HR objectives such as tax-efficient compensation or workforce planning.

Other notable regulatory reforms have included the introduction of phased retirement provisions and the elimination of foreign content limits on pension investments.

Slowly Emerging

We are now in the midst of a new era of reforms to the minimum pension standards. The consultations that occurred in 2007-2009 will lead to new rules in most jurisdictions. The details are largely in place for Quebec and federally regulated pension plans and are slowly emerging in Ontario, Alberta and British Columbia, after a promising start with a Joint Expert Panel report, have yet to generate draft legislation or detailed proposals for change. Manitoba and, most recently, Nova Scotia have also moved to modernize their pension standards.

This century, three major forces have shaped stakeholder decisions and government policies:

- Falling yields, rising costs – When this magazine came on the scene in 1991, long-term Government of Canada bond yields were in the range of nine per cent. Today, they are in the range of 2.6 per cent. To put this another way, if those were actually the yields on 30 year strip bonds, a promise to pay $1,000 in 30 years’ time would have been priced at $75 then and $463 now. It’s no wonder that retirement plans put in place then seem unaffordable now! While part of the solution might be to direct a larger share of total compensation towards retirement saving, it is clear that the private sector envisages that the solution must include re-setting the retirement income target to a new, lower level, to rebalance the relationship between current lifestyle and retirement lifestyle. Many Canadians are postponing their planned retirement age as a result.

- Listening to employer concerns – Coming into this century, DB surpluses – and disputes over surplus ownership – were common. Critical court decisions in Monsanto, Kerry, and Transamerica, among others, helped to define the future direction of reforms in this area, but led many finance officers to become increasingly concerned about the problem of ‘trapped capital,’ whereby employer contributions to finance solvency deficits could end up being trapped as surplus within the pension fund and made inaccessible to the plan sponsor. These concerns led many sponsors to minimize their contributions. Meanwhile, governments and pension regulators faced criticism as a result of high-profile plan wind-ups that left members with smaller benefits than promised. They were understandably keen to maintain, or even accelerate, solvency funding to
ensure pension funds would be sufficient to settle all of their obligations in the event of wind-up. Thankfully, politicians saw the merit of temporary solvency relief to bridge the gap to a new system in which trapped capital and wind-up risks can be balanced through innovative plan designs and security mechanisms such as letters of credit.

- Risk shifting – Financial turbulence has caused a sea change in the management of financial risks for DB plans. We have now moved to an increasing focus on employer risk mitigation, with one major outcome being an inexorable move from DB to DC, not only for future hires, but increasingly for current DB plan members. More creative solutions are being found in a few instances, but are often blocked by existing regulatory and legal frameworks. This trend will have the attention of policy makers going forward and the voluntary Guidelines for Capital Accumulation Plans, published by CAPSA in 2004, emphasize the increasing importance of plan governance and will no doubt play a part in future regulatory policy affecting DC plans.

Future Reforms

The private pension system is in a precarious state. As risks are transferred gradually from employers to employees through DC plans and risk-sharing mechanisms, especially in the private sector, and as basic financial literacy remains a laudable, but elusive, goal of policy makers, we are already beginning to see litigation relating to DC plans arising from management of investment funds and employer communications to employees concerning DC choices.

Meanwhile, we have seen pension coverage decrease steadily in the private sector. The proposed introduction of Pooled Registered Pension Plans (PRPPs) across the country may offer a partial, but modest, solution. Increasing the benefits offered by the Canada and Quebec Pension Plans could be another. Either way, there will be some effect on private pension plans as the public pension system expands with plan sponsors seeking to integrate their own pension coverage with that of the state, which will probably cause employers to face additional regulatory issues.

Of course, there may yet be other surprises in store in the round of reforms of minimum pension standards that are about to be rolled out. It never ends!

Ian Markham is Canadian retirement innovation leader at Towers Watson.

Plan Design:

Innovations In Pension Design And Delivery:

By: Keith Ambachtsheer

Good retirement income systems have two key dimensions: sustainable designs and effective pension delivery institutions. Over the course of the last 20 years, Canada has shown itself to be an innovator in both the pension design and delivery spaces. On the design front, observers from other countries continue to marvel at Canada’s ability to reform a major element in the public component of its pension system: the Canada and Quebec Pensions Plans (CPP/QPP). On the delivery front, the creation of the Ontario Teachers’ Pension Plan (OTPP) set a new global gold standard in the design of pension delivery institutions.

Fixing The Future

Studies in the early 1990s showed that CPP/QPP finances were on a trajectory that would require steadily rising contribution rates to fund benefit levels as the boomer cohorts moved to retirement in the decades ahead. Clearly, some adjustment mechanism needed to be introduced. To his credit, then-Finance Minister Paul Martin took the lead in finding a solution acceptable to his government and to his provincial partners. After some hard bargaining, it was agreed that CPP/QPP contribution rates would effectively double over a seven-year period, putting the plans back in the black.

The other key reform element was the creation of the CPP Investment Board (CPPIB). Federal-provincial agreement was reached to use the organization design model adopted for the OTPP as the basis for the design of the CPPIB. In a foreword to Bruce Little’s excellent book ‘Fixing the Future,’ which tells the CPP reform story, CPPIB’s first Board Chair Gail Cook-Bennett writes: “In March 1999, the CPPIB received $12.1 million from the administrators of the CPP in Ottawa. The money was immediately invested … This little-noticed event heralded the practical beginning of an exciting and closely-watched public policy initiative: using capital market returns to help sustain the retirement, survivor, and disability benefits promised by a national pension plan.”

Canada’s innovation has since been copied in various ways in a number of countries including Australia, Ireland, New Zealand, Norway, and Sweden.

Redesigning Pension Delivery

The CPP/QPP pension reform story was preceded by an equally remarkable pension delivery innovation story with origins in the 1980s. Ontario’s treasurer at that time was Robert Nixon who was increasingly dissatisfied with the organizational structures of Ontario’s public sector pension plans. This led to the creation of...
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20 YEARS OF INDUSTRY CHANGE

a task force chaired by Malcolm Rowan, charged with examining the effectiveness and efficiency of the province’s pension plans, and to make recommendations for improvement where appropriate. The task force tabled its wide-ranging report ‘In Whose Interest?’ in 1988.

The most important outcome of the report was the creation of the Ontario Teachers’ Pension Plan in 1990. It was set up as an autonomous organization responsible to the Ontario Teachers’ Federation and the Ontario government, but operating at arms-length from them. A key design element was that its nine-member board of directors would be selected not just based on their ‘passion and loyalty to the cause,’ but also based on the collective competence and experience required to oversee the operations of a complex financial institution.

In an article published in the Rotman International Journal of Pension Management, OTPP’s first CEO Claude Lamoureux gives a compelling ‘insiders’ account of his initial conversations with first Board Chair Gerald Bouey about taking the CEO job. Lamoureux insisted that if he were to take the job, the board should allow him to “run OTPP like a business,” including being able to pay market compensation to his executive team. The board agreed and, as the saying goes, ‘the rest is history.’ Today, 20 years later, OTPP is recognized as the global gold standard in pension management and delivery.

Once again, this Canadian innovation has been copied both inside Canada and around the world. For example, just recently New York City Mayor Michael Bloomberg and Comptroller John Liu announced their intention to adopt the OTPP model for NYC’s $120 billion of pension assets.

Not Done Yet

None of this is to say that Canadians should now rest on their laurels. Not when five million private sector, middle-income workers are not members of an employment-based pension plan. After four years of research, debate, and discussion, we have decided to address this problem through a new vehicle called the Pooled Registered Pension Plan (PRPP). Much remains to be done to turn the PRPP concept into an effective, practical solution for these five million workers.

Time to roll up our sleeves once again.

Keith Ambachtsheer is director of the Rotman International Centre for Pension Management at the University of Toronto and a strategic advisor to major pension funds around the world.


Economics:

Global Economic Trends Of The Past Two Decades

By: Sal Guatieri

The past two decades have witnessed several major economic events. The technology boom and bust, the collapse of the U.S. housing bubble, the 2008 financial crisis and resulting Great Recession, and the formation (and now possible destruction) of the European currency union, to name just a few. Through all of the ups and downs, five major economic trends have emerged:

- **Lower inflation:** Although inflation has climbed recently due to higher energy and food costs, the trend for the past two decades has been downwards (Chart 1). After averaging more than 20 per cent in the first half of the 1990s, global CPI inflation hovered near four per cent for the past five years. More prudent monetary policies that target steady inflation in many developed economies have anchored price and wage expectations. Technology-driven productivity gains and the shift of global manufacturing toward low-cost regions, such as China and Southeast Asia, have also reduced inflation pressures. With commodity prices easing recently, most analysts expect inflation to be restrained in the future.

- **Lower interest rates:** Reflecting the downward trend in inflation, interest rates have fallen fairly steadily in the past two decades. For example, the 10-year Government of Canada bond yield declined from an average of nearly nine per cent in the first half of the 1990s to 3½ per cent in the past five years (Chart 2). For the economy, lower rates have supported business investment and homeownership. However, for retirees looking for decent returns on their fixed income assets, the lower rates have reduced retirement income. Unfortunately for them, interest rates are likely to remain low until the advanced economies more fully recover in the years ahead.

- **The Emergence of Emerging Market Economies:** Led by China and India, the developing economies now account for half of global economic activity, compared with barely a third in the early 1990s. Driven by rapid rates of modernization and urbanization, the developing economies have grown at an average annual rate of six per cent in the past decade, compared with a moderate two per cent pace for the developed economies. The G20 Summit meeting has replaced the G7 meeting as the focal point for global initiatives. Going forward, the fast-growing...
developing economies could provide more attractive investment opportunities than the slower-growing advanced economies.

- **Higher commodity prices:** Reflecting the strong demand from emerging market economies, commodity prices have turned sharply higher in the past decade relative to other prices. Oil prices, for example, have averaged $80 per barrel in the past five years, a four-fold increase from the first half of the 1990s (Chart 3). Higher commodity prices have temporarily lifted inflation and reduced consumer purchasing power. However, they have also supported Canada’s major resource-producing provinces – such as Alberta, Saskatchewan, and Newfoundland and Labrador – with all three provinces outperforming the national average in the past decade. Expected continued healthy growth in the developing economies suggests that commodity prices will stay elevated for some time, supporting the earnings of resource companies.

- **Aging population:** Falling fertility rates and an aging baby boomer cohort have raised the average age of the population in many advanced economies. The median age of Canada’s population has climbed to 40 years from 33 years in 1990. China’s massive population is also aging due to its one-child policy. An aging population will increase the dependency ratio and challenge governments to restrain growth in pension liabilities and healthcare costs. Unless future retirees plan to work longer, an aging population could slow economic growth and, ultimately, limit investment returns.

The five major economic trends of the past 20 years are expected to continue in the next couple of years. Inflation and interest rates should remain low as advanced economies reduce their debts, while continued healthy growth in the emerging economies should support commodity prices.

Sal Guatieri is senior economist and vice-president at BMO Capital Markets, Economic Research.
Drug Plans Erode Over Last 20 Years
By: Mike Sullivan

The world ushered in 1991 with the start of the Gulf War. It’s hard to believe here we are 20 years, two different President Bushes and the first African-American president later. In 1991, Nintendo unleashed the Super Nintendo in North America, while today a billion dollar video game is released to incredible fanfare with warnings to the public that its scenes are so realistic, some users should refrain from playing – a far cry from the days of Mario Brothers. Bryan Adams put Canada centre stage with the biggest hit of 1991 at the same time as the USSR collapsed and Boris Yeltsin was the first elected President of Russia.

Twenty years ago last month, Freddie Mercury, the lead singer for Queen, died of complications relating to AIDS, while basketball legend Magic Johnson announced to the world he had contracted HIV. Today, Magic is a shining example of the wonderful advances we have made in drug therapy.

44 New Drugs
In the decade that spanned 1982 to 1992, 44 new drug products (i.e. new chemical entities) were approved by the FDA. In the 10 years that followed, nearly four times as many new drug products (156 in total) were approved, including blockbusters such as Lipitor, Nexium, Effexor XR, Viagra, and Remicade.

The last 20 years has seen the advent of two distinct generations within the pharmaceutical industry – the Blockbuster Drug Era and now the Specialty (biologic) Drug Era. The advances that have been made in drug therapy since 1991 have been nothing short of remarkable.

The most highly touted drug launch of 1991 was Imitrex (sumatriptan) for migraine headaches, followed by Paxil (paroxetine), the third entry into the SSRI class of anti-depressants. Fast forward to today and we have seen Lipitor, Prevacid, Effexor XR, Altace, Zithromax, and a whole host of other major brand drugs released onto the market with generics now available.

The pharmaceutical industry has discovered new classes of blood pressure lowering agents, anti-depressants, and cholesterol lowering medications over the last two decades in addition to developing biologic drugs to treat autoimmune disorders such as Rheumatoid Arthritis and MS. We have seen an explosion of oncology products, best represented by a new wave of targeted oral cancer drugs that allow patients to take their chemotherapy at home.

The last 20 years have truly been the golden era for drug therapy advances and the pharmaceutical industry. There are many industry watchers and stock market analysts who feel the glory days of the pharmaceutical industry have come and gone while one may debate its future, there is no mistaking how much better off patients are today with the sustainability of drug plans in the private sector in 2012, there will be no need for a follow-up column in 2031 because plans, as we know them, will go the way of the Super Nintendo.
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20 YEARS OF INDUSTRY CHANGE

Retirement:

Building A Sustainable Retirement Income System
By: Jean-Claude Ménard

A strong retirement system should offer a balanced mix of public and private options, as well as voluntary and mandatory plans. It should be both affordable and sustainable over the long term, and built on three key principles:

- Intergenerational equity
- Solidarity
- Responsibility

Intergenerational equity means that each generation pays its fair share of the costs. The principle of solidarity refers to the idea of society protecting all individuals by collectively ensuring a basic standard of living for low-income retirees. Solidarity should supplement, but not take the place of, individual responsibility for retirement income. Individuals must save for retirement and employers should help their employees to do so. The role of government is to implement the required tools to support public and employer-sponsored pension plans and personal savings plans.

Provide Incentives

The system should also provide incentives for workers to remain in the labour force longer, especially in the context of an aging population.

The OAS Program, the CPP, and the Québec Pension Plan (QPP) are public social security programs that serve as the foundation of the Canadian retirement income system. The main objective of these programs is to ensure a basic level of retirement income for Canadians. The third tier of the Canadian retirement income system includes private registered pension plans sponsored by employers and individual registered retirement savings plans. In order to promote savings by Canadians, the tax-free savings account (TFSA) was introduced in 2009. The TFSA is a general-purpose savings vehicle that can be used to save for retirement.

The OAS Program provides a basic pension which is further supplemented by the mean-tested Guaranteed Income Supplement (GIS). In 2008, the government took actions to encourage low-income seniors to participate in the labour market and to save more. It exempts the first $3,500 of earnings as well as investment income from TFSA's in the calculation of a person's GIS benefits. The typical GIS recipient is thereby able to keep more hard-earned money without any reduction in GIS benefits. In addition, in 2011, a GIS top-up was introduced for the most vulnerable seniors.

The CPP and the QPP cover virtually the entire Canadian working population. The federal government and the governments of the participating provinces and territories jointly manage the CPP. Both the CPP and QPP provide retirement, survivor, and disability benefits that are adjusted for inflation to preserve their value.

Changes were made recently to the CPP to remove barriers to the labour market participation after retirement and allow working beneficiaries to continue increasing their CPP benefits. These provisions encourage older Canadians to participate in the workforce and provide them with the flexibility of combining work and retirement.

Future Challenges

The long-term financial sustainability of the CPP was confirmed in the most recent actuarial report tabled last year. However, challenges remain, the main ones being the increase in life expectancy and the aging Canadian population. The joint federal, provincial, and territorial stewardship of the CPP – through an established strong governance and accountability framework – ensures that future challenges will be addressed as they emerge and that appropriate actions to preserve CPP sustainability will be taken.

The Canadian retirement income system, in its present form, is efficient. It provides diversity of income through a mix of private and public pensions. This very important feature was recently emphasized in the editorial note of the 2011 edition of the OECD’s ‘Pensions at a Glance.’ The Canadian retirement system has resulted in a reasonable cost of public pensions, a low poverty rate among seniors (it is one of the lowest among OECD countries), and a reduction in income inequalities, although income inequalities still do exist.

The Canadian retirement income system and ways to improve it have been the subject of much discussion, research, and analysis recently. Reports were prepared by various working groups and experts and, in particular, by departments of the federal, provincial, and territorial governments or by groups commissioned by them. The findings of various studies have indicated that middle- to higher-income Canadians are not saving enough and thus are at risk of experiencing a substantial drop in their standard of living in retirement.
In order to provide better pensions to Canadian workers who do not have access to employer-sponsored pension plans such as the self-employed and employees of small companies, the federal, provincial, and territorial governments are currently working on implementing a new type of Defined Contribution pension plan, the pooled registered pension plan (PRPP). PRPPs are expected to pool pension savings for a large number of employees, thereby resulting in lower management costs than that of individual investments.

**General Consensus**

The general consensus is that the government, society, employers, and individuals must share the responsibility of ensuring retirement income security. However, it is difficult to determine the different levels of responsibility and how they interact with each other and, once established, the optimal means of improving retirement income adequacy, all the while ensuring that the system remains financially sustainable to taxpayers and contributors. Providing the Canadian population with tools to better prepare for retirement reinforces the shared responsibility of all stakeholders.

Jean-Claude Ménard
is chief actuary, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions Canada

**Retirement Planning:**

**Are We Savers Or Spenders?**

By: Claude Leblanc

When he introduced the world’s first pension system in Germany in 1889, Chancellor Otto von Bismarck would have asked his advisors this question: ‘At what age should we set the retirement age so that we never have to pay anything?’ The answer would have been 70. Knowing that Bismarck was 74 at the time and life expectancy was around 50, the answer just has to make you smile!

But times have changed. With greater life expectancy and expanding retirement dreams, it has become difficult or even impossible to reconcile retirement at 55 with a life expectation of over age 85. Clearly, retirement financing paradigms need to be questioned.

**A New Reality**

In 2011, financing retirement has become increasingly complex. In the past, many Canadians could count on a Defined Benefit plan sponsored by their employer. However, in recent years, many organizations have converted DB plans into Defined Contribution plans and more are investigating this possibility. Several reasons may explain this phenomenon, but it is clear that, in light of longer life expectancy, employers now tend to favour DC plans.

For Canadians, the consequences are obvious. We are witnessing a transfer of risk from employers to employees. More than ever, the management of retirement will rest on the shoulders of each individual. It is up to Canadians to finance their retirement either through a group savings plan or by putting aside the money they need themselves or both. It is their personal responsibility.

This responsibility comes at a very difficult time. Many factors currently complicate saving for retirement. The combination of a longer life expectancy and historically low interest rates means each individual needs to set aside much more money for retirement in order to pay themselves a pension comparable to what they could earn 20 years ago. As for employers, many organizations have suffered from low returns over the last decade and are finding it difficult to meet their obligations without affecting their financial performance.

This new reality also affects governments which must deal with a smaller workforce and soaring healthcare costs. In addition, public pension plans are under tremendous pressure from increasing life expectancy, on the one hand, and a shrinking labour force that finances and supports the plans, on the other. If we add a significant increase in healthcare costs to the equation, it becomes clear that we are facing a societal issue that requires close consideration by all stakeholders. The convergence of these events puts us in a unique situation, forcing us to rethink our ways.

More fundamentally, our political leaders must ask themselves ‘do they want us to be spenders or savers?’ We have barely emerged from a period of economic turbulence, with developed countries encouraging heavy consumer spending to stimulate the economy. It is unrealistic to think that taxpayers can be both spenders and savers. To the extent that we truly want to help Canadians manage their retirement, it becomes vital to adjust our expectations for them and take actions that encourage them to adopt the desired behaviour.

At an individual level, some serious thought is also required. While the level of Canadian household debt is high, it is time for us to reflect on the importance of saving for our future – for the sake of us all.

Hard hit by these new paradigms, governments, employers, and Canadians have no choice but to react by making decisions on this pressing issue. While many commentators have a pessimistic view of the situation, we at Standard Life believe it is an opportunity to show leadership. Together we can adapt and identify solutions. Faced with this complex issue, we do not believe there is a single solution. Rather, a set of measures and actions is required to achieve our goals, and every stakeholder must be involved in the search for solutions.

**Opportunities**

The first observation is that Canadians need to take charge of their future and take an active interest in their retirement. It is essential that everyone be fully engaged in planning for this crucial stage of life. To this end, it is clear that governments, employers and financial institutions have a key role to play in helping people plan for retirement. Governments should establish a clear, easy-to-understand, and effective legislative framework. Meanwhile, the financial industry needs to develop financial products that are better tailored to today’s realities. We must absolutely lend a hand to those who are planning for retirement by providing easy-to-use tools and decision-making assistance. Employers have a duty to support their employees’ planning efforts, whether or not they contribute financially.

This individual responsibility must be supported by major financial literacy efforts. People must be better educated
In this respect, financial advisors may need to lower their customers’ expectations regarding rates of return to more realistic levels. The past decade has seen equity returns that are lower than some assumptions still being used today to make financial projections. It’s a disservice to anyone who is promised higher returns. In addition, concepts such as the rule that an adequate retirement income is equivalent to 70 per cent of current income are not always suited to today’s realities. Indeed, many changes in expenditures occur between working life and retirement, and these should be taken into account. We need to be able to distinguish between our basic needs (housing, food, clothing, etc.) and lifestyle-related needs such as travel and leisure. A clear diagnosis of the situation will allow people to make choices about their lifestyle-related needs, set more realistic goals, and make adjustments in due course.

Governments

Finally, governments will have to make changes to encourage savings that are adapted to the different realities of the job market and employers, from both a fiscal and regulatory standpoint. Currently, many obstacles discourage employers from establishing pension plans, particularly at SMEs. We hope governments will take the necessary steps to simplify the implementation of such plans and, consequently, expand the number of people covered by them. Moreover, a significant portion of the population – the self-employed – does not enjoy the benefits of a retirement plan. This inequity must be corrected. In this sense, we welcome the introduction of the DC-like Pooled Registered Pension Plans (PRPPs) across Canada, thereby improving the range of retirement savings options available to Canadians.

Ultimately, Canadians must lead the charge. These potential solutions will occur when we become more aware of the importance of the issues facing us. It is up to us to take charge of our financial future and ensure we possess the knowledge and tools we require to succeed. Canadians need to attach greater importance to retirement, devoting the necessary time to plan well. They also need to keep the pressure on governments to ensure decisions on these matters are not postponed indefinitely. This awareness is necessary and is the first step in the right direction. Will we wake up in time and do what it takes to ensure a comfortable future?

Claude Leblanc is vice-president, business development, group savings and retirement, at Standard Life.

DB Pensions:

Under-pricing Defined Benefit Pension Promises

By: John Ilkiw

I remember clearly the day in 1987 that I realized that the value of Defined Benefit pension plan promises had been unintentionally under-priced by pension actuaries. James Pesando, of the University of Toronto, explained to Marty Friedland, chairman of the Task Force on Inflation Protection for Employment Pension Plans, the crucial difference between the economic value of a pension promise and the expected cost of delivering the promise.

Canada’s pension system is now in the midst of correcting for this strategic under-pricing – and it’s painful. Private sector DB plans are being replaced by lower cost Defined Contribution plans and public sector DB plans are moving to ability-to-pay target benefit plans.

How do you measure the economic value of a pension promise? Simple. You think like a financial economist and discount future pension benefits by the default-free return that will be earned by a portfolio of Canada bonds structured...
to immunize the liability. This portfolio provides nearly 100 per cent assurance of being available to pay the promised benefits in the event the plan sponsor goes bankrupt.

**Extreme Application**

Many will recognize this portfolio as an extreme application of liability driven investing (LDI). You will also recognize this as a very high cost solution because of the low return to bonds. This is true – but the lesson learned is that guaranteeing a pension benefit is a very, and often prohibitively, expensive undertaking. As a corollary, guaranteed pensions are an equally valuable component of total compensation and any move to limit or erode the guarantee is met with fierce resistance by employee groups.

How do you measure the expected cost of a pension promise? You follow established pension actuarial practice and discount future pension payments by a risk-based discount rate that embodies an equity risk premium commensurate with a pension fund’s equity exposure. The higher the equity exposure, the higher the discount rate, and the lower is the plan’s expected long run current service cost. In effect, a risk-based discount rate anticipates and ‘books’ the impact of the assumed equity premium before it actually arrives.

The actuarial focus on the expected cost of delivering a pension promise is understandable because it provides sponsors with a measure of the potential reward and risk of mismatching pension assets and liabilities. If the equity markets perform as expected, the sponsor is rewarded with low long run pension costs. If the markets perform better than expected, the sponsor is additionally rewarded with plan surplus. It also serves to explain the risk of under-performance. There is a 50 per cent chance that the markets will under-perform a plan’s best estimate expectations. Under-performance risk is borne by plan sponsors in the form of additional contributions to fund often large and prolonged deficits. These supplemental payments ensure the security of promised benefits irrespective of the disappointing investment returns.

However, total compensation packages in the private and public sectors have mistakenly been established using the expected long run cost of delivering a pension promise, not the higher economic value of the promise estimated using a default-free discount rate, which is seldom part of a standard actuarial valuation. By using the expected cost of the pension promise to establish total compensation, employers have unwittingly transferred the expected reward for assuming equity risk to plan members, while still accepting responsibility for investment losses. This is a ‘heads I lose, tails I lose’ arrangement for employers.

**Problem Illustrated**

The taxpayer guaranteed federal public service pension plan illustrates the problem. According to its most recent actuarial valuation, the plan’s best estimate current service cost – assuming a 60/40 equity/debt policy – is 18.5 per cent of salary. Current service cost using an all Canada nominal bond portfolio is 26.2 per cent. Establishing total compensation using 18.5 per cent instead of 26.2 per cent means the expected reward for underwriting equity risk that rightfully accrues to the Canadian taxpayer has been transferred to the members of the federal government pension plan via a total compensation package that is 7.7 per cent of salary.
before lower yielding real return Canada bonds as the default-free asset – more relevant for a fully inflation protected plan – the CD Howe Institute estimates a fair value current service cost of 34 per cent, or a total compensation package that is under-priced by 15.5 per cent!

Private sector employers are correcting for under-priced pension promises by moving to lower cost DC plans. Public sectors employers are addressing the problem by implementing more sustainable plan designs. Sustainable is code for reduced future benefit accruals, increased member contributions, joint-trusteeship, explicit risk-sharing, ability-to-pay target benefit structures, and solvency payment exemptions with quid pro quo removal of PGF protection.

John Ilkiw is strategic investment advisor with Pharos Consulting.

EAPs:
The Growth Of EAP
By: Dr. Warren Shepell

Employee Assistance Programs (EAPs) in employee health benefit packages are widespread across Canada today.

Before 1984, a few progressive organizations had alcohol addiction treatment programs, usually staffed internally by a recovering alcoholic who would help union and management with treatment resources and policies, but not much else.

In 1984, the landscape started to change dramatically and I began to systematically promote a form of counselling and treatment only heard of in public mental health agencies and among private therapists. This concept of an EAP was novel, radical, and had a series of components that organizations were reluctant, at first, to entertain. Employers were requested to pay for users (be it an employee or their family); it was confidential so employers did not know who used the EAP in any given year; and it was a totally off site service which employees could call for help at any time of the day or night, 24/7.

Management Psychologist
Since my Master’s degree was in industrial psychology, I had initially worked in Toronto, ON, as an industrial and management psychologist. I then completed my Ph.D in clinical and counselling psychology in 1974. In the late ’70s and early ’80s, however, there were very few jobs in the clinical field so I used my knowledge and skills consulting with companies in human resources, attitude surveys, and management assessments as well as employee productivity. I was also very good in career counselling and I had contracts with private schools in Ontario such as Upper Canada, Havergal, and Crescent College providing career assessments and counselling to the students in their senior year.

During this time, human resource directors, as well as parents of the private school students, started to ask me to provide clinical counselling to some of their key employees and sons and daughters who were going through mental health difficulties. I did it very successfully.

I was always interested in business and creating a company was a mission for me. I wanted it to be large enough to provide EAP services and mental health counselling to people across Canada and worldwide. Although I never took business courses directly, my father was a successful farmer so I learned a lot of business skills indirectly from him. As well, a number of my friends were at the Wharton School of Business so I learned about marketing, and business clinical interest, skills, and experience to create EAP as a product and service.

I knew that family physicians have very little or no time for counselling. I knew that appointments with psychiatrists were hard to book with long waiting times. I also believed that there were effective psychologists and social workers in clinical counselling, but they had to charge and most employees and their families did not have the money to pay for their services.

Based on my consulting experiences, I felt very strongly that employees should not leave their problems at the door when they enter their places of employment, nor do their family members problems go away while employees are working. As well, I knew that disability claims, absenteeism, and psychotropic drug costs were escalating. Armed with that information and knowledge, I put together the EAP services that my company Warren Shepell Consultants would offer and began marketing it to employers.

There were many points of resistance ranging from statements that family physicians were doing it for free and that employees, if they are experiencing emotional difficulties, should take ownership
Dr. Warren Shepell is president and CEO of EAP Specialist Inc.

Cut Short

My vice-president of marketing, Morris Berchard, and I were regularly, politely, asked to not take up senior managements’ time with our sales calls. Sometimes our sales calls were cut short and sometimes our calls were not returned.

We persisted as we believed that the EAP service was good for both employers and employees. We held free seminars on EAP, gave speeches on EAP at conferences, and regularly sent out related articles, letters, and brochures. We never thought for a second about ever giving up and, after 30 years, we had grown the company to 460 full-time employees and 1,500 part-time employees. We provided EAP services to more than 2,000 companies and organizations covering more than four million employees and their families.

In creating and building a widely and hugely successful business in Canada, I believe I can lay claim to being a pioneer for EAPs in Canada.

Today, Shepell has become a brand in the industry. I have not been personally part of my former EAP company for the six years since it changed ownership. But my name and reputation lives on.

One year ago, when my non-compete expired, I returned to the EAP industry in Canada as president of EAP Specialist Inc. I audit EAPs and consult with companies and organizations to evaluate and improve their programs. I continue to work to improve the standards in the EAP industry and help companies and organizations get what they pay for and, in the longer run, reduce disability claims costs and reduce the use of psychotropic drugs.

Lower Cost

Today, there are very few smaller, local, and hands-on EAP providers managed and marketed by professionals schooled and experienced in clinical and mental health treatment. The EAP firms today tend to offer many other products and services in addition to EAPs. They may offer lower cost EAP products that only peripherally help employees and their families to successfully address their mental health issues. For example, in an effort to help employers contain costs, they may offer a maximum of three sessions for an EAP user when effective mental health treatment needs eight to 10 therapy sessions. Companies, understandably looking to keep costs down, may lack a depth in understanding mental health and what it takes to treat addictions and mental health problems.

This may be one reason disability claims due to mental health issues and drug plans, both real costs to employers, have skyrocketed.

My original plan for EAPs set out to reduce, not increase, these employer costs. There is still significant work to be done and I will continue to champion EAPs and mental health treatment as they were meant to be and should be.
The Rise Of Technology
By: Jean-Guy Sauriol

Almost 20 years ago, I was having lunch with John L. McLaine to discuss the possibility of joining Benefits and Pensions Monitor’s editorial advisory board. John thought my background was a good fit for the magazine. John had called me, on my land line, and I had recorded the date and time of our lunch in my paper agenda. We had to get to the restaurant on time because there was no way we could reach each other during our commute.

It took foresight, but the early ’90s turned out to be a good time to launch a magazine. New technologies and emerging benefits and pension issues converged to create a very exciting 20 years. Outsourcing, cost containment, emerging markets, hedge fund investing, migration to Defined Contribution pension plans, and enrolment in flexible group benefits plans are all issues that contributed to and benefited from advancements in technology.

PC Pivotal
The personal computer (PC) is pivotal to the technological advances of the last quarter century. Before the PC, systems existed mostly for critical business functions. With the PC, systems became applications, operated by end-users. Early on, the PC was used mostly for word processing and worksheet applications. Soon, however, PC-based benefits systems and other types of applications started to emerge.

The breakthrough came with the development of the GUI (graphical user interface). The GUI allowed for the development of user-friendly applications available to all. Visual Basic made it easy to develop Windows applications by cutting down on the time required to build the interface. In the early part of the ’90s, a few technologically inclined plan sponsors developed applications for retirement planning and conversion to DC plans. These tools were either hosted in kiosks or distributed on disks.

The PC also allowed for the development of powerful client-server applications. It made centralized data storage easier. This planted the seeds for the automation of outsourcing services. Internal networks mushroomed and internal email appeared.

In the mid-1990s, the worldwide adoption of the Internet and the ability for computers to communicate between each other changed everything. Five centuries after Guttenberg invented the printing press, the Internet revolutionized the way people interacted and exchanged information.

The Internet provided plan sponsors with tremendous potential for efficiency by allowing them to be connected 24/7 with their suppliers and by giving them the ability to disseminate information to their employees on demand. Exchange of critical plan data between sponsor and supplier is as easy as downloading music to an iPod.

Information Immediate
For employees participating in an employer-sponsored pension or benefits plan, the Internet rendered access to information immediate. Members of flexible benefits plan can enroll and re-enroll annually from the comfort of home. Insurance companies and other recordkeepers developed online tools where employees can check their account balances at any time. Members of Defined Benefits pension plans have immediate access to pension and termination quotes that used to take several weeks, if not months, to generate. Annual pension disclosure statements are now archived in web portals where members have 24/7 access. Many plan sponsors are no longer sending paper copies annually. Instead, employees are alerted when the documents have been posted on the web portal.

In some respect, the advances in technology can be best described as high on expectations and low on delivery. One such example is the paperless society. Of course, most documents have gone digital. However, this hasn’t resulted in the use of less paper yet. When documents were on paper, people photocopied a lot. Now that documents are in digital format, people print more.

The change in mindset brought about by the new technologies has been as important, if not more, than the actual technological advances. Online tools didn’t become mainstream until well into the 21st century as legacy systems being replaced or significantly modified. In a perverse way, the move to outsourcing by plan sponsors has given the industry the time it needed to catch up.

All the while, sponsors demanded better cost efficiencies and started to dedicate themselves to more strategic endeavors.

It is too early to determine the impact social media will have on the industry. It is difficult to imagine the announcement of a new piece of legislation going viral. However, the appetite to share information can only grow, especially given the abundance of platform choices (Microsoft, Apple, PC, tablets, smartphones, Android, etc.).

‘Clouds’ On The Horizon
As exciting as the next 20 years promise to be, the ‘clouds’ on the horizon are security concerns. As the world becomes almost exclusively digital, identity theft and online fraud are on the rise. Plan sponsors and suppliers must be extremely diligent as gatekeepers of personal information on millions of people.
Making the systems more complex and intelligent is a challenge for the next 20 years. As devices and platforms make the world even more mobile, information has to be even more tailored to individual needs.

Happy Anniversary, BPM.

Jean-Guy Sauriol is president of SECLON Inc. and seclonLogic inc.

Governance:

‘What Is Pension Governments?’

By: Gord Lewis

In 1991, Silence of the Lambs was playing in theatres, Bryan Adams was at the top of the charts, and hair was still fairly big. The news was saturated with images from the first Gulf War, the break up of the Soviet Union was becoming passé, and the TSE 300 was at 3,272 points. All of this and a new magazine for the pension industry – Benefits and Pensions Monitor – was just getting started.

Fast forward 20 years and while the music has definitely changed and hair has been somewhat tamed, there still remains national and political upheaval around the world. Given the volatility we’ve seen in the markets recently, there may be some people that believe the TSX Composite may end up back at 3,272.

Not surprisingly, the pension industry has evolved along with the rest of our world.

Key Element

Governance is now a key element for all pension fiduciaries and their plans. Twenty years ago, the term ‘governance’ was not something well understood by many involved in managing their company pension plan. In fact, I often tell the story that when I started with Proteus in 1997 and mentioned ‘pension governance’ to prospective clients, they would on occasion reply with ‘what is pension governments?’

Managing pension investments and fund choices is an important part of governance and by the early 1990s most Defined Contribution plans had evolved to a point where they had available to them a wide range of investment options. While this continuing increase in DC plan options was often touted as a good way to promote diversification and help create portfolios that matched a member’s risk tolerance, some might argue that the introduction of more choice did little more than confuse plan members.

Fund choices and investment strategies have continued to develop and evolve, as evidenced by the introduction of new strategies and fund families. The range of funds and asset classes continues to increase making the plan fiduciary’s job of identifying the ‘appropriate’ choices that much more difficult. Should small cap, emerging markets, or hedge fund strategies be included?

Another aspect of the investment decision that has changed over the years is the access to foreign markets. Recognizing Canada’s limited size on the world’s financial stage, the ability to invest pension assets outside of Canada had been of keen interest – espe-
Great-West Life provides you more ways than ever to connect with us. Our cutting-edge technology enhances your experience, but first-rate service has always been the cornerstone of our business. We are your Benefits Solutions People.

Electronic claims submission across the board

Provider eClaims
On-the-spot claims submission at approved chiropractors, physiotherapists and visioncare providers

Member eClaims
Plan members can submit their own claims online – it’s simple and secure

Health SolutionsPlus
Our revolutionary approach to healthcare spending accounts uses a Visa® payment card for paperless claims at approved providers

87% auto-adjudication
- Our systems process a sophisticated series of checks
- It’s fast – plan members usually receive benefit payment within 24 to 48 hours

Detecting fraud: built-in, state-of-the-art controls
- Only approved providers can use Provider eClaims to submit claims on behalf of their customers
- The Health SolutionsPlus card only works for eligible expenses
- Online claims are subject to random audits

Harnessing mobile technology

DrugHub iPhone app – our virtual medicine cabinet
- Search thousands of medications – ingredients, interactions and side effects
- Set reminders to take medications on schedule
- Know when medications are running low, when to order refills and more

Two-way text messaging
Coming soon: our automated service channel will allow plan members to text us questions and get instant answers. How it works:
- Plan member texts: “chiropractor”
- Great-West responds: “You are covered up to $40 per visit, to a maximum of $400 per year”

Text message claim notification – an industry first
Plan members can submit a claim online and if the claim is auto-adjudicated, receive a text message that advises the claim has been processed and payment will be deposited into his or her bank account.

GroupNet mobile app
All the convenience of Great-West’s GroupNet for Plan Members on mobile devices – coming in 2012

Personal service
Our convenient technology is backed by the largest sales and service team in the industry in 42 offices from coast to coast. More than any other benefits provider, we are where you are.

DrugHub – information you can trust from your Benefits Solutions People

Visit the Apple App Store and search for “DrugHub”, or use your iPhone, iPod Touch or iPad to download the app from this poster. Scan this Tag to link directly to DrugHub in the App Store.

* Get the free mobile app at http://gettag.mobi

Two-way text messaging

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employee covered by DB plans during the same period.\(^1\) While the trend is evident, it is worth noting that DB plans continue to make up the greater portion of the pension industry with approximately 30 per cent of all Canadian workers covered by DB plans (down from 41 per cent in 1991) and only six per cent in DC plans (up from four per cent in 1991).\(^1\)

This shift from the DB structure is even being experienced within the largest companies. In 1980, 90 of the Fortune 100 companies had a DB plan. By 2009, that number had dropped to 45. Within that same group, the number of companies offering a DC plan moved from 10 to 55 by 2009.\(^1\)

**Interest Rates**

Interestingly, interest rates have had a significant impact on pension plans over the past 20 years. As the bulk of pension assets continue to reside within DB plans, the affect of declining interest rates over the past 20 years has resulted in improving fixed income returns, but, in most cases (disproportionately), increasing the liabilities of those same plans. With rates at historic lows, DB plans are feeling the pain like never before and some may conclude that this in part accounts for the declining trend in DB plans.

We have seen a lot of attention paid to pension reform over the past several years – much of which has been in reaction to the challenges – actually, problems – that DB plans have faced. One could argue that changing some of the regulatory rules to make it easier on plan sponsors is simply putting more of the risk onto the members. However, the regulators appear to have balanced that thought with the consideration that if the pension obligation ultimately puts the plan sponsor out of business, that doesn’t help the employee or their pension.

One element that has not changed over the years is our desire to be comfortable in retirement. What has changed is the amount of awareness employees have regarding what may or may not be involved in helping them reach that comfort level. Reliance on CPP and other government sponsored programs continues to make up an important element of Canadians’ retirement incomes. In 2003, the government took the bold step to help stabilize and strengthen the CPP by increasing the contribution amounts. This move helped to ensure the benefit will be around when all of us need it.

What has changed the most? There is no doubt the amount of information and resources available to help interested plan members better understand their plans and the associated investment options has dramatically increased. One need only ask the individuals responsible for developing these tools at the various record-keepers and consulting firms and add up the millions of dollars spent on this front. While everyone seems pleased and impressed with the actual tools and resources available, I don’t hear too many expressing satisfaction regarding the level of usage by the plan membership. In a nutshell, while the pension industry has been evolving and improving over the past 20 years, the ones that have the most to benefit from those developments seem to be the slowest to embrace the changes and take full advantage of them.

Maybe they will by 2031.

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\(^1\) CBC.ca May 26, 2009

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**Investment:**

**Responsible Investment Grows Up**

By: Jane Ambachtsheer & Ryan Pollice

Any report on the financial market trends and developments of the last 20 years would not be complete without a discussion of responsible investment. The practice of integrating environmental, social, and governance (or ESG) considerations into investment decision-making and ownership practices is now well past the teen years.

What began as an approach for certain religious groups in the 1700s, is now a new paradigm for capital markets. While not all investment professionals are implementing a robust ESG approach, we predict this will change over the next decade as the world’s largest asset owners, investment managers, consultants, and brokers increasingly understand its value.

That sea of change is expected to develop on several fronts. At this writing, regulatory carrots and sticks are...
being applied in Canada and around the world, requiring companies to disclose ESG information and pension funds to disclose how they’re monitoring ESG issues in their investment decision-making process. Asset owners and managers are also being encouraged to be more active stewards of capital; are increasingly driving capital to low-carbon solutions; and are being called on to play a more transparent, diligent role in promoting stable, well-functioning capital markets.

Assets managed by Canadian signatories to the United Nations-backed Principles for Responsible Investment now total more than $800 billion as of November 2011. We expect the amount of assets subject to ESG integration to grow steadily in Canada and worldwide as the investment and wider social benefits of responsible investment continue to pay off.

Investment:

Re-thinking Investment Beliefs

By: Blake C. Goldring

In the past 20 years the pension industry has grown and changed at an incredible pace. In fact, the last numbers reported by the Canadian Institutional Investment Network show Canadian pension assets under management at approximately $1 trillion, an increase of more than three-fold. This growth has occurred

Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1700s</td>
<td>The Quakers are credited as being the first group of investors to apply social criteria to their investments.</td>
</tr>
<tr>
<td>1900s</td>
<td>Investment-grade climate and energy policy necessary to attract large-scale investments in solutions to climate change.</td>
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<tr>
<td>1930s</td>
<td>The first screened market index – the Dow Jones Industrial Average (DJIA) – is launched by KLD in the U.S.</td>
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<tr>
<td>2000</td>
<td>The first best-in-class global index is launched, the Dow Jones Global Sustainability Index.</td>
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<tr>
<td>2005</td>
<td>Many investors continue to assert that they are legally prevented by fiduciary or equivalent duties from factoring ESG issues into their decision-making and ownership practices.</td>
</tr>
<tr>
<td>2006</td>
<td>Mercer now tracks more than 70 sustainability-themed equity strategies as part of its manager research.</td>
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</tbody>
</table>

Jane Ambachtsheer is global head of Mercer’s responsible investment business and Ryan Pollive is a responsible investment analyst.

1. As of November 1, 2011. A listing of current PRI signatories is available at: http://www.unpri.org/signatories

ReSponsIBLE INVeSTMenT – A TImeLINe

1970s – early 1980s
The Quakers are credited as being the first group of investors to apply social criteria to their investments and avoid investing with those who earn their money through alcohol, tobacco, weapons, or gambling. In 1978, the Methodist Church in the United States helped create the first public offering of a screened investment fund (The Pioneer Fund).

1960s – 70s
In the late 1960s, SRI receives public attention as part of the growing opposition to the Vietnam War and student protests call for universitites to divest from military contractors in their investment portfolios. Around that time, the U.S. Securities and Exchange Commission promulgates social responsibility ‘issues’ to appear on a proxy ballot.

1980s
The SRI movement becomes more widespread with the screening of investments in South Africa. In 1976, the Reverend Leon Sullivan (at the time a board member for General Motors) proposes a code of conduct for U.S. companies operating in South Africa, known as ‘The Sullivan Principles.’ Companies operating in South Africa are asked to sign the code and commit to non-discriminatory labour practices. Cities, states, colleges, faith-based groups, and pension funds throughout the U.S. begin systematically divesting from companies operating in South Africa in 1988.

1986
Launch of the Ethical Growth Fund, the first socially-screened mutual fund in Canada. Today, the Canadian Social Investment Organization calculates that asset management firms investing funds under SRI mandates (managed under strategies that employ social and environmental screening) total approximately $46.3 billion in assets.

1989
In 1989, the Canadian Social Investment Organization is created to promote the practice of SRI in Canada.

1990
The first screened market index – the Domini 400 Social Index – is launched by KLD in the U.S.

1995
The International Corporate Governance Network (ICGN) is founded with the aim of raising standards of corporate governance worldwide.

1999
Portfolio 21 is the first fund to focus on investing in sustainability ‘leaders’ (companies with an explicit commitment to the environment). Mercer now tracks more than 70 sustainability-themed equity strategies as part of its manager research.

2000
The first best-in-class global index is launched, the Dow Jones Global Sustainability Index.

2003
The United Nations Environment Programme Finance Initiative (UNEP FI) forms the Asset Management Working Group (AMWG), a global platform of mainstream asset managers that collaborate to understand the impacts of ESG issues on investment value. The Canadian Coalition for Good Governance (CCGG) is formed with the mission of representing Canadian institutional shareholders through the promotion of best corporate governance practices. Members now include 48 institutional investors representing $2 trillion in assets under management.

2005
Many investors continue to assert that they are legally prevented by fiduciary or equivalent duties from factoring ESG issues into their decision-making. As a result, UNEP FI commissions Freshfields Bruckhaus Deringer, a leading international law firm, to review the legal implications of considering ESG issues in Australia, Canada, France, Germany, Italy, Japan, Spain, the UK, and the U.S. The firm concludes that “… integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.”

2006
The UN-backed Principles for Responsible Investment (PRI) are launched as an investor-led initiative providing a voluntary set of six principles addressing how investors can incorporate ESG issues into their decision-making and ownership practices.

2008
The CFA Centre for Financial Market Integrity publishes ‘Environmental, Social and Governance Factors at Listed Companies: A Manual for Investors,’ focused on the methods used by investment professionals to analyze ESG factors. This report is followed by a growing body of academic and practitioner literature on the materiality of ESG issues across a range of asset classes and investment approaches.

2009
In the U.S. and Europe, investor networks promoting responsible investment lead efforts to introduce mandatory ESG transparency by the Securities and Exchange Commission (SEC) and the European Commission. In late 2009, the SEC begins to allow shareholder proposals to include the phrase “financial risk” in discussing environmental and other issues.

2010-2011
The Financial Reporting Council (UK) publishes the UK Stewardship Code. Additional principles-based codes emerge at both the country and regional level including in Canada, where the Canadian Coalition for Good Governance (CCGG) publishes the 2010 Principles for Governance Monitoring. Voting and Shareholder Engagement.

2010
Canadian Social Investment Organization launches the Canadian SRI Lifetime Achievement Award in recognition of contributions to the Canadian responsible investment industry. Michael Jantzi, CEO of Jantzi-Sustainalytics, is awarded the inaugural award. Jane Ambachtsheer, Mercer, is recipient of the 2011 award.

October 2011
The ‘Carbon Disclosure Project 2011 Canada 200 Report’ finds that many companies now integrate climate change into their strategic planning. The ‘2011 Global Investor Statement on Climate Change’ was issued to global leaders on October 19, 2011, in advance of the COP 17. The statement is supported by 285 investors, representing assets of more than $200 trillion and outlines elements of an “investment-grade climate and energy policy” necessary to attract large scale investments in solutions to climate change. Signatories to the letter include seven Canadian institutional investors.

The Alberta Investment Management Corp. announced it has sold $17.5 million in directly managed stock of tobacco companies held by public sector pension funds and the Alberta Heritage Savings Trust Fund. The decision to divest is related to the announcement that the province is preparing to file a lawsuit against tobacco companies to recover healthcare costs for smoking-related illnesses. The decision to divest from tobacco shares is a first for a Canadian public plan.

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against a backdrop of increased market volatility, a pronounced shift to non-domestic investment strategies, and the emergence of a new era for all asset managers.

**A Volatile Environment**

As I sit to write this article, we are in the midst of yet another episode of market volatility and the headlines are reminiscent of the 2008 global financial crisis and the Asian crisis of 1998. Investment performance across all asset classes during this time has challenged even the most experienced investment professionals and put tremendous stress on plans, plan sponsors, and their participants. With the rates offered by Canadian government bonds at all-time lows, the entire institutional community is being forced to rethink many long-held investment beliefs. For instance, many plan sponsors are now starting to decrease their allocation to domestic bonds in favour of emerging market bonds.

**A Global Perspective**

We, at AGF, started observing globalization trends back in the early ’90s when we first established our European offices. We saw that the forces of globalization then beginning to reshape the world economy would require investment management organizations to focus globally as never before.

As a result, a number of Canadian investment firms started building international offices as they realized that being on the ground in foreign markets would be crucial to developing relationships and winning mandates with new institutional investors.

A turning point for Canadian institutional investors came with the elimination of Canadian foreign content limits which provided plans with an opportunity to increase their allocation to foreign bonds and equities and most have taken advantage of it. This has led to increased competition in the Canadian markets and allowed many firms to broaden their investment capabilities to meet these changing needs.

**A New Era**

In the last decade, a combination of low interest rates, an overall economic downturn, and declining stocks became known as the ‘perfect storm’ by those who manage DB pension plans. And many believed it spawned a new era of sophisticated investors with a new set of goals and requirements. In order to meet those needs, asset managers have had to develop rigorous investment processes and risk management controls requiring a greater investment in operations and human capital. It is important to note that these processes and controls have increased the hurdle rate for current and potential institutional players making it more difficult to compete successfully in this increasingly competitive and consolidating industry.

The Canadian investment industry has made significant strides in promoting its high quality global investment capabilities and has established itself as a major player on the institutional global stage. While this remains a challenging time for global markets, we believe that investment management companies will need to focus on providing clients and investors with exceptional service and a diverse product suite that delivers long-term performance to remain successful.

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By: Bruce Grantier

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**Trio Of Developments Shape World**

Among the most important developments for the financial/investment world over the past 10 years are:

- the financial crisis of 2007/2008
- the growth in derivatives
- the growth in electronic and media communication

In this brief note, I have included various readings on these three points.

I don’t mean to underestimate the significance of 9/11, but to me that event had more impact on geopolitical and sociological values and priorities as opposed to the finance/investment world. As the reader probably did on the 10th anniversary of 9/11, I too did some reading of this topic and would note the September 3, 2011 ‘Economist’ lists a number of good books on this topic.

**Financial Crisis**


After reviewing a long and diverse history of financial crises, Reinhart and Rogoff discuss their crisis index – the ‘BCDI’ (banking, currency, debt, and inflation). They conclude the 2007/2008 crisis ranks with the great depression in financial impact, although not in GDP decline. They point out that banking crises are pervasive and indiscriminate; they occur in both rich and poor, large and small economies – in contrast to economic contractions which depend on type and wealth of economy. The banking crisis in Europe is a vivid reminder of the ongoing financial crisis, which – at time of writing – very likely will lead to extensive bank bailouts. The fallout of the 2007/2008 appears likely to last long after the trough in stock prices in March 2009. It dominates financial news.

In the pension investment field, ‘risk’ has become by far the dominant topic. Pension funding status has been seriously eroded through recent equity declines and record low real and nominal interest rates.
Success

depends on seeing things differently

Towers Watson congratulates Benefits and Pensions Monitor on bringing 20 years of insight to employee benefit plan sponsors and pension fund investment managers.

Towers Watson. A global company with a singular focus on our clients.
Sponsors are turning to Defined Contribution pension plans and closing Defined Benefit plans. They are also turning to liability driven investment in desperation at a time when real and nominal rates have been driven to record lows.

**Derivatives**

The growth in derivatives has been significant, often dwarfing the physical securities markets of which they are derivative. These include the many forms of mortgage-backed securities, collateralized debt obligations, asset backed commercial paper, credit default swaps, etc. The growth in derivatives is linked to, and was a major cause of, the financial crisis. At the root of the sub-prime crisis was poor quality housing loans, but it was the derivatives that these mortgages were packaged into that really became the problem. Original buyers of mortgage backed securities often were the only ones privy to the exact contents and terms of their MBS deals. Secondary markets were scarce.

The CAIA program at the time (the CFA for alternative investments) taught the ‘waterfall’ priority of payments system for collateralized mortgage obligations. The first payments go to the top tranche and so forth – like a waterfall – so the top tranches would have to have everything under them receive zero before they were affected – quite an extreme scenario. Ironically, at the same time as I studied this in the CAIA course, the market for MBS refused to accept their theoretical value and auditors responded by requiring CMO holders to write down these assets.

This eventually caused collateral problems, a freezing up of markets, the end of Lehman Brothers, and institution of TARP. AIG’s claim to fame – development of the CDS market – was its eventual demise. Great, but depressing, reading is found in Michael Lewis’ ‘The Big Short’ and Erik Sorkin’s ‘Too Big to Fail.’

**The Internet**

Finally, the growth in electronic communication and media has had an enormous effect on how we operate and interact. I belong to several research committees whose meetings are all virtual, no one attends physically. I met a colleague recently at a PIAC conference whom I have been on a committee with for three years and had never met face to face. I suppose this means that we are more efficient, but we respond by taking on more and, sadly, it also means we lose personal connections.

The tremendous pace of data and communication growth has been nicely summed up by Charles Ellis in a recent rendition of ‘The Winners Game’ in the FAJ (July/August 2011): “Bloomberg, the internet, email ... have created a technological revolution in global communications ... Investment research reports from major securities firms in all major markets around the world produce enormous volumes of useful information that gets distributed almost instantaneously via the internet to tens of thousands of analysts and portfolio managers who work in fast-response decision-making organizations.” Ellis goes on to offer suggestions as to what is important in investment management – a return to focus on fitting investment service to the long-term objectives of the investor and a shift away from short-term objectives to long-term values.

**Bruce Grantier** is retired managing director of Scotiabank Pension Assets and founder of InvestorLit.

**Pensions:**

**Bar Shifts For Pension Plans**

By: Calvin Jordan

Twenty years ago, we thought life was tough. The pension industry was struggling to understand lots of new rules. Within a few short years we had to adapt to pension reform, new accounting standards and a completely new structure of limits under the Income Tax Act.

But we didn’t know how easy we had it. Our most common funding problem was deciding what to do with surplus. Contribution holidays were common, as were early retirement windows. Pension committees were accustomed to considering benefit improvements every time an actuarial valuation was completed.

**Good Deal**

Lots of Defined Benefit plans converted to Defined Contribution. Well-funded DB plans made this easy to accomplish. There was frequently enough surplus to provide benefit improvements as part of the conversion that made this appear to be a good deal for everyone. And with the capital markets performing well, many members seemed eager to take on the DC risk.

Managing investments also used to be comparatively easy. Investment policies (if a pension plan even had one) were straightforward. Asset allocations didn’t stray far from 60 per cent equities and 40 per cent universe bonds, with a 10 per cent limit on foreign content. For many pension plans, this was managed under balanced fund mandates. Sponsors and consultants focused most of their investment related efforts on investment managers; meeting with them, comparing their returns with peer universes, and replacing them. These were activities that arguably contributed little long-term value.

Alternative investments were limited to small allocations to real estate if they were used at all. Liability driven investment and the tools that go with it weren’t even on the radar screen.

Simpler times meant that we were different too. Expertise tended to be less specialized. This was certainly true of investment managers, with fewer more homogenous asset classes. External advisors were frequently jacks-of-all-trades, claiming to be experts on everything from funding and design to investment strategy, manager selection, compliance, and communication. Pension staff also tended to have less expertise. Pensions were typically part of the responsibilities...
of human resource or finance management. Even full-time staff of larger pension plans were too often little more than circus ring-masters, providing external advisors with a contact and co-ordinating internal committee meetings.

Since Benefits and Pensions Monitor published its first issue, the professionalism and expertise of both external service providers and internal staff has come a long way. Many pension plans have significantly improved the quality of their internal and external resources. Unfortunately, this progress has been uneven.

**False Savings**

Too many pension plans continue to lack dedicated staff with deep subject matter expertise. For very small pension plans that lack scale, this is understandable, but only to a certain extent. In my view, it is a false savings for all but the smallest of DB pension plans to manage expenses by not hiring the best possible internal specialists. Between the avalanche of new rules of 20 years ago (and those emerging now as part of current pension reform) and the extreme funding challenges that we have faced over the last decade, the pension world has become much more complicated. This has dramatically changed the depth and breadth of resources that a DB pension plan requires to have a fighting chance at being successful. And when you are dealing with the dollar amounts that are usually at stake, it doesn’t take much for the right kind of resources to pay for themselves.

So as we congratulate Benefits and Pensions Monitor on its 20th anniversary, let’s ask ourselves ‘Do we have the right resources so our pension plan will be here to also congratulate them on their 40th?’ Before you answer, be careful. It is too easy for self-assessments to provide false positives. While these assessments are difficult, the stakes are so high that pension committees need to seriously grapple with this question. The bar has shifted. Is your pension plan ready for the challenge?

**BPM**

Once the sleepy purview of insurance companies and estate lawyers, pension issues have taken on a life of their own during the last two decades, now capturing the attention of Canadians on a regular basis. How timely, then, to have created a publication 20 years ago to report on an industry that was about to be transformed – Happy Anniversary Benefits and Pensions Monitor!

What follows is my Top 10 list of developments in the Canadian pension world over the past 20 years.

1. **Pension Reform** (a long time ago!)

Pension reform in the late ’80s and early ’90s (as the Monitor was launched) took the form of enhanced minimum standards for benefits, stricter funding requirements, modernized investment rules, and new regulatory powers. Despite consistent themes, however,
20 YEARS OF INDUSTRY CHANGE

Each jurisdiction adopted various twists, creating an unnecessary lack of uniformity in pension legislation across Canada.

2. Surplus Debate
One of the issues driving pension reform had been the creation of new rules regarding the treatment of pension surpluses. However, the rules weren’t always clear and, failing further direction from policy-makers, the courts got involved. The trust vehicle, by which many Defined Benefit plans were funded, began to colour the surplus ownership debate and eventually such disputes, with other issues to follow, would make their way to the Supreme Court of Canada.

3. Insolvencies, Wind Ups and Deficits
Unfortunately, corporate insolven-cies, pension plan wind ups, and plans in deficit were also making headlines in the early ’90s. Corporate reorganizations and other transactions also began to muddy the pension waters with issues such as partial wind ups, pension plan mergers, conversions, and asset transfers.

4. Tax Reform
Pension tax reform, also in the early ’90s, introduced further complexity for plan administrators and their advisors to sort out (such as PAs, PSPAs, and PARs). As tax limits on the accrual of Defined Benefits remained stagnant, plan sponsors began looking to other vehicles (whether funded or not) such as RCAs and SERPs to provide promised benefits beyond permitted limits.

5. Social Issues
It was only a matter of time before broader social issues began to influence pension plan design. The abolition of mandatory retirement, court cases dealing with the division of pension assets on marriage breakdown, and the introduction of same-sex benefits (also through the courts) forced policy makers (sometimes grudgingly) to accommodate these realities. Issues of financial hardship and shortened life expectancy had a similar impact.

6. Pension Plan Governance
From the adage “what’s good for the goose ...” there emerged a growing recognition in the last decade, within the pension industry and among regulators, that the way in which pension funds are managed is just as important as the governance of companies in whose shares such funds are invested. Thus we saw the development of governance guidelines for both DB and Defined Contribution plans.

7. Greater Awareness of Retirement Income Issues
Many factors have likely contributed to this increasing awareness on the part of Canadians – changing demographics as Boomers neared retirement, increasing life expectancies, DB funding challenges and high profile pension insolvencies, increasing investment choice for DC plan members, and an emerging interest by the media in retirement income issues.

8. Funding Challenges
A ‘perfect storm’ of low market returns (reducing assets) and historically low interest rates (increasing liabilities) happened not once, but twice in the last decade, seriously eroding retirement savings and fueling debates about DB funding rules, accounting rule changes, and default investment options (for DC plans).

9. Regulatory Consultation
A positive outcome from the past 20 years of pension world challenges is an increased recognition that communication and consultation are essential to resolving difficult issues. Rather than assume that they have all the answers, pension regulators (often through CAPSA) and policymakers (through independent expert reviews and government-based consultations) have shown an increasing willingness to involve industry stakeholders in addressing change.

10. Pension Reform
And now we’ve come full circle, 20 years later, back to pension reform. This time, however, there’s a greater urgency to get it right and to ensure that pension reform evolves more dynamically in the years ahead. Increased advocacy efforts on the part of many industry stakeholders have made it clear that a 20 year cycle of pension reform is simply not acceptable and that policymakers and regulators must remain engaged on a regular basis with those whose responsibility it is to manage the retirement income interests of Canadians.

Scott Perkin (B. Comm., LL.B.) is the founder of pensionworX, offering consulting services to pension stakeholders on a variety of issues. He previously served as president of the Association of Canadian Pension Management from 2004 to 2010.

Investment:

Generational Change In More Ways Than One

By: Jonathan Passmore

To say that the world has changed in the last 20 years merely pays lip service to the dramatic movements we have experienced in markets, economies, and geopolitics in the last two decades. Since 1990, the Soviet Union has disappeared; the U.S. became the world’s sole superpower, militarily and economically (see later re: China); Germany has reunited; non-Japan Asia has moved from bust to boom; Continental Europe has coalesced (partially); Japan has stagnated; China and India have emerged as the new economic growth engines; and consumerism has
become a global phenomenon.

At the same time, investors have been given unparalleled access to global stock markets through the introduction of ETFs, a broadening/expansion of fund offerings and, in Canada’s case, a loosening of investment restrictions that dictated the extent to which their pension plans could be invested externally. As a result, today’s investor may include a multitude of asset classes and products in his or her portfolio, diversifying risk, opportunity, and return in a way unimaginable two decades ago.

**Investment Opportunity**

Two major factors lie at the heart of today’s investment opportunity: the growth rate of the emerging/developing economies and the impact that growth has had around the world; and the perils of leverage, from the indebtedness of the emerging markets in the ’80s and ’90s to the crisis in today’s developed world.

The opportunity afforded to the troubled market economies of Asia in the late ’90s to hit the reset button was grasped with both hands. The shift from debtor to major creditor through the creation of massive trade surpluses has been extraordinary, shifting the political equation in ways we are just starting to grasp. While American capital was the fuel that drove emerging economies before, its lack of ‘stickiness’ made investing in those markets perilous indeed.

Fast-forward to the present day and we see a much different, yet startlingly similar, picture.

Years of exporting products to Western consumers has created huge trade, current account, and budget surpluses. Economies that a few years ago were teetering on the edge of oblivion now can finance their futures and pull their populations into the middle class and beyond. This consequence of globalization was unimaginied by the Western world until recently. To take it a stage further, China recently has enjoyed the world’s largest and most successful vendor-financing deal. It lends developed markets the money to buy their products. China recycles its foreign exchange earnings back into the U.S. (via Treasury purchases, for example), supplying additional liquidity to hungry Western consumers. Of course, the success of their corporations in satisfying tireless consumers has made their stock markets interesting as well and the appearance of emerging markets funds has attracted huge investment compared to 20 years ago. In fact, today we lament the relative inadequacy of China’s weight in popular benchmarks, noting that the weight of Chinese stocks in an emerging markets index compares poorly to the power of China’s role in the world today.

One of the reasons China and other Asian nations have become so successful and wealthy in such a short period of time is the willingness of Western consumers to live beyond their means, tempted by a seemingly inexhaustible quantity of cheap credit. In addition to ample money supply, the ability of financial institutions to leverage their spending power through the sale of asset-backed securities, for example, has had a multiplier effect on the system that is only now being challenged.

While the dangers of leverage were seen in the Long-Term Capital Management crisis of 1998, the subsequent supply of funds to the market and a continued low interest rate environment made the ramifications of LTCM easy to ignore. With the transition of corporate balance sheets from careful stewardship to maxi-
Careless Lending

The impact of careless lending and borrowing has been felt most deeply in the housing markets of the U.S. and in the sovereign markets of Europe. Since late 2009 when the extent of the Greek debt problem was first revealed, the world has realized:

▶ the widespread nature of the problem
▶ the difficulties of controlling the problem

The corrosive effect of indebtedness in a market where asset prices are not rising (and inflation is negligible) is profound. And while the impact on individuals in a period of declining home values and joblessness is huge, the impact on governments is arguably worse. Confronted with years of austerity, the countries of Europe (and elsewhere) will be unable to further leverage themselves, denying their markets the very fuel they need to survive.

But in what may turn out to be a fortuitous connection between the two points made in this article, China, and the rest of the newly wealthy emerging bloc, may have the answer to the developed world’s problem. If time is the solution for countries working their way out from under a load of debt and the developing world sees a generation of steady, profitable growth ahead, perhaps the latter can help finance the former? Perhaps all that is required is a decent rate of return.

Death By A Thousand Cuts

By: Paul Owens

The challenge is to identify the single most important event that has impacted the Canadian pension landscape, particularly the decline in pension coverage in the private sector. The problem is there are so many candidates, and they are not limited to the last 20 years.

Chronological Order

In more or less chronological order, here are, in my view, the key ones.

Starting in the 1970s and continuing to the 1990s, a series of court cases tilted the Defined Benefit plan historic belief that surplus belonged to the party that paid the deficits (whether employer in a single employer plan or both employers and plan members in certain types of cost sharing arrangements) to a reliance on trust law as the basis for determining ownership of the surplus. The problem this led to were it removed any employer appetite for building up a funding cushion and crystallized, at a point in time, a finite amount of surplus in what was historically viewed as a potentially 75 year liability stream with wide variations between surplus and deficits along the way.

We also have the changes to the Income Tax Act that came into effect in the early 1990s. These changes had their origins in the 1980s when Marc Lalonde (Liberal) was finance minister and were implemented when Michael Wilson (Conservative) was the finance minister. These changes had two profound effects. The first was to, in government parlance, ‘level the playing field’ as it related to tax-assisted retirement savings. The problem was the methodology used to calculate the value of DB accruals discriminated against most DB plans because the ‘factor of 9’ used to value the annual accrual was based on the 1990 level of interest rates and design components were largely based on major public sector pension plans. The second change was to replace the guidelines used by Canada Revenue Agency (72-13R7) with very, if not excessively, detailed regulations under the Income Tax Act. Back then, some plan sponsors felt that 72-13R7 was too subjective and open to inconsistent interpretation. The detailed regulations that replaced 72-13R7 eliminated the subjectivity, but at a major shift to complexity. It reminds one of the old adage ‘Be careful, you might get what you wish for.’

The changes to pension accounting standards, both in the late 1980s and now with the introduction of IFRS (International Financial Reporting Standards), changed pension expense from the amount of employer contributions made to the plan in the plan in the year to the amount of the benefit earned in the year adjusted for prior gains and losses. The result – particularly for private sector, single employer, DB plans – was that the focus shifted from funding adequacy over the long term to managing increasing volatility in pension expense over a much shorter period, a year at best.

The volatility of investment returns from 1990 to today is another factor. We have experienced at least four periods – the boom years of the 1990s; the bursting of the ‘tech bubble’ early in this century; the recovery up to 2007; and finally the problems from 2008 onwards – be they the Asset Backed Commercial Paper crisis or the U.S. housing and subsequent financial meltdown in Europe to the ongoing problems which started on 2010. The challenge is not that these events occurred, but that plan sponsors need to resist simply extrapolating the future based on the most recent event, be it the bear market of 2008 or the recovery of 2009. Rather, plan sponsors need to recognize that market returns are cyclical, not a uniformly straight line up.

Traditional asset mix policies of 60 per cent equities/40 per cent bonds need to be challenged in today’s environment. How
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20 YEARS OF INDUSTRY CHANGE

Pension Legislation
Finally, we have pension legislation as reflected in the various Pension Benefits Acts / Pension Benefits Standards Acts. Absent a few recent events, such as the joint Alberta / British Columbia Expert Commission and the CAPSA Multi-Lateral Agreement, most of the proposals or legislative changes over the last two decades have not narrowed the differences between the various acts. If anything, they are wider now than ever. As well, there has been a decided increase in the overall funding requirements for single-employer DB plans. This is in contrast to the treatment given public sector plans in some jurisdictions, where many have been exempted from solvency valuations.

When one looks back over the last 20 to 25 years, the pension system in general and the DB system in particular were probably robust enough to withstand any one, or even two of these challenges. The pension system was not designed to handle all of these and the cumulative impact has taken its toll. It is a classic case of the whole being greater than the sum of its parts.

The question for the next 20 years is whether the downward trends will continue or, if given a period of reasonable returns and minimum changes to the regulatory environment, the system will stabilize at where it is now. Predicting accurately where we will be in 2031 will be as difficult as accurately predicting in 1991 what 2011 would look like.

Paul Owens is a member of the Provincial Judges Pension Board at the province of Ontario and the investment advisory committee at Archdiocese of Toronto. He is former CEO at the CAAT Pension Plan.

DB Pensions:
Downloading Retirement Savings To Individuals Risky Proposition

I extend congratulations to Benefits and Pensions Monitor on its 20th anniversary.

As Monitor celebrates this milestone, I, too, am reaching one. I will be stepping down as CEO of the Healthcare of Ontario Pension Plan at the end of the year, capping a 30-year career in the pension business.

As I look back on my long career, the most important trend I see is the diminishing, inadequate pension coverage being provided for Canadians, coupled with the fact that they are largely being left on their own to save for retirement.

Disheartening Trend
In the past, the majority of Canadians were covered by Defined Benefit plans in the workplace, and the trend away from them is disheartening. There’s no better, more efficient, or more effective way to deliver meaningful, adequate retirement income to people than the DB model.

DB has a lot of strengths that other types of retirement savings arrangements don’t have. What you get from these plans is clearly defined – you know in advance what you’re going to receive as a pension. Investment is handled by professionals.

With any other arrangement, you really don’t know what you’ll get and investment is usually up to you. Ask the person who retired from a Defined Contribution plan in early 2008 if the markets affected their pension amount.

The shift to individuals saving on their own has led to some alarming consequences.

The average Canadian has only around $60,000 in his or her RRSPs at the time of retirement. One reason why the average is so little is this – not many Canadians know when to buy, when to sell, and when to hold, or even what type of investments they should have. Some, facing this, choose to invest solely in GICs or money markets, fearing losses. Such decisions keep account balances low.

You can’t live for 20, 25, or 30 years on $60,000. To have annual income of $25,000 a year, you need to save $500,000 in an RRSP or DC plan. This is a sad truth that most people don’t learn until the day comes when they realize their $60,000 RRSP isn’t going to cut it – and they will have to keep working.

With DB, you have a co-operative arrangement between member and employer. An income replacement target is set in advance by the formula. Contributions are made throughout the member’s career, matched by the employer, and adjusted up and down as necessary over the long haul. Those contributions are mandatory.

DB plans operate at a fraction of the cost of retail mutual funds – HOOPP’s investment cost was just 0.26 per cent in 2010, compared to the 1.5 per cent to 2.5 per cent retail funds charge. Low fees mean more money for paying pensions and a fee of just 1.5 per cent, compounded over 20 years, can reduce the assets available to pay a pension by a stunning 30 per cent.

Those who oppose the DB model
worry about its sustainability, the fact that costs can vary, and its complexity. HOOPP, which is fully funded, has had stable contribution rates since 2004 and will continue at those rates until at least the end of 2013. This shows DB can work.

**Not Enough To Live On**

In my view, the DC model is the one that’s not sustainable. People aren’t getting enough out of these plans to retire. In Australia, where government-mandated DC plans are the norm, contribution rates have risen from six to nine and soon to 12 per cent (the employer contributes, the member doesn’t) because retirees simply didn’t have enough to live on. In 2010, the average Australian male had just $130,000 in his DC account at retirement; females had just $45,000. Nearly two-thirds of Australians run out of DC funds altogether by age 75, half live below the poverty line.

So, even in a DC world, costs can’t be guaranteed for the employer. There’s no guaranteed outcome which leads to problems for governments – who need to help out struggling seniors – and for employers, who will find workers reaching retirement age who can’t afford to leave.

I encourage the next generation of leaders to look beyond today’s costs and to focus on outcomes rather than inputs. Making adequate retirement income a priority for future generations is critical, otherwise, we will face a societal divide.

**Future Consumption**

In effect, when governments or individuals borrow, they advance future consumption into the present. Conversely, when you save, you defer consumption to a later time. That economic context becomes important when you consider the implications of debt on an increasingly globalized economy.

In theory, one consequence of global free trade is greater equilibrium in standards of living. In practice, frictional factors will work to prevent full equilibrium – things like distribution of natural resources, system of government, the status of the legal system, and so on – but the world is moving in that direction.

Debt plays a role, too. Higher standards of living in developed nations are due in good measure to governments and consumers advancing their consumption excessively through debt. That situation can continue as long as the lender is comfortable that it has some prospect of repayment, and the borrower has confidence in its ability to repay. But, as debt levels rise and both parties get nervous about repayment, the status quo collapses, as we have seen.

The rise of debt, the current nervousness with regard to debt levels, and the subsequent unwinding of that debt will accelerate the move towards equilibrium in standards of living.

Nations who are deferring consumption (i.e., those with high savings rates) are the significant lenders to the over-consum ing developed nations. Ironically, lenders include much of the developing world. As those developing countries continue to improve living standards, they will, in effect, demand repayment of their deferred consumption. We will then begin to move towards equilibrium in standards of living.

China and the U.S. offer an example. China’s massive trade surplus with the U.S. equates to China leveraging the standard of living in the U.S. As China increases its domestic consumption, it will seek repayment for its goods and services. To do so, the U.S. must reverse (or at least reduce) the trade deficit by cutting domestic consumption and making its exports more competitive through productivity improvements (technology, training) or devaluing the U.S. dollar. Not a rosy picture, but moving to equilibrium means gains for some and sacrifices for others.

Europe’s own sovereign debt crisis illustrates another side to the problem, which is a crisis of confidence about a nation’s ability to deal with its debt. In other words, debt matters because lenders now think it really matters and it’s hard to convince them otherwise. As with a run on a single bank, a single country with a high debt to GDP ratio is ill equipped to withstand a ‘run on the bank’ by itself.

**Austerity Measures**

Concerns about a particular country manifest themselves as higher interest rates, yet efforts to shrink deficits through austerity measures and asset sales inevitably also shrink a country’s GDP, reducing its ability to cope with higher financing costs. That is why it is extremely difficult, if not impossible, to shrink your way to prosperity, as Greece is finding out.

The European Central Bank is also discovering that it is very hard to regain control in a crisis of confidence. Massive policy responses only work if the market thinks they are sufficient – sufficiency being a relative term defined by very skeptical investors.

Market skepticism and the Tea Party’s ‘debt is evil’ mentality aside, it is per-
20 YEARS OF INDUSTRY CHANGE

20 Years Later, The Fiduciary Standard Emerges From Retirement

By: Warren Laing

n 1991, the TSX rang in the New Year at 3256.75. Oil was trading at $20.20 a barrel and a dozen eggs cost 85 cents. That same year Douglas Coupland aptly labelled the anti-label cohort, ‘Generation X,’ informing them that, ‘Adventure without risk is Disney-land’. Today, the adventure he spoke of, at least as it relates to financial markets, is anything but Disney.

And yet, roller coasters abound. The commodities plunge in 1990 prefaced the dot.com fizzle of 2001 only to be overshadowed by the recessionary spiral of 2008.

Like lemmings compelled to the edge, investors and many advisors scurried to sell off holdings that should have been held, investments that should have remained invested. As Rob Carrick asks in his August 13, 2011, article; ‘wanted: A portfolio flotation device,’ “Nothing is more predictable than a rush into bonds at a time when stocks are falling hard, even if the current move is especially dramatic. But aren’t investors supposed to buy low? Aren’t stocks the place to put new money right now, not the high-flying bond market?”

Where does that leave us?

Permanent Shift

An RBC poll conducted this spring says that 44 per cent of retired Canadians now carry debt into retirement up from 39 per cent just a year ago. An April 7, 2011, Globe and Mail article titled, ‘Employees turn their backs on traditional pension plans,’ observes that “… the financial crisis appears to have led to a permanent shift in the attitudes of companies sponsoring pension plans … with employers planning a conversion to DC intent on doing so regardless of whether economic conditions improve, or a more sponsor friendly legislative environment appears …”

And those employees are among the lucky ones.

What about the 11 million Canadians that have no workplace pension plan at all? Even if that number is discounted and we employ Keith Ambachtsheer’s 5.5 million (those Canadians that will have a significant gap between their CPP/OAS payments and their pre-retirement income), the number of those ill-prepared for retirement, either imminent or distant, is staggering.

The good news is that we’ve learned something through these two decades of market turmoil. Investment advice is necessary. As Jack Mintz states, “Even with all the education in the world, literacy can only go so far. Even the best and brightest who are busy with their own professions will not have the time to become financial experts. I want my doctor to know something about medicine, not which investments to make.”

The danger, however, lies in allowing that advice to be provided by advisers either unqualified to deal with the growing complexities of the markets and/or have a self-interested motivation.

Bill Carrigan in his October 29, 2011, Toronto Star article, ‘Check the skills of your financial adviser,’ sums up the advice channel simply, “At the bottom of the sales/adviser food chain are the frontline bank branch mutual fund sales representatives. Next is the in-house financial planner. Some of these sales people/advisers will aspire to move up the food chain and become fully licensed investment advisers. At the top, we have the associate portfolio manager and the portfolio manager. These advisers will provide discretionary portfolio management services.”

 Governance:

In essence, IC/PMs take the investment decisions out of the hands of ill-equipped investors and make qualified investments only on their behalf.

The Canada Pension Plan Investment Board naturally has the portfolio management registration. Any Defined Benefit plan likewise. Should not all working Canadians benefit from this same high standard, a standard that by definition carries with it a fiduciary responsibility?

Knowledge Gap

Bob Baldwin, in his 2009 research study on the Canadian Retirement System, refers to what he calls, “the asymmetry of knowledge between consumers and sellers.” That knowledge gap puts any adviser in a privileged position. Advisers, therefore, must recognize the responsibility that comes with that privilege. Welcome to the return of fiduciary management.

No doubt, pension reform will have many suitors over the next 20 years. Whether it be Ted Menzies’ Pooled Registered Pension Plan, an enhanced

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1. Source: Standard Life Investments Limited, gross performance from 01/02/2006 to 30/06/2016. Volatility of Absolute Return is the annualised standard deviation of monthly full return. 2. MSCI World (GDR) volatility is calculated using 10-year logged daily returns. Volatility of benchmark returns is the annualised standard deviation of monthly MSCI World (GDR) returns. 3. As of 31/12/2015. Source: Standard Life Investments Limited. 4. Some of the Canadian GARS funds will be offered as a private placement only. 5. Source: Standard Life Investments Limited. GARS is not guaranteed, a capital protected product or a substitute for cash. In order to achieve its investment objectives GARS will make extensive use of derivatives.

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1. Standard Life Investments Limited, utilized in all presentations. Fund performance based on institutional Jared pension fund, gross basis. 2. Source: Standard Life Investments Limited, utilized in all presentations. Volatility of Absolute Return is the annualised standard deviation of monthly full return. 3. MSCI World (GDR) volatility is calculated using 10-year logged daily returns. Volatility of benchmark returns is the annualised standard deviation of monthly MSCI World (GDR) returns. 4. As of 31/12/2015. Source: Standard Life Investments Limited. 5. Some of the Canadian GARS funds will be offered as a private placement only. 6. Source: Standard Life Investments Limited. GARS is not guaranteed, a capital protected product or a substitute for cash. In order to achieve its investment objectives the fund may make extensive use of derivatives.
20 YEARS OF INDUSTRY CHANGE

CPP, or a host of other measures yet to be imagined, what will remain consistent is a need to create broad-based, efficient, welcoming structures that all Canadians can believe in and, thusly, invest in. Regardless of the specific structure, a fiduciary overlay will only serve to grant them the necessary permission to invest in that belief. Instead of wondering, ‘how did we get here?’ then, the question we should be asking ourselves is ‘why did it take so long?’

Warren Laing is chairman and chief investment officer at Open Access.

Custody: 20 Years Of Custody In Canada

By: Tom MacMillan

The technology, players, and market demands of Canada’s custody industry have changed significantly over the past 20 years, but one thing remains the same: clients continue to value a custodian they can trust to deliver consistent, professional, and highly-responsive service.

Compared to 20 years ago, the investment world has gotten much more global and complicated, with a proliferation of strategies, investment vehicles, and regulatory requirements – even as timelines continue to compress. The numbers are bigger and the stakes are higher, and we see more instability and more frequent crises.

Today’s investors have more robust governance standards, routinely requiring performance information and real-time data. Increasing demands in the market have led institutional investors to become much more focused on their custodians’ performance, looking at the health of our companies, systems, controls, and technology.

Clients want to know about our internal and external audit results, about our risk management and business continuity preparations, and even our employee engagement performance. I heartily applaud clients’ rigor and diligence in this area, the custody industry is the better for it.

From custodian to asset servicing provider

Historically, custodians have always been expected to deliver operational excellence, including timely reconciliations, smooth trade settlements, and consistently accurate valuations – we are still judged on these factors today.

What has changed is that clients have come to see custodians as critical business partners and problem solvers. Technological advances have enabled exchanges, depositories, and custodians to perform market operations much more efficiently.

At the same time, clients have recognized that custodians’ view to the entire trade lifecycle can enable access to valuable information. Repositioning themselves as ‘asset servicing providers,’ custodians have expanded their capabilities and deployed rich new reporting and information management systems in response to clients’ needs.

Fewer players – but greater competition

We’ve seen significant consolidation in the industry – from more than 15 custodians 20 years ago to four large providers who today serve 90 per cent of Canada’s market. Custodians need enormous scale to support the necessary research and development investment to keep up with clients’ needs, which is driving consolidation around the world.

An example of this was the formation of our 50 per cent parent BNY Mellon in 2007, which now is the world’s largest custodian, servicing nearly US$26 trillion of assets. BNY Mellon reinvests more than US$1.5 billion annually into the technology powering its products and services. Ironically, having fewer suppliers has actually made the market much more competitive: we are on our toes as clients choose among ever better offerings.

2008 financial crisis and a new focus on risk management

Today’s emphasis on risk and transparency was perhaps born out of the events surrounding the 2008 market collapse. I was never prouder of our company than when we were able to successfully manage all of our positions with Lehman so that none of our clients experienced an operational disruption, a loss, or trading restrictions. Our risk management programs performed as planned and, with a huge amount of effective teamwork, we passed this test with flying colours.

The Lehman bankruptcy underscored the critical importance of strong governance and risk management, and I would say the entire industry is better for the experience.

The next 20 years

Looking forward, I believe that the demand for reporting, risk management, transparency, and market information will continue to accelerate. Institutional investors will be under tremendous pressure – from regulators and their clients while operating in the expected low-return environment over the next few years. We are going to see increased trading volumes, more sophisticated investment vehicles, more globalization, and a continued shortening of timelines.

I think the relationship between institutional investors and custodians will continue to deepen as clients continue to demand more and better reporting. You can get custody information on an iPad today and I’m sure tomorrow will bring even more advanced information delivery. Clients will be looking to custodians for products and services that help increase returns, reduce costs, and reduce risk. Securities lending is a great example of this, providing a stable source of risk-adjusted returns to offset costs or augment returns.

In some ways, I am envious of those just starting their careers in custody and of the investors who will rely on their services. The technology powering today’s marketplace can be very enabling and it will continue to improve. It is very grati-
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20 YEARS OF INDUSTRY CHANGE

fying to solve a client’s problems and I think custodians are well positioned to help institutional investors stay ahead of the huge demands facing them in the years ahead.

In my opinion, it all comes back to quality client service and trust – 20 years ago, today, and 20 years from now. Clients need to know that we are honest, diligent, committed to solving problems, and striving every day to provide quality value-added services. As I look back over the past 20 years, I am very proud of the fact that the role of the custodian has evolved to the point where we are now viewed as valued partners and essential suppliers to our clients.

Three Bubbles

The recent 20 year period saw three bubbles:

1. an absolutely absurd hi-tech bubble ending in the year 2000
2. a real estate housing bubble based on unjustified low interest rates
3. the gold/commodity bubble now ebbing

Since 1991, Canada has benefited from the appreciation of our currency, while investing in U.S. dollar assets was a negative expressed in our currency. While the ‘Great Recession’ effects have been relatively modest in Canada, the drop in commodities is a negative. Canada also runs a large current account deficit and real estate is overpriced while consumers remain over-indebted.

Most Defined Benefit pension plans (a dying species) are woefully under-funded across North America, especially based on a continuing low interest rate environment and now facing stabilized or declining corporate profitability. The Canadian stock exchange (TSX) diversification availability has shrunk materially from 20 years ago, making it increasingly difficult for Canadians to allot major percentages to Canadian equities, forcing them to seek out more non-Canadian dollar equities.

Another major change is the availability of new financial ‘products.’ Exchange traded funds hardly existed in 1991. Alternative investments (private equity, real estate, hedge funds, derivatives, gold, and commodities) are all new and some such instruments – packaged mortgages – have proven defective.

Much that needed change has not changed. Canadian securities commissions still employ experts with major conflicts of interest and so do not truly carry out their own main mission – investor protection. On the other hand, the Canadian Coalition for Good Governance has become a major force to curb executive greed and to sharpen corporate board attention to fiduciary responsibility. Executive compensation, now overseen by weak boards and force fed by conflicted ‘consultants,’ remains far too high, although we are hopefully seeing signs that this is slowly ebbing. Greed is under somewhat better control due to the CCGG members, together constituting more than $2 trillion dollars of investment funds, pushing for more attention to certain issues such as majority voting, division of CEO and chairman functions, and others. These initiatives are helping, but excessive compensation and noxious elements (options, supplementary pensions, stock gifts, takeover protection) still remain in place. Mercenary executives continue to retard true teamwork, company ethics, and culture. Far too many directors do not have the knowledge, nor the passion, to be the boss rather the CEO’s collaborators.

Period Of Greed

Looking at the current situation, we live in a period of greed which has fed an image of fat cats becoming wealthier, while the population becomes poorer and the middle class erodes. Capitalism is seen as having bought the politicians (especially in the USA) leading to the public becoming increasingly disaffected and feeling that true democracy no longer exists.

From the economic standpoint, the low interest rates and the high indebtedness of consumers and governments means little to no growth for years ahead and a consequent major danger to pensions of an increasingly older population.

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Pension Funds – The Last 20 Years

By: Stephen Jarislowsky

Twenty years ago, pension funds had problems, but nowhere near the problems of today! Interest rates were coming down, meaning lower, but still reasonable returns. Interest rates gave positive net returns over inflation and the falling rates provided capital appreciation. Today rates are so low on government bonds that inflation exceeds the 10-year Government of Canada rate and, as such, short-term money provides negative real returns.

Twenty years ago, stocks started a huge bull market lasting until the year 2000 after which U.S. shares fell against the inflation rate over the next 10 years – a period which has lasted until the present as the Dow Jones average today is at actual 2000 levels. The Canadian experience has been better, helped by a higher Canadian dollar and a strong raw materials commodity market since 2002. Canadian stocks have had a good run, but today, with quasi world recession, the commodity boom is unraveling.

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Tom MacMillan retires as chairman of CIBC Mellon’s board of directors on December 31. He served as president and CEO of CIBC Mellon from 1998 to 2009.

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Investment:

Pension Funds – The Last 20 Years

By: Stephen Jarislowsky

Looking at the current situation, we live in a period of greed which has fed an image of fat cats becoming wealthier, while the population becomes poorer and the middle class erodes. Capitalism is seen as having bought the politicians (especially in the USA) leading to the public becoming increasingly disaffected and feeling that true democracy no longer exists.

From the economic standpoint, the low interest rates and the high indebtedness of consumers and governments means little to no growth for years ahead and a consequent major danger to pensions of an increasingly older population.

Stephen Jarislowsky is chairman, CEO, and director of Jarislowsky Fraser Investment Counsel.
The origin of the expression ‘May you live in interesting times’ is still debated, but is said by some to come from an English translation of an ancient oriental proverb, or curse. I would dare to say, as investors and plan sponsors alike, that we have never in recent times witnessed a more interesting and challenging environment than that we face today, nor perhaps felt more cursed.

The dramatic shift in the landscape for pension plan sponsors over the past 20 years is a story in two parts. Part one features equity bull markets that extended into the 1990s to set a high bar on investment return expectations. This allowed an increasing number of pension funds the luxury of declaring contribution holidays and benefits enhancements. These return expectations strongly reinforced the classic 60/40 allocation convention – 60 per cent equities / 40 per cent bonds – despite the fact that fixed income yields were actually progressively coming down from their historic highs. It seemed reasonable to assume that equities could continue to do the heavy lifting and bonds would provide the safety net.

Then the ride got bumpier.

As the century and millennium turned, a tech boom went bust. A shock to the system, certainly, but this alone did not undermine pension funds. The positive effects of long-run rising equity markets were still in place and pension finances remained generally healthy. Just as markets were recovering their poise and a new generation of economic powerhouses was born with the BRICS, a second and much larger financial crisis was building.

This foreshadows part two of the story, and it is the part that has changed everything.

**A Paradigm-changing Crisis**

The biggest financial crisis since the Great Depression was visited upon us beginning in 2007, and its aftershocks and reverberations will continue to be felt for some time to come. A mortgage meltdown quickly turned into a liquidity crisis and credit crunch, all dramatic terms which have been used as short hand for the fundamental dislocation in markets that occurred. Taken by surprise, pension funds have, in many instances, been faced with pension surplus to facing up to an underfunding crisis today. Add to this the persistent volatility in markets and all the conventional return on asset assumptions are now being called into question.

In retrospect, the 2000s looks like a lost decade for most equity investors. When you factor in the risk taken, the results become even more negative. You can add to this the fact that bond yields are now repeatedly hitting record lows.

The response by investors has been to say that equation doesn’t work anymore, we need to be much more conscious of our risk budget if we are going to sustain our investment program. It has to make more sense not just from a return point of view, but also from a risk-adjusted return point of view. And, therefore, what we need to be able to deliver as a provider, as an advisor, is solutions that actually adjust for risk, because that is now our clients’ focus.

So the big theme we would identify post-crisis is the arrival of risk as a principal decision-making criterion for many pension investors today. Clients are gaining comfort from a different discussion which is much more about the degree to which they are properly compensated for the risk they take. Their interest now lies in exploring the kinds of outcomes they can achieve with their investment program, and what those outcomes look like when adjusted for risk.

**A Need For Risk-reduction Innovations**

At TD Asset Management, our pedigree in risk management has been helpful to clients in these problem-solving conversations. It stems from the fact that we started in institutional investing as an

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**Risk Management:**

From Maximizing Returns To Reducing Risks:

The New Priority For Pension Investments

By: Robin Lacey

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indexer. We have developed an intimate knowledge of benchmarks and the benchmarking of risk, and that has provided us with a sound foundation when it comes to innovating newer risk-adjusted solutions.

The appropriate performance measure these days is different, and typically it is going to be a liability cash flow stream, or it might be pension surplus volatility. Our clients have embraced low volatility approaches to traditional investing is a newer metric being followed by pension funds. That’s a function of the changing rules they are required to abide by. Pension finance now sits under IFRS on the income statement of corporations that sponsor Defined Benefit plans, with heightened sensitivity to volatility in pension finance on the part not just of finance professionals, but also of chief executives and boards of directors. Think of the relationship between the P&L, income statement, and the corporation’s share price.

Funds are generally more comfortable talking about alternative approaches to traditional investing, rather than resorting to opaque and illiquid alternatives. A good example would be their use of derivatives. A growing number of our clients have embraced derivatives as a means of better hedging interest rate risks for their total liability profile. Interestingly enough, we have a manifold increase in the size of our hedging business in recent years, not because we are doing more currency hedging, but because we are doing more liability hedging.

Another example of an innovative approach to traditional investing is low volatility equities. Investors had become wedded to a market capitalization index as their equity performance benchmark. We have really moved away from that convention. We have explored in great depth the relationship between returns and risk in equities and that’s caused us to pioneer a number of new strategies in Canada which are essentially risk-based strategies. Our approach is about engineering a portfolio where risk is the primary selection criterion. It has proven possible to generate very competitive returns on equity investments, using low volatility approaches, with as much as 30 per cent less risk than a traditional index-based approach.

Volatility Here To Stay

The common perception is that volatility is here to stay. A number of our clients have embraced low volatility equity investing very early in its life, to a point where we already have more than a billion dollars invested in the approach with a little over two years of history since launch.

As we think about ways in which we can help our clients, we have to anticipate that there will be further stress on the system. Economies will struggle, markets will be very volatile, and any solution that you build has to anticipate these facts and must take account of, and adjust for, risk. You need to be able to project to your client, with conviction, the type of outcome they can expect in the midst of all this volatility.

If we juxtapose the 1990s with the situation that we face today, I think it is reasonable to suggest that our clients, particularly those that sponsor DB plans, have never been under more pressure when it comes to delivering on the pension promise. This is causing them to re-visit conventional wisdom on pension investments.

Interesting times indeed.

Volatility Here To Stay

Pensions:

‘Perfect Storms’ Prompted Reviews

By: Christopher A. Brown

Looking back over the 20 years of Benefits and Pensions Monitor’s history, numerous significant events have shaped the current state of the pension environment in Canada. Precedent-setting court decisions, such as Schmidt v. Air Products, Monsanto, TransAmerica, Kerry, and others, have become part of the pension vernacular. Other events, such as the failure of plans deemed ‘too big to fail’ and the low return / low interest rate environment precipitating not one, but two ‘perfect storms’ for pension plans, have also had far-reaching consequences.

The impact of those events and others culminated in several governments undertaking reviews (in whole or in part) of the pension systems in their jurisdictions during the latter years of the last decade. The Ontario Expert Commission on Pensions, the Nova Scotia Pension Review Panel, and the Alberta/British Columbia Joint Expert Panel on Pension Standards, along with the federal government’s Menzies review, brought unprecedented attention to the issues facing pension plans and their members.

Valuable Contributions

Those reviews each made valuable contributions, despite different mandates and different perspectives, to the dialogue around how to address the issues and how to make the necessary improvements to ensure the existence of a stable and secure retirement income system for all Canadians. Numerous similarities can be found in the conclusions and recommendations of the reviews, including:

- favouring principles-based regulation and risk-based supervision models
encouraging the development of new plan types, subject to customized rules
• focusing on rules which ensure that promises made are kept
• enhancing communication and disclosure to plan members
• bringing clarity to the fiduciary obligations owed to members
• identifying the benefits to members of larger plans operating at lower cost
• considering the benefits of automatic enrolment with opt out features
• highlighting the importance of inter-jurisdictional harmonization of pension rules

However, despite those similarities, numerous differences in their recommendations also existed, relating to:
• whether the system is truly in a state of ‘crisis’ or just needs ‘tweaking’
• whether national, regional, or provincial solutions are preferable
• the roles of government, the private sector and organized labour in the system
• whether a ‘one-size-fits-all’ solution or flexibility of options is optimal
• the balance between flexibility in funding rules and benefit security
• the role of ‘super plans’ and employer-sponsored plans
• the merits of mandatory, opt out, and voluntary participation

Since the tabling of the reports by the respective panels, much research, discussion, and debate has ensued and continues today. Some governments have begun to implement initial legislative changes, albeit none of them could be considered the comprehensive updating to the system envisioned by the reviews. Other governments have yet to take any concrete action, some three years later.

What most now agree upon, at least, is that issues do remain. There are clearly issues that continue to face the Canadian pension system and, as a result, all Canadians. Whether one’s perspective is that those issues are targeted ones facing a discrete portion of the population or that they are larger systemic issues, there is consensus that action is still needed to bring about meaningful change.

‘Silver Bullet Solutions’

In recent months, much of the discussion has centred upon the search for ‘silver bullet solutions’ – ones that will cure all of the system’s ills in a single fell swoop. Some have called for significant expansion of the Canada / Quebec Pension Plans. Others choose to rely on the proposed Pooled Registered Pension Plans (PRPPs).

However, those discussions have lost sight of where the current dialogue began. The impetus for change came from recognition that, while Canada has one of the best retirement income systems in the world, improvements were needed. All of the reviews called for new models and new thinking, building upon the strengths of the system to help address its weaknesses. None called for one single solution and most of the subsequent research supports that view. Canadians do not all face the same issues in preparing for retirement and they want and need options for retirement income accumulation that recognize their diverse circumstances.

The issues that brought about the need for reflection upon the challenges facing our pension system were many and varied. Canadians cannot then expect that the solutions will necessarily be simple ones, either. But, those challenges are also not insurmountable. Systemic improvement is not going to happen overnight, nor will the same solutions work for everyone. However, Canadians now recognize the importance and the need for change. It is time for our elected leaders to heed that call for change, ignore calls for unrealistically simple solutions, and roll up their sleeves to get the job done.

Christopher A. Brown is managing partner of Spectrum HR Law LLP and president of the Association of Canadian Pension Management.

Pensions:

The Canada Pension Plan – A Success Story

By: Gretchen Van Riesen

There have been many times in the past 20 years that the pension industry has advocated for changes to the pension system to improve efficiencies, coverage, or structure. Sadly, many of these advocacy initiatives have been unsuccessful, often due to lack of collaboration, bad timing politically, or poor communication.

There is one significant reform initiative that was distinctly successful — the revisions to the CPP in the late 1990s to ensure its future sustainability. Since its introduction in 1965, the CPP has undergone a number of reforms, mostly to add benefits or to add flexibility. For the 30 years after its inception, full annual cost of living indexation of benefits was introduced; survivor and dependent benefits were implemented (including same-sex common-law relationships); earning tests for early retirement benefits were removed; marriage breakdown provisions added; early retirement at age 60 was introduced; and disability benefits increased significantly.

Starting in the late 1980s, it became apparent to many that the emerging critical issue was the financial health of the CPP. Demographic factors showed that the aging population in Canada and increasing longevity of Canadians would make the current levels of contribution unsustainable, particularly when there would be a smaller working population to support the costs of benefits for the large numbers of baby boomers soon to start retiring. In short, the CPP’s ‘pay-as-you-go’ system, where contributions were set at a level that would accommodate pension payouts and provide a contingency fund of two years’ worth of benefits, would not be supportable in the future, and some form of prefunding was essential.

Though it took some for this realization to lead to government action, the federal and provincial governments did get their acts together in the late 1990s when they launched a cross Canada public consultation process involving pension experts, industry associations, and individual Canadians. Seeking suggestions and strategies from such a broad cross section of Canadians was a significant and laborious process, but led to a solid set of conclusions and recommendations for putting the CPP on a solid financial footing for the future.

These sustainability changes included:
• increasing total CPP annual contribution rates (employer plus employee) from six per cent of pensionable earnings in 1997 to 9.9 per cent by 2003 in order to provide a stronger revenue base
• moving from a ‘pay-as-you-go’ system to a financial structure to take advant-
20 YEARS OF INDUSTRY CHANGE

tage of investment earnings on accumulated assets, with the ultimate goal of having a reserve fund equal to 30 per cent of accrued pension obligations.

- creating the CPP Investment Board (CPPIB) to manage the investment of contributions on a broadly diversified basis.

The process leading to these momentous changes to CPP are a success story which has made Canada’s employment-based pension program one of the best in the world. Achieving this through collaboration with both the Canadian public and the provincial and federal levels of government was a significant and rare achievement, and has greatly enhanced the long-term viability of the CPP and its ability to provide meaningful benefits in the future.

A significant game changer has been the shifting of risk from governments and employers to individuals. Benefits such as workplace retirement plans and out-of-country travel insurance that were traditionally offered through the workplace or by the government are often no longer available. The upshot of this is that Canadians increasingly need to take charge of their own and their families’ financial security and well-being. The life and health insurance industry has responded with products that help them to do that, not only through life, disability, and retirement products, but through ‘living benefits’ products. These products include critical illness insurance and long-term care insurance, both of which are still relatively new in the Canadian marketplace. Canadians are also living longer and in the last two decades, for example, the growth in annuity benefits has resulted in an increasing proportion of benefits being paid to living policyholders.

Another example of the shifting of risk to the individual has been the decline in companies offering pension plans. More than 50 per cent of Canadians working in the private sector do not have access to a pension plan. Moreover, for those who do have plans, there is a continuing shift from Defined Benefit to Defined Contribution pension plans as companies struggle with the funding costs, legal liabilities, and unnecessarily complex legislation surrounding DB plans. In Canada, the industry plays a major role in helping people save for retirement through insurance and pension products including DC plans, group and individual RRSPs, life annuities, and segregated funds. A timely new initiative will be low-cost Pooled Registered Pension Plans (PRPPs) that the federal and provincial governments will be implementing in the near future. The CLHIA believes that PRPPs will be attractive to small and mid-size employers who don’t now offer workplace retirement plans and will help fill the gap for private sector workers.

Further, as we look back at what has been happening with healthcare since the late ’80s, we are seeing an ever-growing awareness by Canadians of the impact of the rapidly increasing costs of care, including prescription drugs. Governments are now, more than ever, concerned about the sustainability of the public healthcare system in the face of ongoing cost increases that exceed economic growth and which are being driven by the introduction of costly new medical technologies, pharmaceuticals, and an aging population. The same cost pressures are being felt by employers in Canada, particularly small and medium-sized businesses, who are examining their supplementary benefit plans to find ways to combat burgeoning costs. The life and health insurance industry shares Canadians’ concerns about the increasing costs of healthcare and has been a major advocate for promoting lower drug costs, particularly generics.

The industry has understood for some time now that there are significant challenges ahead with respect to our country’s aging population. For example, accommodation in a long-term care facility can cost from $800 to $5,000 per month, depending on the room type and the level of government funding available. Research has shown that most Canadians are unaware that they are responsible for their own long-term care needs. As a result, few are preparing themselves adequately for this eventuality. This is an issue that requires urgent discussion by governments and private industry to find viable solutions.

In Need Of Modernization

From a legislative and regulatory perspective, the many changes in the marketplace, including new products, new sales and delivery methods, and new technologies have outpaced a number of provisions in the current legislation, leaving them badly in need of modernization. The CLHIA has been encouraging provincial governments to...
re-examine and update their Insurance Acts, particularly the uniform life and accident and sickness sections, to reflect the current circumstances under which we are operating. We are very pleased that Alberta and British Columbia have now updated their legislation while other provinces have either begun the process or have committed to do so.

Finally, the Canadian life and health insurance industry has continued to grow and has become an international success story. Canadian companies now operate in 21 countries around the globe, which account for almost half of the industry’s premiums. Three companies are ranked among the top 15 in the world.

The Canadian life and health insurance industry is here to stay. We have been around for close to 175 years and intend to be here for your children’s grandchildren – and beyond.

Frank Swedlove is president of the Canadian Life and Health Insurance Association (CLHIA).

I’m very pleased to take part in this special 20th Anniversary of Benefits and Pensions Monitor. The last two decades have brought considerable change to our industry, and Benefits and Pensions Monitor has been an invaluable source of news and expert analysis throughout. We at Morneau Shepell would like to take this opportunity to look at how the industry has evolved and offer our perspectives on what’s next.

In 2011, for the first time, we as a country will spend more than $200 billion on healthcare. As measured by the Canadian Institute for Health Information, per capita expenditure from public- and private-sector funding sources has increased 57 per cent in the last 20 years, from $2,590 in 1991 to $4,069 in 2010 (measured in constant 1997 dollars). Individuals are now spending considerably more on health: per capita out-of-pocket spending has nearly tripled over the last two decades – from $278 in 1988 to $762 in 2010, and per capita expenditures by employer-sponsored insurance plans have increased from $139 to $648 over the same period.

Evolved Considerably
Canada’s retirement system has evolved considerably over time. Increased global competition, demographic shifts, and greater employee mobility are among the factors that have spurred employers to shift from Defined-Benefit to Defined- Contribution programs. DB plans are under significant pressure in light of low discount rates, volatile equity markets, and accounting standards that make transparent the financial risk of a DB plan. According to Statistics Canada, in 1991, 41 per cent of all workers were covered by a DB pension; by 2006 this figure had fallen to 30 per cent. Over the next five years, the number of private-sector workers covered by DB pensions fell from 2.1 million to 1.7 million.
20 YEARS OF INDUSTRY CHANGE

Bill Morneau is executive chairman of Morneau Shepell.

Top 10 Happenings After The Next 20 Years

By: Harry Marmer

1. As bond yields have tripled since their lows, investors now understand that a bond represents something more than a relationship between a mother and child.

2. Defined Benefit pension plans are now taught in the ancient history program at the University of Toronto.

3. To perfect your pension fund governance structure, you eliminate all your fellow members and consultants.

4. To pay off the U.S. debt, President Herman Cain sends in the ‘Budweiser Girls’ to capture Canada during the Grey Cup.

5. The official Euro currency is Canadian Tire money.

6. Madonna tops the charts with her new hit ‘Like a Pensioner’.

7. The credit agencies close up shop after realizing there is no one left to downgrade.

8. The Leafs still do not win the Stanley Cup.

9. To outstrip desktop use by 2014, recognizing this shift, we recently introduced the My EAP app for smartphones, a first from an EAP provider, that provides users with access to E-Counselling, health and wellness articles, and ‘Life-speak On Demand’ video clips.

10. The CPPIB Owns ALL the Equity in Canada.

Harry Marmer (CFA, MBA) is executive vice-president, institutional investment services, at Hillsdale Investment Management Inc. He gives credit to the following individuals, in alpha order, who creatively contributed to this list—Ari Veittiaho, Brian White, Carlo DiLalla, and Carmen Staltari.
Dear Readers ...

Every great magazine begins with a dream. In 1991, Brian McKerchar and I created Benefits and Pensions Monitor to serve Canadian plan sponsors in the areas of pension fund investment and employee benefits management. It was a bold move at that time, but our industry experience dating back to 1976 told us it was the right thing to do.

It is a great pleasure for us to see how well the industry responded to our ‘vision.’ Now, 137 issues and more than 8,000 pages later, our business-to-business magazine is firmly established as the market leader in so many ways.

If you remember 20 years ago, cell phones weighed 10 pounds, people used typewriters with Liquid Paper, letters were sent by snail mail, and Defined Benefit plans ruled the country. Over these last 20 years, times have changed.

Today, while I try to figure out how to use my new ‘smartphone’ and how to stream movies to my widescreen TV, personal interviews by Starch Research showed us that each issue of Benefits and Pensions Monitor now reaches as many as 140,000 people. Thousands of readers also tune in every working day to our Daily News Alerts at www.bpmmagazine.com

That’s where our theme for our 20th Anniversary Issue comes in. Our goal is to provide you – the reader – with a perspective from industry experts. We hope you enjoy our look back at the changes over the past two decades. You can’t forecast the future without looking at history.

To our readers and our advertisers, it’s been a pleasure serving you.

Sincerely,

John L. McLaine
Editorial Director & Publisher
Celebrating The Past

The 20th Anniversary of Benefits and Pensions Monitor marks another milestone for the publication. Since its launch in December 1991, the magazine has marked these occasions by hosting events to signify the occasion and say ‘thank you’ to its loyal readers, advertisers, contributors, and advisors. Pictured here are the events marking the launch of the magazine in 1991 and its 10th and 15th anniversaries. And while the faces have aged, they show that many of our supporters from the beginning have been with us the entire journey.
The Complexities Of Cancer

By: Gordon Polk & Johnny Ma

You have Cancer. These are the words no one wants to utter or hear. The Canadian Cancer Society estimates that 40 per cent of Canadian women and 45 per cent of men will develop Cancer during their lifetimes. The myriad of uncertainties and questions this disease brings can be overwhelming. While the successful treatment of most diseases can be described in terms of treatment outcomes, Cancer is described in terms of survival rate.

The term Cancer is often used as if it were one disease. Rather, it is many different diseases with one commonality. It is difficult to treat. Different approaches to treatment include surgery, radiation therapy, and drugs (chemotherapy). Each option may be suitable depending on how early the Cancer is detected as well as the part of the body effected. Not only is Cancer difficult to understand and treat, but the pathway to care may be even harder to navigate and comprehend.

Complex Coverage

In 2009, the Canadian Cancer Society published a report which described cancer treatment funding in Canada as a “patchwork system of drug coverage … leading to financial hardship for many cancer patients.”

The Canadian Cancer Society report showed that:

- About 50 per cent of newer cancer drugs are taken at home and, as a result, patients are responsible for the cost
- About three-quarters of cancer drugs taken at home cost more than $20,000 per year
- The average cost of a single course of treatment with more recent cancer drugs is $65,000 – almost as high as the average annual income of Canadians

In 2011, this patchwork system does not appear to be any different. Research from the ‘Cancer Therapy Navigator Database’ reveals the coverage complexities created in provincial healthcare systems for 50 cancer drugs approved in Canada since 1995 (Figure 1) as well as a subset of recently approved drugs from 2008 (Figure 2). These figures illustrate to what degree each provincial cancer drug program funds a new treatment. Further, it demonstrates the impact that newer (and more expensive) cancer drugs will have on plan sponsors and private benefits plans across Canada.

The British Columbia Cancer Agency (BCCA) funds the highest percentage (close to 80 per cent) of the 50 representative cancer drugs. More than half of these cancer drugs have treatment criteria (green) that must be met, while the other half are funded on a case-by-case approval basis (blue). At the other end of the spectrum, PEI’s hospitals and cancer centers fund less than 10 per cent of the cancer drugs studied. PEI residents have to depend on private plans or out-of-pocket expenditures to cover essential medications.

We had a glimpse of how intricate these coverage disparities can be earlier this year with the emotionally charged case of Jill Anzarut in Ontario. Anzarut has breast cancer and was denied coverage for Herceptin, a cancer treatment she would have been eligible to receive if she lived in British Columbia, Alberta, or Saskatchewan. The controversy arose because she was denied coverage as her tumour was deemed too small (half-centimetre in diameter) to qualify her to receive Herceptin coverage in Ontario. This politically sensitive issue ultimately forced the Ontario Public Drug Programs jointly with Cancer Care Ontario to create a new ‘Evidence Building Program’ as a way to accommodate these gaps in coverage.

Complex Decisions

Effective July 13, 2011, the Pan-Canadian Oncology Drug Review (pCODR) began accepting new drug submissions for review. The pan-Canadian Oncology Drug Review (pCODR) was established by the provincial and territorial Ministries of
Health (except Quebec) to assess the clinical evidence and cost effectiveness of new cancer drugs and to use this information to make recommendations to the provinces and territories to guide their drug funding decisions.

The goal of this process is to bring consistency and clarity to the cancer drug review process, ensuring individual provinces and territories can make drug funding decisions informed by evidence.

As experience has shown, equal access to cancer therapies in each province will most likely not occur since each province funds cancer drugs differently. For those provinces which decide not to fund or delay funding until such drug reviews are completed, employer sponsored drug plans are left to foot the bill. This bill is increasingly expanding as more cancer drugs are taken at home rather than in hospital. So how can plan sponsors ensure their plans are protected from this public to private cost shift?

**Complex Co-ordination**

First of all, employers need to ensure that their plan administrators or benefits managers are not paying for claims that can be covered by government programs. Several insurers have introduced drug benefit integration programs which track government programs (and corresponding criteria) for cancer claims so that plan sponsors are only paying for claims that are eligible under the private plan(s).

For those employers that are self-
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insured, there needs to be awareness as to what level of financial exposure exists for high cost (catastrophic) drug claims. Are there similar or alternate treatments that should be considered when a high cost claim is submitted? Should the plan sponsor consider step therapy according to approved clinical guidelines? Is the plan administrator able to enforce these guidelines through prior-authorization criteria? Plan sponsors may need to rely upon their plan administrators to provide this support, along with financial protection such as annual or lifetime dollar maximums, along with stop-loss protection at a pre-defined threshold.

Historically, almost all cancer-related drug claims were approved with minimal restrictions or approval criteria. Unfortunately, newer treatments are so expensive that plan sponsors must now start implementing prior-authorization criteria that may, in fact, deny coverage for a plan member.

**Specific Criteria**

The reality is that government-sponsored programs are already implementing specific criteria based upon the most cost effective treatments available recognizing that there has to be a balance between helping plan members recover from cancer and that of providing coverage that is sustainable by the plan sponsor for its entire benefits offering.

There are approximately 900 new cancer drugs in the pipeline of pharmaceutical manufacturers, according to the National Cancer Institute. Since most of these new drugs will be expensive, private payers need to evaluate existing plan designs in order to manage the growing number of cancer claims. To maintain benefits coverage that is sustainable over the longer term, plan designs will require more check points (similar to what public plans require), as well as the need for integration processes with publicly funded programs. These steps are now being addressed by some benefits managers. However, there are many benefits administrators and advisors that are not yet capable of providing appropriate services to plan sponsors on this critical issue.

References:

Homewood Human Solutions™ is a recognized industry leader in organizational health and employee wellness programs. We assist companies from the ground up, beginning with selecting the right employees and forming a culture that focuses on wellness to providing a comprehensive Employee and Family Assistance Program (EFAP) and Integrated Disability Management. We provide end-to-end assistance, dedicated to nurturing the entire employee life cycle.

**Founded in 1979, Homewood Human Solutions™ prides itself on providing quality organizational health services to thousands of companies across Canada and around the globe. We want to ensure employers get everything they can from their workplace wellness investment.**

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**Johnny Ma** is a pharmacist and president of Equilibrium Health Consulting Inc.

**Gordon Polk** is president of Drug Benefit Consulting
A Recipe For Healthy Target Date Portfolios

By: Todd Saulnier

Even better, what if you could have all that at no extra cost or about the same cost as those made in advance meals?

When it comes to Canadian Defined Contribution recordkeepers, most offer the ability to create and administer customized portfolios that are diversified, balanced, and use the best ingredient funds using either tried-and-tested glide-path recipes or your own special glide-path recipe, designed for your specific plan and employee group. Depending on your record-keeper and the size of your plan, the additional cost for using the custom portfolio series approach could be modest or even nil.

In this article, we will discuss three key advantages of using custom target date portfolios:

- Investment structure synergies
- Empowering passive investors
- Adaptability to change.

Investment Structure Synergies

An effective DC investment structure will include investment options that support both passive and active investors. Target date funds/portfolios best support the passive investors as the solution manages both current risk tolerance and expected changes to risk tolerance as participants approach retirement. Active (hopefully knowledgeable) investors, however, will want to choose from an array of asset-class specific fund options (‘à la carte’ options) to build their own portfolio in the way they like, in line with their current risk tolerance.

In a traditional structure, the investment manager for the target date funds typically differs from the managers of the ‘à la carte’ funds. For passive investors, the sponsor generally chooses an off-the-shelf series of target date funds from among a short list of target date fund providers offered by the recordkeeper (the offering is expanding, but is still fairly limited in Canada). Next, recognizing that few, if any, managers are best-in-class in all asset classes, the sponsor will choose a set of best-in-class ‘à la carte’ funds from those available through their DC recordkeeper. This approach has a number of implications:

- Under the CAP Guidelines, the sponsor must select and monitor both the target date fund manager and the managers of the ‘à la carte’ funds
- The management fees for the target date funds will typically be higher than most of the ‘à la carte funds’
- The sponsor may have to communicate why the manager for the target date funds is different from the managers of the ‘à la carte’ funds

By contrast, when using a custom portfolio approach, one builds the DC investment structure from the ground up by first selecting best-in-class investment managers for each of the...
desired asset classes, therefore creating the ‘à la carte’ offering. Then one uses these funds to create the target custom portfolios according to recipes that are appropriate for the plan member population. The DC recordkeeper then builds and administers the custom portfolios with the target mixes defined by those recipes and the best ingredient asset class funds. Often this results in overall lower management fees for the DC plan and less ongoing governance responsibilities as there are now fewer managers to monitor. Finally, members may appreciate that regardless of whether they are passive investors or active investors, their accounts will be managed by best-in-class managers.

Empowering Passive Investors
As mentioned above, custom portfolios give passive investors access to the best-in-class funds available under the plan. While the odds of a manager outperforming the applicable benchmark vary, the best large cap equity managers have been shown to have a reasonable chance of outperformance by one to 1.5 per cent per annum over a full market cycle. For small cap equities, emerging market equities, and other less efficient markets, the potential to add value over the applicable benchmark is even greater. It is no small thing then, if passive investors can get access to a portfolio constructed with funds that each have higher than average odds to outperform their individual benchmarks. Every one per cent in average added return over a 30-plus year career represents a significant increase in expected retirement income.

Active investors are expected to confirm their own risk tolerance and build a suitable portfolio using the funds available under the plan. Those that understand concepts such as diversification and correlations may create well-diversified portfolios that take advantage of asset classes with higher expected returns while at the same time recognizing that less than perfect correlations with other asset classes mean their total short-term volatility risk can be reasonably managed. Custom target date portfolios accomplish the same thing by using recipes that take advantage of asset classes with higher growth prospects and less than perfect correlations among asset classes.

For example, on some record-keeper platforms, a custom portfolio can include long bonds, real return bonds, large cap developed market equities, small cap equities, emerging market equities, and real estate. Using efficient frontier analysis, one can define the target mixes of these asset classes which provide the best long-term expected return for a given target volatility. This can be done along the glidepath recognizing a desire for a much lower volatility for those close to retirement than those 30-plus years from retirement. In this type of a structure, the passive investor choosing the custom target date portfolio may actually have quite an advantage over the active investor who may be hamstrung by less information, more emotional response, or simply lack of due diligence in managing his/her portfolio over time.

Adaptability To Change
Consider again the typical approach using a separate target date fund manager from the managers used for the ‘à la carte’ funds. Suppose circumstances change and one of the selected managers is no longer deemed to be best-in-class and needs to be replaced. If the manager in question is the target date fund manager, then there may be quite a challenge in replacing the manager if the recordkeeper doesn’t offer a wide range of target date provider choices or if the target date funds currently in use have features that make switching to a new series cumbersome due to, for example, imbedded features such as guarantees or asset mixes that differ from potential replacements funds. If the manager to be replaced is one of the ‘à la carte’ managers, then this is likely easier to deal with. Still, if the manager being replaced is also involved in the off-the-shelf target date fund, this may result in undesirable mixed messages to employees.

With custom target date portfolios, a change in one of the ‘à la carte’ funds is done seamlessly by replacing the fund for both active investors and passive investors at the same time – no mixed messages for employees.

Over time, evolving research and changes in market conditions may warrant changes to target mixes for target date portfolios. The plan with custom target date portfolios can adopt such changes at will. Those using off-the-shelf products will have to wait for their manager to recognize the change and may further be at a disadvantage if their manager does not have the expertise to implement new asset classes they do not already manage.

Finally, innovations in new products – diversified growth funds, minimum guaranteed income benefit wrappers, and other products designed to minimize downside risk – may be easier to implement in a custom target date portfolio than in off-the-shelf products.

Less Onerous
For plan sponsors who have not considered the custom portfolio approach, implementation may seem very onerous. In fact, a number of recordkeepers have designed their systems with an expectation that custom portfolios would be used. Granted, there are some additional decisions to be made. However, in total, the effort to set up and govern the resulting investment structure may, in the end, be less onerous than the traditional approach.

In summary, here’s our recipe to set up a customized target date portfolio:

- Select the best-in-class ‘à la carte’ funds that may be offered to participants or otherwise desirable in building diversified portfolios.
- Select the overall glidepath recipe (non-fixed income weights along the investment horizon). Guidance is available from the recordkeeper, by examining existing target date fund provider glidepaths, or by using various modelling techniques.
- Select the target mix for the fixed income and non-fixed income portions of the portfolios by examining existing multi-class managers and using efficient frontier work or more sophisticated stochastic asset-liability modelling techniques.

Your DC consultant can help you with these important decisions.
Pension misrepresentation claims against companies and actuarial firms are on the rise. Rare in Canadian law until recently, the full exposure posed by such claims remains unknown, given the fact that few cases have yet come to trial. Any company with a pension plan, however, may be sitting on an unknown and enormous time bomb of litigation and liability.

Pension misrepresentation claims pose a quadruple threat to companies. First, because of the numbers of current and retired employees that are potential plaintiffs and because the amounts of money involved, potential exposure is enormous.

Second, errors in pension communications do not often surface until years later, often when employees approach their retirement and realize that for whatever reason — and a cynic may question whether the disparity genuinely flows from the pension communications or from a downturn in the marketplace — that the actual pension amount is not as envisioned. This creates special problems in defending such claims as documents and witnesses disappear over time.

Emotional Motivation
Third, such pension claims may lend themselves to class proceedings. While a single employee may not have the economic or emotional motivation or ability to bring a claim, where the claim arises from a communication made in identical form to multiple employees, a claimant or an entrepreneurial lawyer make seek to have the claim certified as a class action. On the other hand, where different communications are made to different employees and where there may exist issues about whether it was reasonable for a given employee to rely upon the statements, a court is less likely to certify a claim as a class proceeding on the basis that individual issues predominate over issues that are common to all members of the class.

Fourth, because a pension is of such importance to a retiree’s life, and to society at large, there may arise a natural sympathy of a court towards such claimants, prompting a stringent scrutiny of statements made by the company which will generally be deemed more sophisticated and in a better position to carefully and accurately convey facts about the pension plan to its employees.

Pension misrepresentation claims most frequently arise when the company gives its employees an option to switch to another form of pension plan, or to choose from one or more pension options. This may arise from an option given to an individual employee or an option or conversion provided to all or many employees.

Do The Right Thing
A key example is the offering by many Canadian companies of the option to their employees of switching from an existing Defined Benefit plan to a Defined Contribution plan. Ironically, the companies that tried to do the right thing, and gave their employees an option or provided the employees with an expansive educational program about the pension options, may face greater exposure. In the inherently complicated area of pensions, it is not difficult for plaintiffs or their clever counsel to claim that certain phrases or graphs misled the plaintiffs into choosing a pension option that turned out to be unfavourable with perfect hindsight.

A company’s legal duties towards the employees in making such an offering are complicated and have not fully been settled by the Canadian courts. Where the company also acts as the administrator of the pension plan, it owes strict fiduciary duties to the employees in the plan with respect to the administrative aspects of the plan, such as calculating and awarding benefits.

At the same time, the employees and employers have different interests with respect to the pension plan and it is not inappropriate for the employer to consider and protect its own interests in offering or amending a pension plan. Courts have accordingly found that an employer wears two hats with respect to a pension plan, owing fiduciary duties when acting as administrator and owing a lesser duty of good faith that may take into account the company’s own best interests when acting as employer. But where a company provides pension information to its employees, it is still a legal grey zone as to which hat the employer is wearing, and what duties it will owe.

Recent Canadian cases give examples of the risks that employer face.

Ault v. Canada (Attorney General) 2011 ONCA 147

In reasons issued in February 2011, the Ontario Court of Appeal found the federal government liable in negligent misrepresentation and the actuaries in
question liable in negligent misrepresentation and breach of fiduciary duty. The facts arose from 2000 when the federal government gave certain government employees the option of transferring their funds from the public service fund to a plan sponsored by the actuary defendants. The scheme required them to leave federal employment and give up entitlements under the federal pension plan. The new plan was later disallowed by the CRA. The plaintiffs sued for the difference between the benefits they would have received had they stayed in the public service and what they did receive under the failed scheme.

The federal government was primarily faulted for not disclosing its concerns about the tax legitimacy of the proposed scheme. The pension actuaries were faulted for not providing full disclosure of the risks and their conflict of interest, when they held themselves out to vulnerable employees who were relying on those actuaries for expert advice. The actuaries were found to owe a fiduciary duty both before and after the employees switched. Damages were assessed at $2.8 million for seven plaintiffs, with a costs award of some $700,000.

Smith v. Casco 2011 ONCA 306

The plaintiff was the widow of an employee who had taken early retirement. He selected among the 14 pension options offered one that offered more generous monthly payments, but limited survivor benefits. He died soon after. The trial court awarded the widow damages against the company for negligent misrepresentation of $17,949.97 plus a monthly pension during her lifetime of $1,654.93 and costs of $65,000. The Court of Appeal confirmed the judgment, of $1,654.93 and costs of $65,000. The trial court awarded the widow damages against the company for negligent misrepresentation of $17,949.97 plus costs of $65,000. The court awarded the plaintiff damages representing the pension income lost due to the error.


In both of these cases, courts found the employers liable for erroneously advising terminated employees with respect to their pension plan option on termination.

In Allison, the court rejected the company’s defence that the employee was given the opportunity to seek advice from an independent third party with respect to his options.


The plaintiff took early retirement based on the company/administrator’s erroneous statements about how much money he would have in his pension. The court awarded the plaintiff damages representing the pension income lost due to the error.

Deraps v. Labourer’s Pension Fund of Central and Eastern Canada (1999) 179 DLR (4th) 168 (Ontario Court of Appeal)

In facts similar to Smith, the plaintiff’s widow succeeded in her claim. The court found that the defendant pension fund had failed to fully advise the widow that she would renounce her survivor benefits by signing the waiver and such silence constituted negligent misrepresentation.

Spinks v. Canada (1996) 134 DLR (4th) 233 (Federal Court of Appeal)

The plaintiff was a government employee who claimed he was given erroneous advice with respect to the purchase of prior service credits under this pension plan. The court found that pension administrators owed a duty of care to the members to give full and complete information as members of the pension plan are generally completely reliant upon the administrators for pension information. Importantly, the failure of the employer to provide pertinent information may lead to a finding of liability, just as can a positive misstatement.

As is often the case, Canadian case law lags behind US legal trends. Two U.S. cases based on pension misrepresentations have already been decided by the U.S. Supreme Court. Happily for employers and actuaries, the unique facts of both limit their applicability to pension claims generally.

CIGNA CORP. v. Amara, No. 08-804 (US SC 16 May 2011)

This very recent case, organized as a class action, arose from what was essentially a DB to DC conversion. The plaintiffs claimed that they had been told in plan communications that they would continue to earn benefits and sue for additional benefits they claimed had been promised. The Supreme Court reversed lower court decisions in support of the plaintiffs based on a narrow procedural ground of whether under the governing Employee Retirement Income Security Act of 1974 (ERISA) the court could order reformation of the former DB plan.

In sending the matter back to the lower court for rehearing, the Supreme Court set out a range of remedies (including injunctions and damages) that could be issued if the court ruled in favour of the plaintiffs.


Varity turns upon its extreme facts. The defendant company had deliberately conspired to deprive its employees...
of pension benefits by urging them to transfer into an insolvent company. In a decision perhaps distorted to address the egregious facts, the Supreme Court found the statements to have been made while the company was acting as a fiduciary, at least as defined under ERISA.

**Proactive Steps**

Companies considering amending the pension arrangements with their employees should carefully consider whether to do so and, if they do decide to proceed, must carefully consider the process and the communications to be presented. Communications must walk a fine line between providing too little or too simple information on one hand and providing too much or too complicated information on the other.

An ideal information package will provide information to employees in both simplified bullet-point form as well as in more detailed form; in multiple formats of power-point presentations, brochures, and booklets. More advanced packages will allow employees themselves to use computer software to change investment return and other variables in order to decide whether the option is right for them. Employees should always be cautioned that market-based projections and other assumptions may well turn out very differently than presented. Assumptions must be identified and explained clearly. Complicated terms should be defined and explained. Employees should always be encouraged to seek independent advice and a company may even consider subsidizing visits to an independent actuary or financial advisor. Communications should contain repeated disclaimers, placed clearly and boldly in plain language, that employees should not rely upon the materials, that such materials are provided only as general illustrations, and that individual employees should seek individual advice based on their unique financial circumstances and retirement aspirations.

Finally, companies should impose strict controls on who among management may make representations to employees about pensions and those persons should follow tightly-worded scripts.

At this point, it would be useful to distinguish between the employer providing information and facts to the members (which employers should do, albeit with caution) and providing advice (which employers should generally never do). At times, of course, there may be a very thin line between advice and information. Suffice to say, an employer faces greater exposure where it encourages an employee through advice to make certain pension decisions.
Where a potential lawsuit may be brought a decade or more later, it is unlikely that the oral evidence of witnesses at trial will be reliable or given much weight by the court. A court will be forced to rely heavily on the written documentation to determine the accuracy and adequacy of disclosure. It is thus important that a company making such an offering or communicating about pensions to carefully preserve documents, particularly those that present clear warnings of the risks associated with the offered option.

**Preserve Documents**

Companies that have in past provided their employees with the option to switch between kinds of pension arrangements should discreetly evaluate what potential liabilities they may face and consider whether they have an obligation to alert their insurer. It may be possible to reverse any adverse transfers that occurred or to otherwise limit the losses that the employees or the company may face. As set out above, the company will want to locate and preserve documents (both paper and electronic) related to the offering of the option and make sure that no such documents are destroyed through routine document disclosure policies. The company may well have obligations to proactively alert employees of deficiencies in the communications presented to them before making their decision if such errors are discovered at a later date. And it may be possible to amend the plan or otherwise make changes to mitigate potential losses before they occur.

Finally, companies should strongly consider pension issues before purchasing a company. A company may, through no fault of its own, face serious litigation based on communications and mistakes made by the long-departed employees of an acquired company. It would be prudent to conduct, where possible, due diligence on all past pension offerings and pension communications. Where possible, an acquiring company may seek representations, warranties, and indemnities concerning past pension representations (as well as administration and funding of any pension plans).

As those in the baby boomer demographic retire in these troubled economic times, pension claims will certainly rise in the immediate future. Companies would be well advised to investigate potential liability now, rather than when they are first served with a lawsuit.

David Crerar (Vancouver, BC) and Markus Kremer (Toronto, ON) are commercial litigators at Borden Ladner Gervais LLP. Andrew Harrison (Toronto) is a business lawyer who serves as the national leader of the firm’s pension and benefits group.
’What are the opportunities and perils to face investors in 2012?’ will be answered at the CPBI Ontario region’s ’2012 Pension Investment Forecast.’ Eric Bushell, of Signature Global Advisors; Jesper Alsing, ValuInvest Asset Management; Paul Summerville, Centre for Global Studies; and a speaker to be determined from Baillie Gifford will examine issues such as the opportunities and risks investors should pay attention to. It takes place January 17 in Toronto, ON. Visit: http://www.cpbi-icra.ca

’Pension and Benefit Entitlements Upon Marriage Breakdown: The Legal Guide’ will be the focus of an Osgoode Professional Development program. Sessions will look at issues such as the new forms released by the Financial Services Commission if Ontario, how to get pension division right the first time, and spousal entitlements to extended health benefits, disability, and life insurance. It takes place January 18 in Toronto, ON. Visit: www.osgoodepd.ca

SHARE will hold its ’Pension Investment and Governance Courses’ in Harrison Hot Springs, BC; during the Canadian Labour Congress Winter School. Both the basic and intermediate courses will run. It takes place January 23 to 27. Visit: http://www.share.ca/courses-conferences/

Tickets are now on sale for the CPBI Ontario region’s ‘2012 CPBI Benefit Ball.’ Theme of the event to raise money for the Crohn’s and Colitis Foundation of Canada is the ‘Medieval Faire.’ To date, the event has raised $450,000 for research and education on the disease. It takes place February 9 in Toronto, ON. Visit: http://www.cpbi-icra.ca

Union leaders, pension trustees, pension advisory committee members, and pension activists along with investment managers, public policy makers, and leading international thinkers will discuss and debate key issues and challenges surrounding pension plan governance, funding, and investment issues at the Shareholder Foundation for Education and Research (SHARE) ’BC Pension Forum.’ It takes place March 2 in Vancouver, BC. Visit: http://www.share.ca/courses-conferences/events/2012-bc-pension-forum/

The ‘2012 Employers Forum on Employee Health, Benefits, and Productivity’ will take place April 18 to 20 in Niagara Falls, ON. Discussions include mental health, provincial and private coverage, and cancer care. Visit: www.connexhc.com

For complete directory information, visit www.bpmmagazine.com/benefits_events.html

Simon Segall, Chief Executive Officer is pleased to announce the appointment of Philip Gelsheimer as Vice President, Investment Solutions. Phil has over 20 years of investment industry experience, and has been a valued member of the Canadian team for more than twelve years. Since joining BNP Paribas Investment Partners and its predecessor companies, Phil has been actively involved in building the business in Canada.

In this new role, Phil will use his proven creative problem-solving skills to develop innovative investment solutions for Canadian institutional clients and distribution partners.

BNP Paribas Investment Partners is one of the world’s largest asset managers with an exceptional range of investment capabilities encompassing traditional asset classes, alternative investments, systematic and structured investments, risk management solutions and client-specific customized mandates.
We Are Now The Stuff Of Fiction

By: Jim Helik

For our 20th Anniversary Issue, I wanted to do something different in this column. As far as I know, we have never covered the world of fiction in the pages of Benefits and Pensions Monitor, and there is a reason for this. Though there have been movies and fictional books about stock markets, boiler rooms, and financial swindlers, nobody has written about the world of pensions and retirement benefits.

Detective Novels
Sure, there have been detective novels and movies where the wife (it’s always a ‘her’ doing the killing) plans to kill her husband to get at his insurance money, but you never see the same written about a scheming spouse attempting to access the retirement benefits. Try to picture the following scene:

Scene: A black and white movie that appears on the Turner network.
A middle-aged wife is locked in a tight embrace with a man half her age, who by day cleans the pool at her house. They are speaking quietly so that nobody can hear their conspiracy:

Woman: “Just think about what I am telling you John. You help me kill my husband and I get his monthly Defined Benefit pension cheque for as long as I live … minus, I think, 20 per cent, or maybe 25 per cent, as the surviving spouse. And it has COLA John, so we will be fine for our future together.”

See, it’s tough to write fiction about retirement benefits. But some writers have done just that.

Albert Brooks, writer and director of ‘Lost In America,’ writes in his book ‘Twenty Thirty’ of a future where scores of medical procedures have been invented with the result being that people in their 80s are looking better than their parents did at age 40. They are living longer too, in retirement communities: with sophisticated and expensive machinery to keep people alive. The ‘olds’ have less and less contact with younger people (including their own children). These younger people have come to the realization that this would be the first time in American history where both their job opportunities and living standards would be lower than that of their parents since they are paying for their parents’ increasingly long lifespans.

These youngsters don’t like getting stuck with this bill. They complain and become violent and hijack a retirement cruise ship along with other sorts of retribution.

Christopher Buckley, who wrote the book that became the movie ‘Thank You For Smoking,’ offers another dark comedy, ‘Boomsday.’ Here, a grassroots campaign is started by youth who realize, as one character notes “… that someone my age will have to spend their entire life paying unfair taxes just so the Boomers can hit the golf course at 62 and drink gin and tonics until they’re 90.” Some younger characters float the idea that government promote voluntary euthanasia of retirees, with the catchy title ‘Voluntary Transitioning.’

Human Face
What does this all mean? Well, as a start, it gives a human (though comical) face to the retirement data that we are mostly familiar with. We know that in coming years, fewer and fewer workers will be supporting a growing number of retirees. However, have we ever asked how they feel about the hand they have been dealt.

There are many people who point out that science fiction has often predicted a reality to come. If that is the case with the books noted above, then the next 20 years of this magazine might be focusing on other aspects associated with pensions and retirement.

Jim Helik is a contributing author to the Managing High Net Worth and the Commodities As Investments courses published by CSI Global Education. He also teaches at the School of Business, Ryerson University in Toronto, ON.
You may never look at risk the same way again

The traditional investment objective is to maximize returns at an acceptable level of risk. But with today’s uncertainty and market volatility, risks can quickly become unacceptable. And with the mounting pressure to meet funding obligations and liabilities, can you really afford to take chances?

For decades, TD Asset Management has developed risk reduction solutions for institutional investors. Our latest innovation is TD Emerald Low Volatility – a new category of equity strategy premised on a simple but powerful fact:

A low volatility equity portfolio can produce competitive returns with up to 30% less risk.¹

Simply put, some of the least volatile equities have produced some of the most impressive returns over time. At TD Asset Management, our proprietary risk models harness this phenomenon to help our clients pursue the returns of domestic and global equity markets with significantly less volatility.

At a time when traditional benchmarks no longer reflect the full complexity of risk, we’d like to show you a new way of thinking. Call me to find out why some of Canada’s leading institutions have already committed over one billion dollars to the TD Emerald Low Volatility equity strategy.

Yours truly,

Robin Lacey
Vice Chair, TD Asset Management
416 944 6313
robin.lacey@tdam.com
It’s that time of year again...
here’s our gift to you.

Introducing the all NEW greenshield.ca