GROUP BENEFITS & GROUP RETIREMENT

Annual Report & Directory
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Throwing the baby out with the bath water is an expression used to suggest an avoidable error in which something good is eliminated when trying to get rid of something bad, or in other words, rejecting the essential along with the inessential.

It probably derives from a German proverb with the earliest usage found in 1512, although it also popped up in works by other Germans including Martin Luther and Otto von Bismarck.

So while one doubts Bismarck used it to describe the state pension system he created in 1889, it is very apropos for what is happening in employer pension reform in the 21st Century.

More Secure

Numerous examples come to mind, but we’ll start with news from earlier this month that all of Britain’s remaining final salary pension schemes will be forced to close under new European Union rules to make their funding more secure. And, it could even drive many British businesses into insolvency.

It’s a perfect example of throwing the baby out with the bath water. Here, in their zeal to make pensions more secure, they could conceivably kill pension plans and businesses.

Next on our bathing babies list is the Pooled Registered Pension Plan (PRPP) proposal here in Canada. The intention is a good one. Provide a vehicle which will give employees at small businesses and the self-employed access to pooled retirement savings vehicles.

Governance Perspective

However, from a corporate governance perspective, an employer would be remiss if it did not transfer a Defined Contribution, RRSP pension program, and, if possible, Defined Benefit pension plan to a PRPP, suggests Gerry Wahl, of Ampersand Advisory Group. A former plan sponsor with more than 30 years of financial and management experience, he believes employers must take advantage of the opportunity to move to PRPPs to relieve themselves of potential legal and financial risks associated with employer sponsored pension plans.

Add to that the cost savings employers will also achieve since the administrative portion of the fees paid to the PRPP administrator will now be paid by the employees, and there is also a huge economic incentive as well.

Red Herring

The sad thing is the PRPP proposal was put forth to address the pension coverage issue in Canada. But, it is a red herring. It does nothing in terms of meaningful reform – such as having a single set of rules across the country or creating symmetry in pension funding – which would not only prop up existing pensions, but could result in the creation of new plans.

What legislators and regulators across the country seem to forget is that the employer sponsored pension plan is the baby, the good thing. It is the other stuff – such as the misguided notion that we need to provide pension certainty in an uncertain world – that is killing them.

By: Joe Hornyak, Executive Editor
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Philip Gelsheimer (416) 365-3981 • philip.gelsheimer@bnpparibas.com

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**Group Medical Services**

David Blodgett is president and CEO of Group Medical Services (GMS) and GMS Insurance Inc. He joins GMS from the BMO Life Assurance Company (formerly AIG Life of Canada). At AIG Life, he served as vice-president, head of group insurance operations.

**Standard Life**

Charles Guay is president and chief executive officer at Standard Life. He joins the firm after holding several senior management positions at National Bank of Canada. He has also worked in various roles at Fidelity Investments Canada and RBC Dominion Securities.

**Province Of Alberta**

Paul Owens is deputy superintendent of pensions for the province of Alberta. A senior executive with more than 20 years of leadership in public and private sector pension plan management, he was most recently a member of the Provincial Judges Pension Board at the province of Ontario and the investment advisory committee at the Archdiocese of Toronto.

**BNP Paribas**

Philip Gelsheimer is vice-president, investment solutions, at BNP Paribas Investment Partners. He has more than 20 years of investment industry experience and has been a member of its Canadian team for more than 12 years. In this new role, he will develop investment solutions for Canadian institutional clients and distribution partners.

**Industrial Alliance**

Jennifer Curzon is regional director, sales, and service, British Columbia, for the group insurance division of Industrial Alliance. She joins the firm with 15 years of group insurance experience including eight years as a benefits consultant.

**Strata**

Moracine Graham is a consultant at STRATA Benefits Consulting Inc. She has more than 20 years of experience in the group benefits industry with knowledge in group benefits plan design, benefits administration, claims management, and wellness initiatives.

**Aon Hewitt**

Peter Wright is a vice-president in the investment consulting practice at Aon Hewitt. He brings more than 25 years of experience to his new role, with expertise in capital market trading and sales, institutional money management, and investment consulting. He will consult to a wide range of clients on issues relating to investment and risk management.

**Greystone**

Jeff Mouland is executive director and head of infrastructure at Greystone Managed Investments Inc. With 19 years of international infrastructure investing and engineering experience, he is joining Greystone from the infrastructure investments team at the Public Sector Pension Investment Board.

**Mercer**

Ted Singeris is head of investments for Canada and Latin America for Mercer. He was previously head of investment consulting for Canada and Latin America.

**Weston**

John Poos is vice-president, pensions and benefits, for both George Weston Ltd. and Loblaw Companies Limited. He is responsible for the management and design of all of the retirement benefit programs for both companies, as well as health and welfare benefits. Previously, he was executive director of the OMERS Sponsors Corporation. He is a member of the Benefits and Pensions Monitor editorial advisory board.

**Axiom**

Donald Elefson is co-portfolio manager for Axiom International Investors’ emerging markets equity strategy. He brings more than 17 years of portfolio management experience in both emerging and frontier markets, most recently as a portfolio manager with Harding Loevner.

**Open Access**

Zev Frishman is senior vice-president of investment management at Open Access Limited. He spent 18 years at the Ontario Teachers’ Pension Plan, most recently as vice-president of global equity strategies.

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

admin@powershift.ca
Given the diversity of fixed income markets, our portfolio managers often have to travel far and wide in order to find what we consider the best investment opportunities. In many markets there is often little information available, so at Aberdeen we do our own research rather than relying on rating agencies. By meeting policy makers and companies face-to-face, our research gives us the conviction to make what we believe are the best investment decisions. As experienced global investors, we have 30 offices in 24 countries, including London, Philadelphia, Singapore, Sydney and Toronto.

So, whether you want to invest in domestic Canadian fixed income markets or are looking slightly further afield, come and talk to the people who go the extra mile to research potential investments. For more details on our fixed income capabilities, please contact Renee Arnold in our Toronto office at (416) 777 5570.

www.aberdeen-asset.ca
DC Plans Popular
Despite the market volatility of recent years, research from the BMO Retirement Institute suggests that Defined Contribution plans are popular among working Canadians. Its study on pension plans reveals employees wanted them so that they can invest their own money and do better than what they could be earning under a Defined Benefit pension plan.

Leroux Earns Award
The leading global organization for women on boards, WomenCorporateDirectors (WCD), has named Monique F. Leroux, Desjardins Group’s chair of the board, president, and CEO, as a winner of a ’2012 WCD Visionary Awards.’ Leroux earned her award for leadership and governance of a private company.

Pension Plans May Get To Use Annuities
The Office of the Superintendent of Financial Institutions is considering allowing pension plans to utilize annuities. It has issued a draft policy advisory on the acceptability of ‘buy-in annuities’ as a potential investment option for pension plans. It says that such an investment would be similar to a traditional annuity.

SSQ Acquisition Concluded
SSQ Life Insurance Company Inc. has concluded the acquisition of AXA Life Insurance Inc. The new entity will be called SSQ Insurance Company Inc.

Correction
In the December issue of Benefits and Pensions Monitor, the article by Justice Eileen E. Gilles, ‘Pension Law Developments – The Last 20 Years,’ said she is dean and professor of law of the Faculty of Law, the University of Western Ontario. It should have said she was dean and professor of law of the Faculty of Law, the University of Western Ontario.
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

¹Based on simulated and live returns of 21 years of Canadian equity history and 13 years of global equity history ending September 30, 2011. Actual returns may vary.

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Longevity Swaps Rise In UK

More UK pension fund executives are hedging against the possibility that their members will live longer, with fund officials in other countries expected to follow suit, says data from Aon Hewitt. In 2011, which was a record year in longevity swap transactions among UK pension funds, about $10.7 billion in pension liabilities were offloaded to insurance companies and other financial institutions in the event that retired members live longer than the average life expectancy. Pension funds in the Netherlands and, to a lesser extent, the U.S. also are considering similar longevity risk transfer solutions, but none has yet been implemented in those countries. In a longevity swap, the pension fund typically makes a series of payments over a fixed period of time that’s related to the average life expectancy of retired participants. In return, the insurer or financial institution covers the payments to the participants for as long as they live.

Superfunds Should Consider ESG

Australia’s A$1.3 trillion super funds industry has been advised to look at environmental, social, and governance (ESG) factors as a “competitive advantage” by the Financial Services Institute of Australasia (Finsia). The advice comes in its ‘Implementing Environmental, Social and Governance Principles in Investment Decisions’ guide on implementing ESG. It also refers to the importance of incorporating ESG issues into selecting asset managers. “By explicitly incorporating the importance of ESG issues into the fund manager selection process, the value the asset owner places on it is powerfully and clearly signaled,” it says. “Prospective fund managers are, therefore, aware it is in their best interests to demonstrate a clear and well-designed process relating to ESG issues.”

Capital Could Head To Hedge Funds

Investors could add about $80 billion of new capital to hedge funds globally this year, the most since 2007, says a Barclays PLC report. About 56 per cent of investors it surveyed plan to increase such investments in the coming year, more than seven times the number that plan to reduce their allocations. Endowments, foundations, private banks, and public pensions will most likely be the sources of new capital to the industry, it says. Investors may also reallocate about $300 billion of existing investments to hedge funds within the same strategies or across strategies. Global macro and systematic and volatility funds might be the biggest recipients of new capital as investors look to allocate money to short-term traders with lower correlation to stock markets.
Measuring plan success

Why measure your plan’s success?
Every benefits plan has the intention to engage employees, improve retention and attract the best candidates for job openings. But how can plan sponsors ensure the effectiveness of their plan?

**Measurement** can help you meet your fiduciary responsibilities – and it also enables you to determine if your plan is optimizing resources, increasing participant satisfaction, contributing to your human resources management strategy, facilitating your business goals and positioning you as a top employer in your industry.

The only way to effectively evaluate the success of your plan is to **measure its performance** against **clearly defined key performance indicators**.

Measurement strategies
The first step towards measuring your plan’s success is to establish overall objectives for your plan. For example, you may want to entice, encourage and engage as many employees as possible into fully participating in the plan, and to position your organization as an employer of choice that cares for the well-being of its employees.

**Key performance indicators** allow you to get more specific. They may set percentage or dollar targets for a wide range of variables, help you benchmark your results, and establish timeframes for progress. For example: reduce the number of participants invested in the default fund from 20% to 0% by December 31, 2014.

Roll up your sleeves
The best way to build a successful plan is to stay actively involved, by regularly communicating with your plan participants to ensure you meet your key performance indicators.

Keep in mind that just **31%** of participants who were surveyed in the **2011 CAP Member Study** say they have an excellent or very good understanding of their employee retirement plan. Measurement enables you to target your communications to that 31% and, ultimately, maximize the value of your benefits plan.

For more information on how **your way, plain and simple** can entice, encourage and engage employees in their own retirement planning, contact: **1-866-565-3145**.
HEALTH MATTERS

Supporting Women In The Workplace

By: Caroline Tapp-McDougall

Recognizing and being tolerant of symptoms and finding ways to provide comfort are the most effective workplace approaches.

**Menopause**

The median age of women within the core workforce is close to 44. The reality for employers with an aging workforce means that gaining a better understanding of age-related conditions such as menopause is particularly important.

Menopause is a natural biological process that begins about one year after a woman’s last menstrual cycle, around the age of 51 or 52.

Common treatments for the symptoms of menopause include hormone therapy, low-dose anti-depressants, and oral contraceptives. Lifestyle changes may include natural solutions such as avoiding caffeine and spicy foods, practicing relaxation techniques such as yoga or meditation, and increasing the intake of soy (which includes phytoestrogens that can reduce hot flashes).

**Osteoporosis**

Osteoporosis – low bone mass – will be diagnosed in one in four women (and, surprisingly, one in eight men over 50). Losing bone mass as we age is perfectly normal, but risky after menopause, when losses can be up to 30 per cent. Postmenopausal women are particularly susceptible to wrist, hip, and spine fractures.

In terms of treatment, a family of drugs called bisphosphonates are commonly prescribed to improve bone strength and reduce bone loss. However, some women experience side-effects such as abdominal problems and nausea. The good news is that low-dose hormone therapy treatment, in addition to relieving symptoms of menopause, can also reduce the risk of bone fracture.

When reviewing insurance coverage, keep osteoporosis treatment coverage in mind since provincial drug plans differ in terms of coverage for testing and medications.

**Promoting Understanding**

As workplace demographics change and more women enter full or part-time employment outside of the home and as a greater number of older female workers remain in the workforce, it makes sense to think about women. Raising awareness and helping women care for themselves promotes both productivity and improved retention. It has also been shown to deliver lower rates of absenteeism and a high degree of employee satisfaction.

Women make up nearly half of today’s labour force compared with just over one-third in 1976. Knowing this is just cause for taking a second look at women’s health issues and being open to supporting traditional and, in some cases, non-traditional treatments to ensure a safe, healthy, and equitable workplace.

Let’s look at a few key conditions – premenstrual syndrome (PMS), menopause, and osteoporosis – in an effort to review workplace practices when it comes to daily well-being of female workers.

**Premenstrual Syndrome**

Not all women experience PMS, but for those who do, there are a host of physical and emotional symptoms that typically start five to 11 days before the beginning of their menstrual cycle. Between 30 and 80 per cent of women with at least one child, a family history of depression, and/or a history of postpartum blues or SAD are affected to varying degrees of severity. While the effects of PMS dissipate with the onset of menopause, the time from onset until they go away can be difficult with symptoms that make working difficult for some. These include:

- Physical – backaches, migraines, constipation, cramping
- Mood-related – irritability, agitation, depression
- Psychological – forgetfulness, lack of concentration

Most women who are treated for PMS get significant relief. Some women swear by natural remedies such as dietary changes, exercise, or working with a chiropractor, massage therapist, or naturopath for treatment. Others look to vitamin and mineral supplements such as calcium or magnesium. Still others may require prescription medication for physical or emotional symptoms.
More than half of Canadian benefits plan sponsors and insurance carriers surveyed cite high prescription drug costs among the top three drivers of their extended health-care plan costs.* But do costs for prescription drugs have to rise significantly every year? No. Express Scripts Canada can help put a lid on those rising health costs with its new expanded pharmacy benefit management service.

Let us show you how the application of behavioural sciences to health-care decision-making can help you and your employees more effectively manage the cost of health benefits in general — and their maintenance prescription medications in particular.

The cost and quality of health care is a concern for all Canadians. See how Express Scripts Canada can help reduce costs and improve services. To learn more, visit www.express-scripts.ca.

*Source: Group Health Care Cost Control in Canada: Survey Results 2010
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Over the last few years, a number of different industries — including the banking industry — have been racing to stay ahead of the rapidly shifting technological landscape by quickly churning out technological gadgets that would help them remain competitive and keep their customers happy. And now the insurance industry is following suit.

Current State Of The Industry

At the end of the last year, the topic of our growing dependency on mobile technology was explored in magazine articles and a survey conducted by Mercer called ‘Technology for Employee Benefits: Present and Future.’ These concluded that technology is benefiting the group benefits industry by simplifying processes and making information more accessible to customers.

The published reports note that plan members are more tech-savvy and are demanding access to their account information online, anytime, and anywhere around the clock. Considering the competitive nature of the insurance business across Canada, the industry must stay ahead of the curve to keep clients satisfied and loyal. It’s an attractive tool because clients are able to visualize all possible options when faced with important health and/or retirement decisions. The result is that they feel more in control and sure that they’ve made the right decision.

It’s nearly impossible these days to get through a day without using a computer, smart phone, tablet device, or even the internet through your TV or video game console. Needless to say our love affair with mobile technology isn’t a passing trend. It’s very much part of the mainstream. Whether you’re part of the Boomer generation or a Gen-Y, accessing information on demand is something that we’ve become accustomed to. It’s a brave new WiFi world and we need it like our morning coffee.

The Mercer survey, which was open to all Canadian insurance companies, focused on plan sponsor services, member services, and technological plans for the future. At the beginning of their research, it found that now more than ever, technology has been an important tool to reach plan members. Also, insurance companies have already started improving processes such as automation, self-service options, mobile capabilities, and enhanced fraud prevention.

The Mercer researchers predicted that over the next year, the industry will continue to incorporate new mobile applications, paperless claims submission, more self-service for plan members, and reporting enhancements for plan sponsors.
the next 24 months, they expect to see the launch of health manager companion applications, provider claims portals, electronic enrolment forms for plan members, increased use of social media, and more online individual product solutions. In the future, they expect that the plan members’ experience would become completely virtual with additional paperless options, improved fraud prevention, ‘cloud computing,’ customized mobile apps, and mobile personal assistants. They also expect that the new standard for plan sponsors would include real time web-based administration tools, real time online claims experience reporting for all benefits, access status of disability claims online, and the ability to view plan design information online.

**Paperless Claims**

For group businesses – group and business insurance (GBI) and group retirement savings (GRS) – these changes have also been necessary to stay competitive in a highly competitive market.

“One of the biggest updates for GBI is paperless online claim submissions. This allows the plan member to save time and money by submitting their claims online whenever and wherever they want,” says Nathalie Laporte, vice-president of product development and marketing for Desjardins Financial Security’s GBI. “This process speeds up verification and includes a control system that identifies possible fraudulent claims. Once approved, reimbursements can be deposited directly into the member’s bank account.”

The client website is also accessible to administrators who are able to manage their daily maintenance tasks such as:

- Requesting and printing reports to manage administrative activities and/or monitor plan use
- Provide administrative guides, information about their specific plan, communiqués, and online training
- Send and receive confidential information through a secure information exchange service
- Electronic data transfer from payroll and HR systems to the insurer’s systems

By using a plan member auditing system, insurers can review practitioners’ online submissions in order to identify and prevent possible frauds, adds Laporte. “This process is similar to the controls currently used for manual claims. All the supporting documentation and the per-visit amounts can be reviewed to ensure that the submissions are within the reasonable limits.”

**Using Technology to Improve Financial Literacy**

As financial literacy continues to be a growing concern within the financial industry, insurers are confronting the issue head-on by incorporating helpful technological tools into their group retirement plan participant experience.

“Our proprietary research has shown us that Canadians have a hard time saving enough for retirement,” says Éric Filion, vice-president of product and pricing at Desjardins’ GRS. “And this is despite the fact that most people can access financial tips, tools, and calculators from several different sources.”

By incorporating key technological elements, the best participant experience possible can be created. “Ideally, an engaged participant will take ownership in their own retirement planning.”

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"IDEALLY, AN ENGAGED PARTICIPANT WILL TAKE OWNERSHIP IN THEIR OWN RETIREMENT PLANNING.”

– ÉRIC FILION

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By incorporating key technological elements, the best participant experience possible can be created. “Ideally, an engaged participant will take ownership in their own retirement planning from the day they sign their enrolment form to the day they decide to retire or leave the company. And an excellent participant experience creates a ripple effect of satisfied customers. The plan sponsor is able to attract and retain the best talent and the consultant or broker also retains another satisfied client,” he says.

However, as with the group insurance business, group retirement providers have not totally abandoned the more traditional communication methods that clients have always relied on such as customer service call centres, participant websites, paper-based marketing materials, educational seminars, and one-on-one guidance. “The fact is that plan participants now range in age from 18 to 65 and everyone has different learning styles,” says Filion. “We learn through our five senses and everyone has their personal preferences. They learn through touching, seeing, doing, hearing, or a combination of all three, as opposed to merely reading. Thanks to social media, webinars, YouTube, and online simulators, a real-time interactive conversation with plan participants, sponsors, and brokers has been created.”

This also makes retirement planning more attractive to all age groups because they can now choose how they want to interact with the provider.

Ultimately, the success of any program comes from the use of a variety of communications methods. By making it readily available, group benefit providers can make retirement planning top of mind among plan members, transforming it into an easy conversational piece for everyone. “Today’s mobile and social networking technology has allowed us to reach more people. And the result is a plan participant who feels enticed, encouraged, and engaged in their financial future,” says Filion.
BLUE CROSS LIFE Nicole Richard, Manager, Distributor Relations; 644 Main St., Moncton, NB E1C 8L3 PH: 506-867-4215 Fax: 506-867-4468 eMail: nicole.richard@bluecross lifenet.com

- Group Life: $52M
- Group Health: $107.7M
- ASO: $64.5M

Client Profile (By # of Employees) 1 to 100: 1,062 101 to 500: 66 501 to 1,000: 3 1,000+: 8

CIGNA LIFE INSURANCE COMPANY OF CANADA Anna Liu, Controller; 55 Town Centre Court, Ste. 605, Scarborough, ON M1P 4X4 PH: 416-290-6666 Fax: 416-290-0732 eMail: anna.liu@cigna.com

- Net Premiums - Group Health: $47.6M
- ASO: $14.3M

Products/Services: Health, Dental, Drugs, Travel, Drug card, EFAP, HSA, Vision care ASO, Health assessment Client Profile (By # of Employees) 1 to 100: 1,062 101 to 500: 66 501 to 1,000: 3 1,000+: 8

CO-OPERATORS LIFE INSURANCE COMPANY Garry Herbach, Senior Vice-president, Insurance Operations; 1920 College Ave., Regina, SK S4P 1C4 PH: 306-247-6270 Fax: 306-347-6806 eMail: garry.herbach@cooperators.ca

- Net Premiums - Group Health: $35.6M
- ASO: $47.5M

Products/Services: Dental coverage/dental claims, Drug coverage/dental cards, Extended healthcare, Supplementary hospital, Long-term disability, Disability management consulting, Short-term disability, AD&D, Flexible benefits plans, Employee assistance program, Wellness program, Critical illness, Health spending account, Employee booklets & reference materials, Rehabilitation services, Staff with medical expertise, Eyewear advantage, Small group business products, ContinYou, Prenatal benefit, Second opinion consultation, Vision care, Life, Living benefits Client Profile (By # of Employees) 1 to 100: 2,923 101 to 500: 218 501 to 1,000: 42 1,000+: 49

DESJARDINS FINANCIAL SECURITY André Simard, Vice-president, Sales, Group & Business Insurance; 2, Complexe Desjardins, East Tower, 23rd Floor, Montreal, QC H3B 1E2 PH: 514-285-7988 or 800-363-3072 x888 Fax: 514-285-2442 eMail: asimard@dfs.ca

- Net Premiums - Group Life: $1,782.1M
- ASO: $135.7M

Client Profile (By # of Employees) 1 to 100: 2,763 101 to 500: 633 501 to 1,000: 84 1,000+: 118

EMPIRE LIFE INSURANCE COMPANY, THE Jaime Hugessen, Vice-president, Group Distribution; 2550 Victoria Park Ave., Ste. 500, Toronto, ON M2N 6L7 PH: 800-361-7980 Fax: 416-494-7691 eMail: jaime.hugessen@empire.ca

- Net Premiums - Group Life: $19.4M

ASO: $26.6M
Products/Services: Life (including optional employee & spouse), AD&D (including optional employee & spouse), Dependent AD&D, Dependent Life, Weekly indemnity, Long-term disability, Extended healthcare, Dental care, Administrative services only, EAP, Vital assist health benefit (hybrid CI), Incidental health expense (hybrid HCSA) Client Profile (By # of Employees) 1 to 100: 6,675 101 to 500: 154 501 to 1,000: 4 1,000+: 1

EQUITABLE LIFE OF CANADA Karen Mason, Senior Vice-president, Group; One Westmount Rd. N., Waterloo, ON N2J 4C7 PH: 519-883-7421 eMail: kmason@equitable.com

- Net Premiums - Group Life: $18.5M
- ASO: $38.3M

Products/Services: Life, AD&D, Short-term disability, Long-term disability, Extended healthcare, Dental, Healthcare spending account; Health connector services – EAP, Feeling better now, CAREpath, Second medical opinion), Health risk assessment, Critical illness Client Profile (By # of Employees) 1 to 100: 1,587 501 to 1,000: 225 501 to 1,000: 16 1,000+: 7

GREAT-WEST LIFE ASSURANCE COMPANY, THE Jeff Macoun, Senior Vice-president, Group Sales & Marketing; 60 Osborne St. N., Winnipeg, MB R3C 3A5 PH: 204-946-2927 Fax: 204-946-8829 eMail: jeff.macoun@gwl.ca

- Net Premiums - Group Life: $807.8M
- ASO: $2,817.2M

Products/Services: Dental, Drugs, Extended health, Supplementary hospital, Long-term disability, Short-term disability, AD&D, Life & optional life, Critical illness, Flexible benefits plans, Employee assistance programs, Drug cards, Rehabilitation services, Communication materials, Electronic enrolment, Preferred provider network, Medical specialists, assessment & treatment facilities, Out-of-country claims Client Profile (By # of Employees) 1 to 100: 29,291 101 to 500: 1,437 501 to 1,000: 235 1,000+: 328

GREEN SHIELD CANADA Steve Moffatt, Senior Vice-president, Sales & Marketing; 5140 Yonge St., Ste. 2100, Toronto, ON M2N 6L7 PH: 416-221-7001 x247 Fax: 416-733-1951 eMail: steve.moffatt@greenshield.ca

- Net Premiums - Group Health: $266M
- ASO: $672M Products/Services:
GROUP INSURANCE
ANNUAL DIRECTORY

Services: Dental, Drug (including pay-direct and deferred), Extended health (including vision), Emergency travel assistance, Flexible benefits, Healthcare spending account, Personal (taxable) spending account, Wellness programs, Employee & family assistance plans, Legal assistance, Individual health & dental, Group conversion, Drug cards, Proprietary adjudication system, White label claims systems, Adjudication services, Preferred provider networks, Website & online services, Standard & custom communication services, Toll-free customer service centre

Client Profile (By # of Employees) 1 to 100: 8,366
101 to 500: 188
501 to 1,000: 50
1,000+: 87

INDUSTRIAL ALLIANCE, INSURANCE AND FINANCIAL SERVICES INC. Scott Heard, Assistant Vice-president, Sales & Marketing; 1080 Grande Allée O., Quebec City, QC G1K 7M3 PH: 416-598-5131 eMail: scott.heard@inalco.com Web: www.inalco.com

Net Premiums - Group

Life: $71.8M Group Health: $563.9M ASO: $60M Products/Services: AD&D, Critical illness, Dental care, Early intervention program, Employee assistance program, Extended healthcare, Flexible benefits plans, Health spending accounts, Living benefits, Long-term disability, Medical navigation system, Paid up life, Rehabilitation services, Short-term disability, Term life, Travel assistance/trip cancellation, Wellness programs Client Profile (By # of Employees) 1 to 100: 2,083
101 to 500: 483
501 to 1,000: 62
1,000+: 66

LA CAPITALE ASSURANCES ET GESTION DU PATRIMOINE Dean Bergeron, Director, Marketing & Workplace Attendance Management; Edifice le Delta 3, 2875 boul. Laurier, bur. 400, Quebec City, QC G1V 2M2 PH: 418-266-8194 Fax: 418-644-4352 eMail: dean.bergeron@lacapitale.com Web: www.lacapitale.com

Net Premiums - Group

Life: $41.3M Group Health: $361.8M ASO: $12.4M Products/Services: Dental only, Drug only, Extended health, Supplementary hospital, Long-term disability, Weekly indemnity, Flexible benefits plans, Employee assistance program, Critical illness, Health savings account, Communication material, Eligibility data submitted electronically to adjudicator, Legal assistance insurance, Work attendance management programs, Rehabilitation services, Travel insurance, AD&D, Drug cards Client Profile (By # of Employees) 1 to 100: 2,099
101 to 500: 153
501 to 1,000: 18
1,000+: 36

MANULIFE FINANCIAL Marilee Mark, Vice-president, Marketing Services; 380 Weber St. N., Waterloo, ON N2L 4V7 PH: 519-747-7000 x245917 Fax: 519-883-0406 eMail: marilee_mark@manulife.com Web: www.manulife.ca/groupbenefits

Net Premiums - Group Life: $438.9M Group Health: $2,373.8M ASO: $1,975.7M Products/Services: Extended healthcare & dental, Pay direct drugs, EDI dental, Supplementary hospital, Vision care, Emergency travel assistance and Out-of-country, Health service navigation & second opinion services, Flexible benefits, Healthcare spending accounts, Employee & family assistance plans, Direct deposit & eEOB, Wellness, Absence management, Short- & long-term disability, Rehabilitation services, Occupational & health management services, Group & optional life insurance, AD&D, Member-paid personal benefits, Critical illness, Optional benefits, Custom communications materials, Online claims submission, Secure plan member & administrator websites, Toll-free customer service centre with IVR & email access Client Profile (By # of Employees) 1 to 100: 15,307
101 to 500: 1,059
501 to 1,000: 223
1,000+: 406

RBC INSURANCE John McMeans, Vice-president, Sales, Brokerage, Life & Health; 6880 Financial Dr., Mississauga, ON L5N 7Y5 PH: 905-606-3463 Fax: 905-813-4774 eMail: john.mcmeans@rbc.com Web: www.rbcinsurance.com

Net Premiums - Group

Life: $71.8M Group Health: $563.9M ASO: $60M Products/Services: AD&D, Critical illness, Dental care, Early intervention program, Employee assistance program, Extended healthcare, Flexible benefits plans, Health spending accounts, Living benefits, Long-term disability, Medical navigation system, Paid up life, Rehabilitation services, Short-term disability, Term life, Travel assistance/trip cancellation, Wellness programs Client Profile (By # of Employees) 1 to 100: 2,083
101 to 500: 483
501 to 1,000: 62
1,000+: 66

Industrial Alliance, Insurance and Financial Services Inc. Scott Heard, Assistant Vice-president, Sales & Marketing; 1080 Grande Allée O., Quebec City, QC G1K 7M3 PH: 416-598-5131 eMail: scott.heard@inalco.com Web: www.inalco.com

Net Premiums - Group

Life: $71.8M Group Health: $563.9M ASO: $60M Products/Services: AD&D, Critical illness, Dental care, Early intervention program, Employee assistance program, Extended healthcare, Flexible benefits plans, Health spending accounts, Living benefits, Long-term disability, Medical navigation system, Paid up life, Rehabilitation services, Short-term disability, Term life, Travel assistance/trip cancellation, Wellness programs Client Profile (By # of Employees) 1 to 100: 2,083
101 to 500: 483
501 to 1,000: 62
1,000+: 66

La Capitale Assurances et Gestion du Patrimoine Dean Bergeron, Director, Marketing & Workplace Attendance Management; Edifice le Delta 3, 2875 boul. Laurier, bur. 400, Quebec City, QC G1V 2M2 PH: 418-266-8194 Fax: 418-644-4352 eMail: dean.bergeron@lacapitale.com Web: www.lacapitale.com

Net Premiums - Group

Life: $41.3M Group Health: $361.8M ASO: $12.4M Products/Services: Dental only, Drug only, Extended health, Supplementary hospital, Long-term disability, Weekly indemnity, Flexible benefits plans, Employee assistance program, Critical illness, Health savings account, Communication material, Eligibility data submitted electronically to adjudicator, Legal assistance insurance, Work attendance management programs, Rehabilitation services, Travel insurance, AD&D, Drug cards Client Profile (By # of Employees) 1 to 100: 2,099
101 to 500: 153
501 to 1,000: 18
1,000+: 36

Manulife Financial Marilee Mark, Vice-president, Marketing Services; 380 Weber St. N., Waterloo, ON N2L 4V7 PH: 519-747-7000 x245917 Fax: 519-883-0406 eMail: marilee_mark@manulife.com Web: www.manulife.ca/groupbenefits

Net Premiums - Group Life: $438.9M Group Health: $2,373.8M ASO: $1,975.7M Products/Services: Extended healthcare & dental, Pay direct drugs, EDI dental, Supplementary hospital, Vision care, Emergency travel assistance and Out-of-country, Health service navigation & second opinion services, Flexible benefits, Healthcare spending accounts, Employee & family assistance plans, Direct deposit & eEOB, Wellness, Absence management, Short- & long-term disability, Rehabilitation services, Occupational & health management services, Group & optional life insurance, AD&D, Member-paid personal benefits, Critical illness, Optional benefits, Custom communications materials, Online claims submission, Secure plan member & administrator websites, Toll-free customer service centre with IVR & email access Client Profile (By # of Employees) 1 to 100: 15,307
101 to 500: 1,059
501 to 1,000: 223
1,000+: 406

Rbc Insurance John McMeans, Vice-president, Sales, Brokerage, Life & Health; 6880 Financial Dr., Mississauga, ON L5N 7Y5 PH: 905-606-3463 Fax: 905-813-4774 eMail: john.mcmeans@rbc.com Web: www.rbcinsurance.com

Net Premiums - Group

Life: $71.8M Group Health: $563.9M ASO: $60M Products/Services: AD&D, Critical illness, Dental care, Early intervention program, Employee assistance program, Extended healthcare, Flexible benefits plans, Health spending accounts, Living benefits, Long-term disability, Medical navigation system, Paid up life, Rehabilitation services, Short-term disability, Term life, Travel assistance/trip cancellation, Wellness programs Client Profile (By # of Employees) 1 to 100: 2,083
101 to 500: 483
501 to 1,000: 62
1,000+: 66

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GROUP INSURANCE
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Life: $28.9M Group Health: $208.2M Products/Services: Group life (basic, dependent, & optional), AD&D, STD, LTD, LD, Life Insurance, AD&D, Flexible benefits plan, Critical illness insurance, Co-ordination of benefits, Communication material, Drugs & dental cards, Rehabilitation services, Health & wellness program, Income insurance Early intervention program, Direct deposit, In-house medical expertise Client Profile (By # of Employees) 1 to 100: 3,673 101 to 500: 854 501 to 1,000: 88 1,000+: 98

SSQ FINANCIAL GROUP Carl Lafamme, Vice-president, Sales & Marketing; 2525 Laurier Blvd., Box 10500, Quebec City, QC G1V 4H6, Fax: 418-652-2737 eMail: carl.lafamme@ssq.ca Web: www.ssq.ca Net Premiums - Group Life: $79.3M Group Health: $648M ASO: $20.4M Products/Services: Dental, Drug, Extended health, LTD & STD, Life insurance, AD&D, Flexible benefits plan, Critical illness insurance, Co-ordination of benefits, Communication material, Drugs & dental cards, Rehabilitation services, Health & wellness programs, Income insurance Early intervention program, Direct deposit, In-house medical expertise Client Profile (By # of Employees) 1 to 100: 3,673 101 to 500: 854 501 to 1,000: 88 1,000+: 98

SUN LIFE FINANCIAL Diana Deverall-Ross, Assistant Vice-president, Group Marketing & Communications; 225 King St. W., Toronto, ON M5V 3C5 PH: 416-408-8930 Fax: 416-595-1436 eMail: diana.deverall-ross@sunlife.com Web: www.sunlife.ca Net Premiums - Group Life: $634M Group Health: $2,855M ASO: $3,786M Products/Services: Extended health, Dental, Drug, Travel benefits, Vision, Drug intervention programs, Pay-direct and deferred drug plans, Health spending accounts & personal spending accounts, International benefits solutions, Voluntary benefits (mandatory & optional critical illness, optional life & AD&D), Transition services (life, critical illness & health & dental for group plan members exiting their employee group benefits plan), Health & wellness programs (data analytics, screening clinics, health risk assessment, health promotion, disease management), Disability management services (for disability benefit & salary continuation programs), Employee assistance programs, Total benefits (integrated benefits & retirement services) Client Profile (By # of Employees) 1 to 100: 15,882 101 to 500: 1,192 501 to 1,000: 249 1,000+: 438

ASO: As of December 31, 2011

GROUP RETIREMENT

BMO FINANCIAL GROUP Anita Lieberman, Vice-president, Business Development, BMO Group Retirement Services Inc.; 181 Bay St., Ste. 2820, Toronto, ON M5J 2T3 PH: 416-594-5962 Fax: 866-362-2659 eMail: anita.lieberman@bmo.com Web: www.bmo.com/igrs Group Pension Assets: $2,230.2M Products/Services: Administration recordkeeping services, Governance reporting, Call centre services, Communications & education services

BUCK CONSULTANTS LIMITED Marina Scassa, Director, Global Identity Marketing; 155 Wellington St. W., Ste. 3000, Toronto, ON M5V 3H1 PH: 416-865-0060 Fax: 416-865-1099 eMail: marina.scassa@consultants.com Web: www.acsbuckcanada.com Products/Services: Regular pension plan valuations; Compliance with regulatory requirements on funding & disclosure; Actuarial costings for new plans, changes in eligibility, benefit levels, early retirement windows & indexing; Advice on transfer & settlement of pension obligations arising under spin-offs, mergers, acquisitions & divestitures; Plan benchmarking & plan redesign; Design & development of executive plans Client Profile (By # of Employees) 1 to 1000: 40 1,001 to 5,000: 49 5,001 to 1,000: 49 1,000+: 69

GREAT-WEST LIFE ASSURANCE COMPANY Jeff Aarsen, Vice-president, GRS Sales & Marketing, Wealth Management; 66 – 255 Dufferin Ave, London, ON N6A 4K1 PH: 519-435-7038 Fax: 519-435-7800 eMail: jeff.aarsen@gwl.ca Web: www.greatwestlife.com Group Pension Premiums & Deposits: $3,288M Group Pension Assets: $33,493M Products/Services: Products – RPP/SP, DPSP, EPSP, RRSP, TFSA, NRSP, Investment-only, Group LR, Group RRIF, Annuities, Deferred salary leave plan, Employee benefit plan; Services – CAP recordkeeping, Communication materials, Educational & transactional website, Bilingual toll-free client service centre, Education seminars & videos, Sponsor safeguards & compliance program, Third-party financial planning website & seminars, Member investment selection service, Personalized member statement illustrations Client Profile (By # of Employees) - 1 to 100: 6,881 101 to 500: 205 501 to 1,000: 22 1,000+: 16

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DESIJARDINS FINANCIAL SECURITY Jean-Francois Pelletier, Regional Vice-president, Business Development, National Accounts; 1 Complexes Desjardins, South Tower, 19th Floor, Montreal, QC H3B 1E2 PH: 514-250-8700 x7699 Fax: 514-285-8766 eMail: jean-francois.pelletier@dgsf.ca Web: www.dgsf.ca Group Pension Premiums & Deposits: $615.1M Group Pension Assets: $3,376M Products/Services: Participant education, Plan management services, Investment solutions, DC plans, Group RRSPs, DPSPs, Non-registered plans, Simplified pension plans, Individual pension plans, Single premium annuities, TFSA, RRIF/Annuities Client Profile (By # of Employees) - 1 to 100: 5,815 101 to 500: 205 501 to 1,000: 22 1,000+: 16

CO-OPERATORS LIFE INSURANCE COMPANY William Armstrong, Vice-president, Wealth Management; 1920 College Ave., Regina, SK S4P 1C4 PH: 306-231-5900 Fax: 306-231-5903 eMail: william.armstrong@cumis.com Web: www.cooperators.ca/life/facilities/retirement Group Pension Premiums & Deposits: $47.7M Group Pension Assets: $926.1M Products/Services: Online internet access, Bilingual toll-free call centre, Member statements, Newsletters, Packages & education sessions, Variety of investment options that include variable and guaranteed rate options; Pooled investment funds Client Profile (By # of Employees) 1 to 100: 117 101 to 500: 8 501 to 1,000: 11 1,000+: 2

GREAT WEST LIF Assurance Company


seminars & videos, Sponsor safeguards & compli- ance program, Third-party financial planning website & seminars, Member investment selection service, Personalized member statement illustrations Client Profile (By # of Employees) - 1 to 100: 6,881 101 to 500: 205 501 to 1,000: 22 1,000+: 16
GROUP INSURANCE
ANNUAL DIRECTORY

INDUSTRIAL ALLIANCE Renée Lafalme, Vice-president, Group Savings & Retirement; 1080 Grande Allee W., Quebec City, QC G1K 6M3 PH: 418-684-5252 Fax: 418-684-5187 eMail: reneelafalme@inalco.com Web: www.inalco.com Group Pension Premiums & Deposits: $404.3M Group Pension Assets: $3.1M Products/Services: Defined Contribution plans – RRPs, SPPs, RRSPs, DPSPs, TFSA, Stock plans; Defined Benefit plans – RPPI, PPES, SERPs, Retirement compensation arrangements; Annuity products – Insured or guaranteed annuities, RIRFs, LIFs; Investment Services – Investment only services, Investments, Dynamic asset management, Guaranteed Investments, Life cycle portfolios & customized life cycle portfolios Client Profile (By # of Employees) 1 to 100: 7,880 101 to 500: 367 501 to 1,000: 28 1,000+: 25

LA CAPITALE ASSURANCES ET GESTION DU PATRIMOINE Dean Bergeron, Director, Marketing & Workplace Attendance Management; Edifice le Delta 3, 2875 boul. Laurier, bar. 400, Quebec City, QC G1V 2M2 PH: 418-266-8194 Fax: 418-644-4352 eMail: dean.bergeron@lacapitale.com Web: www.lacapitale.com Group Pension Assets: $3.1M Products/Services: Group Annuities, Group RRSP Client Profile (By # of Employees) 1 to 100: 4

MANULIFE FINANCIAL Michael Ondercin, Assistant Vice-president, Marketing – Group Retirement Solutions; 25 Water St. S., Kitchener, ON N2J 4A9 PH: 519-747-7000 Fax: 519-747-6772 eMail: michael_ondercin@manulife.com Web: www.manulife.ca/gro Group Pension Premiums & Deposits: $2,314M Group Pension Assets: $19,375M Products/Services: Registered pension plans, Group registered retirement savings plans, FutureStep RRSP for small business, Deferred profit sharing plans, Tax free savings accounts, Non-registered savings plans, Stock plans, Defined Benefits/Investment-only plans Client Profile (By # of Employees) 1 to 100: 4,311 101 to 500: 796 501 to 1,000: 105 1,000+: 84

MORNEAU SHEPELL Zahid Salman, Executive Vice-president; 895 Don Mills Rd., Ste. 700, Toronto, ON M3C 1W3 PH: 416-383-6456 Fax: 416-445-7989 eMail: zsalman@morneaushepell.com Web: www.morneaushepell.com

SEI INVESTMENTS Michael Chwalka, Head of Institutional Sales; 70 York St., Toronto, ON M5J 1S9 PH: 416-847-6370 Fax: 416-777-9093 eMail: mchwalka@seic.com Web: www.seic.com

SSQ FINANCIAL GROUP Marc Trépanier, Vice-president – Business Development, Individual & Group Savings; 1245 Chemin Sainte-Foy, Ste. 1-210, Box 10510, Station Sainte-Foy, Quebec City, QC G1V 0A3 PH: 418-...
GROUP INSURANCE
ANNUAL DIRECTORY

650-3457 x5215 Fax: 418-688-3848 eMail: marc.trepanier@ssq.ca Web: www.ssq.ca Group Pension Premiums & Deposits: $509.1M* Group Pension Assets: $3,438.1M* Products/Services: DB plan, DC plan, Group RRSPs, SSP plan, Non-registered plans, Plan administration, Recordkeeping services, DPSPs, RCA, LRP, LIRA, LLIF, TFSA, RRIF, IPP Client Profile (By # of Employees) 1 to 100: 3,518 101 to 500: 255 501 to 1,000: 24 1,000+: 7
*As of December 31, 2011

STANDARD LIFE ASSURANCE COMPANY OF CANADA, THE Claude Leblanc, Vice-president, Business Development, Group Savings & Retirement; 1245 Sherbrooke W., Ste. 1500, Montreal, QC H3G 1G3 PH: 514-499-7999 x7552 Fax: 514-841-2860 eMail: claude.leblanc@standardlife.ca Web: www.standardlife.ca Group Pension Premiums & Deposits: $4,775M Group Pension Assets: $41,332M Products/Services: Defined benefit plans, MFP plans, Deposit administration, Group RRSPs, DPSPs, Non-registered plans, Group annuities, Group RRIF/LIF plans, TFSA plans, Stock plans, Communication materials, Toll-free information line, Recordkeeping services, Investment management, Website Client Profile (By # of Employees) 1 to 100: 2,276 101 to 500: 498 501 to 1,000: 89 1,000+: 93

SUN LIFE FINANCIAL Nadia Darwish, Vice-president, Client Relationships & Business Development; 225 King St. W., 5th Floor, Toronto, ON M5V 3C5 PH: 416-408-8786 Fax: 416-595-1773 eMail: nadia.darwish@sunlife.com Web: www.sunlife.ca Group Pension Premiums & Deposits: $21,965M Group Pension Assets: $21,965M Products/Services: Defined benefits, MFP plans, Deposit administration, Group RRSPs, DPSPs, Non-registered plans, Group annuities, Group RRIF/LIF plans, TFSA plans, Stock plans, Communication materials, Toll-free information line, Recordkeeping services, Investment management, Website Client Profile (By # of Employees) 1 to 100: 3,441 101 to 500: 498 501 to 1,000: 89 1,000+: 93

All amounts are in $Canadian millions as of September 30, 2011, unless otherwise noted.
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1-877-499-9555 ext. 7086

Central Region
Christine van Staden
1-800-827-5747 ext. 3305

Western Region
Ken Kukkonen
1-800-663-1784 ext. 6
Administrative Services Only (ASO) contracts have, for the past 10 years, been increasingly recommended to smaller companies with as few as 25 employees. Yet, many advisors have been reluctant to consider splitting benefits contracts to include ASO funding for health and dental benefits.

However, the perception of maintaining all benefits with one supplier for the sake of cost and convenience may be misguided. Splitting benefits contracts (placing pooled benefits with one supplier and cash flow benefits with another) affords plan sponsors with a customized solution that combines the best-in-class capabilities of two, often for less than the price of one.

Right Service Provider
Once the consultant and the plan sponsor have determined the suitability of using an ASO benefits structure, then the task of selecting the right service provider begins. Since ASO plans are available from the industry’s leading insurance companies, third-party administrators, and claims adjudication companies, the sponsor should seek only the most robust service platforms and/or combination of suppliers to ensure this result is achieved.

Industry experts will agree that pooled benefits are the most profitable portion of any plan offered by most (if not all) carriers. Therefore, it seems reasonable that the plan sponsor and consultant at least consider the viability of splitting these benefit classes from the health, drug, and dental components of the overall plan, and ask for a separate quote.
The customary arguments for keeping all benefits combined with one carrier usually stress convenience for the plan’s members and administrators. The points in favor for securing a ‘best-in-class’ components split-plan include:

- Best-in-class synergies
- Lowest overall costs
- Cost transparency and funding model balance
- Protection from predatory renewal practices
- Renewal planning flexibility
- No employee disruption of service

By splitting the plan, a best-in-class solution is achievable. Life carriers are uniquely qualified to manage risk and do so offering their core life, LTD, AD&D, and weekly indemnity products and services. Health and dental claims adjudicators are best qualified and most efficient at handling these claims. The tools each supplier offers the plan’s members communicate these areas of strength so they can see that their plans have been designed without compromise.

Splitting the plan also makes it possible for the sponsor and consultant to find the lowest combined price by encouraging the most competitive offers from each responding supplier. By playing to their strengths, carriers can be prevented from hiding their health benefits losses within their life and LTD cost centres in order to compensate for their lack of profitability. An even lower fee might be the result of a pure stand-alone quote.

Adversarial Events

Consultants and sponsors alike will come to appreciate the balance of a split plan at renewal time. Renewals are often dreaded as adversarial events where carriers tend to conservatively estimate the trend and inflation causing the advisor to lobby against these excessive assumptions. A consultant who fights outrageous double digit renewal increases, then claims victory for the client by carving out several percentage points from inflated trend and inflation projections to end up with a rate well in excess of the true rate of inflation seems hardly reason to celebrate. The entire process is exhausting and largely avoidable.

It should also be considered that a single carrier holding all the benefits may have greater leverage and bargaining power at renewal time. While it might be possible for a consultant and sponsor to move their group plan should they receive an unfavorable renewal, frequent moves from one carrier to another are perceived negatively in the market. Splitting the plans benefits classes will help avoid any possible untoward leverage.

Health benefits ASO quotes are often guaranteed for two to three years, avoiding the need for the customary mortal combat during annual renewals. Imagine the savings in time and the boost in productivity for advisors and administrators if the days and weeks of preparation leading to renewal ‘season’ could be all but eliminated.

An advisor with 100 clients faces the specter of planning for, and processing, a renewal about every two days. With longer-term guaranteed rates, they may save as much as 50 per cent of the time they might spend on renewals. This time could be better spent on growing the book of business, serving clients or, even better, with family and friends.

Should it become necessary to review and possibly move the pooled benefits, the move can be considered and planned with minimal disruption to the members. Any decision to move a plan, in whole or in part, comes with consequences. An entire communications plan must be designed and shared with the members. There may be a tendency for some members to continue using their old health cards which creates confusion and transition nightmares for the administrator, advisor, and members. Clearly, the extra initial effort required to set up a split plan, which provides for this flexibility to make changes down the road, can be considered worthwhile.

Fully considered, the additional requirements of a plan administrator’s time to manage the eligibility and bill payment from two suppliers might amount to two hours per week. If the administrator was paid annual compensation of $60,000, the costs to manage the additional workload amount to approximately $3,016. If the savings of splitting the plan surpass the anticipated additional costs, the argument is made even clearer.

Comparatively Rare

Finally, the argument that plan members need the convenience of being covered by only one carrier seems weak when considering the greatest number of claims processed involves health and dental benefits. Life and LTD claims are comparatively rare and submitted under extremely stressful conditions. It is more likely that these are the claims where a member will seek guidance and counsel from a plan administrator. In this light, any perceived convenience appears to have been suggested for the administrator’s benefit. This can easily be offset given the greater cost efficiencies for the sponsor and benefits to the member by selecting ‘best-in-class’ providers based on how they enhance and enrich the members’ experience.

Advisors who are still reluctant to consider split plans which include ASO benefits would do well to consider that it is the ‘Stop Loss’ component found in both self-insured and fully insured structures that provides the relief and protection from catastrophic claims.

As stated earlier, an Administrative Services Only funding model and a split service arrangement may not be the best solution for everyone, but they are certainly worthy of consideration. Certainly no one (insured carriers or other suppliers alike) can make exclusive claims of offering the perfect solution in all cases. However, the fact remains that more business owners and consultants are considering ASO funding and a best-in-class, split-service approach for its simplicity, transparency, and lower costs.

Bob Carter (BA, CIM, CSP) is director of sales, at ClaimSecure.
Which group plan provider offers true open architecture?

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Vice President, Business Development
BMO Group Retirement Services Inc.
anita.lieberman@bmo.com
416-594-5962

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The financial world has definitively changed since 2008. Significant challenges stand before us, and although some may be cyclical, many are structural. These challenges inevitably lead us to anticipate an environment of low – and even very low – interest rates for a long period of time.

We are facing structural and cyclical challenges, plus the legacy of the credit crisis of 2008. In Europe, the spectre of deficit and debt are back in the headlines even though the reality is those issues were never addressed properly. The prospect of more fiscal discipline because of the euro has been nothing more than wishful thinking. To go back to fiscal rectitude, it takes time and pain. The output is low structural growth for a prolonged period.

In the U.S., the problem lies with the consumers. After years of leveraging, the pain of unwinding is showing. Joe the plumber is facing low income growth and a much reduced wealth. The government has also limited potential for action as debt level is rising fast. Therefore, in the developed world, there is not much space to grow quickly as internal demand and fiscal policy can’t be engines of growth.

Easing Materially
Over the last three years, we had the emerging world, but they are facing a slowdown, a cyclical one. The good news is they have room to lower rates. The context is, therefore, that the developed markets have already very low interest rates and need to keep them as low as possible as this is their only tool. The emerging world will be easing materially. We will get out of this uncomfortable scenario eventually, but for the time being (the next three years?), rates are very unlikely to rise meaningfully.

What happens to Defined Benefit pension plans in such a context? To answer this question, we estimated the impact that these adverse conditions could have over the next three years on the financial position of a typical DB pension plan.

In doing our analysis for the next three years, we have looked at three potential economic scenarios (see Chart 1).

The most likely scenario is one where growth is still positive, but below potential and is, therefore, not enough to bring deflation (emerging economies slowing, but not collapsing). Inflation should slow down gradually over the period. That means negative real interest rates. The deflation is by far the worst for risky assets. It will imply a hard landing in the emerging world or a major lagging effect from lower yield (especially for the housing sector). The typical recovery will require no slowdown at all by emerging economies and some sort of strong re-leveraging by both consumers and government.

Canadian plans are typically invested across a broadly diversified asset mix. In doing our analysis, it is also important to consider the impact of a low-rate/low-growth environment not only on the value of liabilities with a fixed income portfolio, but also its potential outcome on the equity returns that typically compose the majority of a typical plan’s assets, as evidenced by the median portfolio recently published by the Pension Investment Association of Canada (See Chart 2).

If we go back to our three main scenarios (Chart 1) and look at the possible outcome of those scenarios we get the forecast annualized returns for the typical Canadian plan portfolio shown in Chart 2. For the liabilities, we have considered again a fairly typical duration of approximately 14 years and have made the optimistic assumption that the plan was fully funded. Annualized return forecasts under the different scenarios are in Chart 3.
When looking at the impact on the plan funding ratio, defined here as a simple coefficient of the plan’s asset divided by present value of liabilities we have obtained the results in Chart 4.

Significant Deterioration

In looking at those results, it becomes quickly evident that our higher probability scenarios of stagflation and deflation both present risks of a significant deterioration to a typical plan’s financial health. The main drivers of this potential deterioration are stagflation, deflation, and a standard recovery.

In a stagflation scenario, this deterioration can be largely attributed to the anticipated underperformance of equities on portfolio returns. While one could realistically expect that a higher interest rate environment would have a favourable impact on the present value of liabilities, we also have to consider the possibility that interest rate increases under this scenario would affect primarily short-term rates. As short-term rates have relatively less impact than long rates on the valuation of liabilities, the favourable impact of higher rates on the present value of long-term liabilities might very well remain too modest to compensate for the impact of negative equity returns.

The deflationary scenario probably represents the most dramatic case and the one that would result in the most problematic deterioration to our typical plan’s financial position. Under this scenario, we are looking at the possibility of negative economic growth combined with a material drop in the general level of interest rates throughout the yield curve. What makes this scenario particularly problematic for our plan is the perfect storm created by the combination of negative equity market returns and rising liabilities. How much more the performance gap will widen will ultimately depend on the existing duration gap between the plan’s bond assets and liabilities.

The flipside to our deflation scenario is one of a standard recovery. This scenario can certainly be viewed as the most favourable outcome for our typical plan which would benefit from a combination of rising stock prices and dropping liabilities. Under this scenario, the impact of negative bond returns on the plan’s health is mitigated by the fairly low allocation to bonds (32 per cent) and the relatively low duration of a standard universe type portfolio. In this case, an existing duration gap between assets and liabilities would work in our plan’s favour.

As a result of this analysis, a plan sponsor might consider a series of measures that can be broadly defined under the theme of duration extension in order to reduce the impact of a duration mis-allocation.

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<tr>
<th>Possible Scenarios</th>
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<tr>
<td>Growth</td>
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<tr>
<td>Slow growth and controlled inflation (stagflation)</td>
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<tr>
<td>Deflation</td>
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<tr>
<td>Typical recovery</td>
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* For illustrative purposes only

<table>
<thead>
<tr>
<th>Typical Allocation</th>
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<table>
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<th>Annualized Return Forecast Scenarios</th>
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<td>DEX Long Term</td>
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<td>TSX</td>
</tr>
<tr>
<td>Typical Plan</td>
</tr>
<tr>
<td>Liabilities</td>
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* For illustrative purposes only
match between plan assets and liabilities under those adverse scenarios. This can be achieved in a number of ways and we have chosen here to consider a simple strategy combining an increase in bond allocation and duration extension of the bond portfolio through a switch in benchmark from Universe to Long Term under various scenarios (see Chart 5).

Working from those premises, we can make the first observation that extending the duration of the bond portfolio only marginally improves the forecasted plan situation if bond allocation only represents 40 per cent or less of the plan assets under a stagflation or deflationary scenario. In order to materially increase the chances of improving the financial situation of the plan under those scenarios, an asset allocation shift toward a higher bond allocation has to be considered in parallel with a benchmark extension. This is easily explained when we consider that moving from a Universe to a Long-term type benchmark reduces the duration mismatch between assets and liabilities by 2.7 years, assuming a 40 per cent allocation to bonds.

Conversely, a plan sponsor preoccupied by the possibility of stagflation should not necessarily assume that extending the duration of his bond portfolio would be detrimental to the financial position of the plan. As we can see in Chart 5, the difference in impact on the financial health of the plan might be relatively modest whether the plan had chosen to adopt a duration extension strategy or not. This can be explained by the fact that interest rate increases forecasted under the stagflation scenario are more likely to impact the short-end of the yield curve, which represents more than 45 per cent of the bond universe. And, while long-term increases could remain more modest, when combined with a higher yield to maturity, this helps mitigate the negative impact on longer duration strategy.

Negative Impact

Lastly as we can see, the impact of these economic scenarios cannot be isolated to an analysis of the interaction between bond and liability returns. The impact of equity returns on the overall plan’s situation is material in most cases and while transferring risk assets to bonds can, to some extent, mitigate the negative impact of a low interest rate environment, strategies to manage the volatility of these risk assets must also be considered.

According to our analysis, increasing the duration of a bond portfolio remains appropriate if economic recovery is in sight to the extent that exposure to growth assets can be maintained through an overlay or leveraging strategy.

In conclusion, the concern among DB pension plan sponsors is tangible. However, sponsors need to take concrete steps to address this hostile environment. Inaction is not an option.

Here are some the important points to consider:

- Determine the composition of the liabilities portfolio
- Determine key levels where the portfolio’s risk will be reduced
- Actively monitor the plan’s funding/solvency level
- Include reduced-volatility growth assets
- Foster diversified asset strategies proven in bear markets
- Use liability strategies to rebalance the portfolio’s market exposure
- Guide the execution and implementation schedule of measures to be taken with a tactical view of the financial markets

---

**Chart 5**

**Impact of a Duration Mismatch**

<table>
<thead>
<tr>
<th>Annualized Impact on the plan’s financial position*</th>
<th>Stagflation</th>
<th>Deflation</th>
<th>Recovery</th>
<th>Weighted average</th>
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<td>Probability</td>
<td>60%</td>
<td>30%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Allocation: 60% equities – 40% bonds</td>
<td>-3.5%</td>
<td>-13.1%</td>
<td>12.9%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>With Universe bonds</td>
<td>-3.4%</td>
<td>-12.0%</td>
<td>10.8%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Allocation: 40% equities – 60% bonds</td>
<td>-2.2%</td>
<td>-9.7%</td>
<td>10.8%</td>
<td>-3.2%</td>
</tr>
<tr>
<td>With Universe bonds</td>
<td>-2.1%</td>
<td>-7.9%</td>
<td>7.5%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Allocation: 20% Equities – 80% bonds</td>
<td>-0.9%</td>
<td>-6.3%</td>
<td>8.6%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>With Universe bonds</td>
<td>-0.7%</td>
<td>-3.9%</td>
<td>4.3%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Allocation: 100% bonds</td>
<td>0.4%</td>
<td>-2.9%</td>
<td>6.4%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>With Universe bonds</td>
<td>0.6%</td>
<td>0.1%</td>
<td>1.0%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

* For illustrative purposes only

---

**Chart 4**

**Impact On Financial Position**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Annualized Impact on the plan’s financial position*</th>
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<tbody>
<tr>
<td>Slow growth and controlled inflation (stagflation)</td>
<td>-3%</td>
</tr>
<tr>
<td>Deflation</td>
<td>-11%</td>
</tr>
<tr>
<td>Typical recovery</td>
<td>+13%</td>
</tr>
<tr>
<td>Weighted average</td>
<td>-4%</td>
</tr>
</tbody>
</table>

* For illustrative purposes only

---

Denis Senécal is vice-president and head of fixed income and cash and Louis Basque (CFA) is vice-president, product engineering, at State Street Global Advisors, Ltd. (Canada).

Sources: SSgA, PIAC, PC Bond
ABERDEEN ASSET MANAGEMENT INC. Renee Arnold, Head of Business Development, Canada; 161 Bay Street, 44th Floor, Toronto, ON M5J 2S1 PH: 416-777-5570 Fax: 866-290-9322 eMail: renee.arnold@aberdeen-asset.com Web: www.aberdeen-asset.ca. Manager Style: Yield Curve, Credit and Sector for Core, High Yield, Emerging Market and Asia Ownership: a wholly owned subsidiary of Aberdeen Asset Management PLC. Fixed Income professionals: 120. Established: 1983


AEGON CAPITAL MANAGEMENT INC. R. Gregory Ross, President & CEO; 8th Floor - 5000 Yonge St., Toronto, ON M2N 7H8 PH: 416-883-5801 Fax: 416-883-5790 eMail: gregory.ross@aegoncapital.ca Web: www.aegoncapital.ca Manager Style: Credit Ownership: Wholly-owned by AEGON Asset Management (Canada) B.V., a wholly-owned subsidiary of AEGON N.V. Fixed Income Professionals: 5 Established: 2001

ALLIANCEBERNSTEIN L.P. Wendy Brodkin, Managing Director; BCE Place, 161 Bay St., 27th Floor, Toronto, ON M5J 2S1 PH: 416-572-2534 Fax: 212-756-4405 eMail: wendy.brodkin@alliancebernstein.com Web: www.alliancebernstein.com/ institutional Manager Style: Yield Curve, Credit, Structured Products, Quantitative Ownership: Principals - 63.1% (AXA Financial, Inc.); Publicly-held - 26.1%; Directors, Officers & Employees - 10.8% Fixed Income Professionals: 117 Established: 1971

AMI PARTNERS INC., Craig Labbett, Partner; 26 Wellington St. E., Ste. 800, Toronto, ON M5E 1S2 PH: 416-865-0731 Fax: 416-865-9241 eMail: clabbett@amipartners.com Web: www.amipartners.com Manager Style: Multiple Strategies (Duration, Yield Curve, Sector Allocation, Credit Analysis) Ownership: Principals - 70%, T.D. Bank - 30% Fixed Income Professionals: 3 Established: 1959


BANK OF MONTREAL ASSET MANAGEMENT, Marija Finney, Senior Vice-president, Head of Institutional Sales & Service; 77 King St. W., Ste. 4200, Toronto, ON M5V 3H1 PH: 416-359-5003 eMail: Marija.Finney@bmo.com Web: www.bmoas- setmanagement.com Manager Style: Yield Curve & Credit; Immunized; or Indexing styles if requested Ownership: BMO Financial Group Fixed Income Professionals: 6 Established: 1982


BARRANTAGH INVESTMENT MANAGEMENT INC., Robert Crane, Chief Investment Officer; 77 King St. W., Ste. 2800, Toronto, ON M5V 2J3 PH: 416-865-6295 Fax: 416-865-6593 eMail: richard.terres@bnymellon.com Web: www.bnymellon.com Manager Style: Yield Curve, Credit, Immunized, Core Bonds, Active Duration, Interest Rate Anticipation, Sector Swapping, Maturity Swap-


INVESCO, Joe Di Massimo, Senior Vice-president, Institutional Investments; 120 Bloor St. E., Ste. 700, Toronto, ON M4W 1B7 PH: 416-596-7742 Fax: 416-596-7742 eMail: joedimassimo@invesco.com Web: www.institutional.invesco.ca Manager Style: Yield Curve, Credit Ownership: Principals - 8%, Publicly-held - 92% Fixed Income Professionals: 150

J ZECHNER ASSOCIATES INC., David Cohen, President; 200 Bay St., Royal Bank Plaza, South Tower, Ste. 3205, Box 53, Toronto, ON M5S 2J2 PH: 416-867-8884 Fax: 416-867-8705 eMail: dcohen@jzechner.com Web: www.jzechner.com Manager Style: Yield Curve, Credit, Structured Products, Quantitative Ownership: Principals Fixed Income Professionals: 4 Established: 1993

JARISLOWSKY FRASER LIMITED, Peter Godec, Partner; 20 Queen St. E., Ste. 3000, Toronto, ON M5H 3R3 PH: 416-363-7417 Fax: 416-363-8079 eMail: pgo-dec@jfl.ca Web: www.jfl.ca Manager Style: Yield Curve: 25%, Credit: 75% Ownership: Principals (Partners) Fixed Income Professionals: 3 plus input from other investment team members Established: 1995


MANULIFE ASSET MANAGEMENT, Adam Neal, Senior Managing Director, Canadian Head of Sales & Relationship Management; 176 - 200 Bloor St. E., Toronto, ON M4W 1E5 PH: 416-926-3000 Fax: 416-926-5700 eMail: adam_neal@manulife.com Web: www.manulife.com Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative Passive Management: DEX Universe Bond Index Ownership: Manulife Financial Corporation Fixed Income Professionals: 13 Established: 1954


MAVER INVESTMENT MANAGEMENT LTD., Jamie Hyndman, Director of Marketing; 900, 603 7th Ave. SW, Calgary, AB T2P 2T5 PH: 403-267-1974 or 604-889-6248 eMail: jhyndman@mawer.com Web: www.mawer.com Manager Style: Credit Ownership: Principals Fixed Income Professionals: 2 Established: 1974

MFS MCLEAN BUDDEN LTD., Christine Girvan, Managing Director, Canadian Sales; 145 King St. W., Ste. 2525, Toronto, ON M5H 1J8 PH: 416-862-9800 Fax: 416-862-0167 eMail: cgirvan@mfs.com Web: www.mcleanbudden.com or www.mfs. com Manager Style: Yield Curve, Credit Ownership: Wholly-owned subsidiary of MFS Investment Management Fixed Income Professionals: 8 Established: 1947

MONTRUSCO BOLTIN INVESTMENTS INC., Richard Guay, Senior Vice-president; 1501 McGill Col-lege, Ste. 1200, Montreal, QC H3A 3M8 PH: 514-842-6464 eMail: guayr@montruscobolton.com Web: www.montruscobolton.com Manager Style: Credit Ownership: Principals - 28%, Affiliated Managers Group of Boston (AMG) - 46%, Solidarity Fund QFL - 26% Fixed Income Professionals: 2 Established: 1946


NORTHERN TRUST, David Lester, Vice-president; 1910-145 King St. W., Toronto, ON M5H 1B8 PH: 416-775-2215 Fax: 416-366-2033 eMail: david.lester@ntrs.com Web: www.northerntrust.com


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PIMCO CANADA CORP., Andrew Forsyth, Senior Vice-president; 120 Adelaide St. W., Ste. 1901, Toronto, ON M5H 1T1 PH: 416-368-3349 Fax: 416-368-3576 eMail: andrew.forsyth@pimco.com Web: www.pimco.com Manager Style: Active Bond Management with a long-term focus; utilizes all major sectors of the bond market while managing duration within a moderate range around the benchmark Ownership: Indirect subsidiary of PIMCO Fixed Income Professionals: 604 Established: PIMCO Canada - 2004


PYRAMIS GLOBAL ADVISORS (CANADA), Kevin Barber, Senior Vice-president, Business Manager, Institutional Sales & Service; 483 Bay St., Toronto, ON M5G 2N7 PH: 416-307-5391 Fax: 416-307-5349 eMail: kevin.barber@pyramis.com Web: www.pyramis.ca Manager Style: Yield Curve, Credit, Structured Products Ownership: Principals Fixed Income Professionals: 191 Established: 2005


STATE STREET GLOBAL ADVISORS, LTD., Jay Wiltshire, Vice-president; 161 Bay St., TD Canada Trust Tower, Ste. 4530, Toronto, ON M5J 2S1 PH: 416-847-6469 Fax: 416-775-6464 eMail: jay_wiltshire@ssga.com Web: www.ssga.com Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative, Global Bond Strategies Passive Management: Canada - DEX Universe Bond Index, DEX

SEI, Michael Chwalka, Head of Institutional Sales; 70 York St., Ste. 1600, Toronto, ON M5J 1S9 PH: 416-847-6370 Fax: 416-777-9093 eMail: mchwalka@seic.com Web: www.seic.com Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative Ownership: Publicly-held Fixed Income Professionals: 13 Established: 1968


SEAMARK ASSET MANAGEMENT LTD., Remi Roger, Vice-president & Head of Fixed Income; 1801 Hollis St., Ste. 310, Halifax, NS B3J 3N4 PH: 902-423-1518 eMail: roger@seamark.ca Web: www.seamark.ca Manager Style: Yield Curve Ownership: Matrix Asset Management Inc. Fixed Income Professionals: 3 Established: 1982

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David Coyle, Executive Director; 161 Bay St., Ste. 4000, Toronto, ON M5J 2S1 PH: 416-681-5200 Fax: 416-681-5100 eMail: david.coyle@ubs.com Web: www.ubs.com Manager Style: Yield Curve, Credit, Immunized, DB Risk Management Fund (pooled levered interest rate hedging) Ownership: Publicly-held Fixed Income Professionals: 6 Established: 1986 (Canada)

**WELLINGTON MANAGEMENT COMPANY, LLP.**

Susan M. Pozer, Vice-president; 280 Congress St., Boston, MA 02210 PH: 617-951-5000 Fax: 617-263-4100 eMail: mig@wellington.com or smpozer@wellington.com Web: www.wellington.com Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative, Canadian Universe Bond Plus and Canadian Long Bond Plus, as well as both Regional Investment Grade and non-investment grade approaches available across the Duration spectrum Ownership: Principals Fixed Income Professionals: 175 Established: 1928
### FIXED INCOME MANAGERS

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*Total includes other assets reported at www.bpmmagazine.com
Managing Pension Investment Risk: A Business Imperative

By: Tom Ault & André Choquet

Many employers that provide a Defined Benefit pension plan for their employees may find themselves having to double their contributions – or more – this year in order to meet their solvency funding requirements. The median pension solvency funded ratio – the ratio of the market value of plan assets to liabilities – was approximately 15 per cent lower in January 2012 than at the start of 2011 due to lower interest rates and the stock market decline.

With the solvency position of these plans only in the 68 per cent range – down from around 83 per cent a year ago – plan sponsors that file an actuarial valuation in 2012 will need to add extra funds to comply with minimum funding rules that assure DB plans can meet their pension promises (See Chart 1).

Not all DB plan sponsors will find themselves having to significantly increase their contributions, however. Organizations that have taken steps to manage their plan’s risk exposure are likely better funded. While no single de-risking strategy is appropriate for all plans, a focused approach to managing risk will help plan sponsors avoid having to fund such large shortfalls.

**Strategies For Lowering Risk**

Measures that plan sponsors are adopting to reduce risk include making plan design modifications and changing investment policy – increasing diversification out of Canadian equities and intermediate bonds and shifting to global equities, long bonds, and alternatives. In addition, many organizations are revisiting their funding policy and contribution strategy.

If plan sponsors had adopted some of the following simple de-risking measures at the beginning of 2011, there might have been less impact on their solvency ratio a year later:

- **Taking less risk**: If plan sponsors invested more in bonds and less in equities, they would have experienced a lower drop in their solvency ratio. Increasing the investment in bonds from 40 per cent to 60 per cent would have meant a drop to only a 71 per cent solvency ratio, rather than 68 per cent. While a three per cent difference may not sound like much, it means a $3 million smaller shortfall to fund on a $100 million pension plan.

- **Having a better match between bond and liability duration**: Pension plans typically invest in universe bonds with terms of mainly between five and 10 years. Switching to long bonds, with maturities between 10 and 30 years, more closely matches the plan’s liabilities cash flows and helps assets and liabilities behave in tandem when interest rates fluctuate. If plan sponsors had taken this step in 2011, they would have experienced a 72 per cent solvency ratio.

- **Adopting a less-risk/long bonds approach**: Implementing both measures would have resulted in a solvency ratio of approximately 77 per cent at the end of 2011 – an improvement over the average 68 per cent, but still down from 83 per cent from a year ago.

Of course, taking these concepts further, either removing all investment risk from the plan and/or investing in derivative products that extend the duration of the assets to fully hedge interest rates, may mean a plan would have experienced little or
no drop in solvency ratio. Plan sponsors have historically avoided such measures, partially due to the low interest rate environment that currently prevails.

**Prudent Course Of Action**

Dynamic investment policies are also becoming more prevalent in these uncertain economic times. The traditional approach of implementing a strategic asset allocation and then re-evaluating it every three to five years with an asset-liability study is no longer sufficient in the current environment. According to Aon Hewitt’s 2011 ‘Global Pension Risk Survey,’ more than a third (35 per cent) of Canadian DB plan sponsors believe that having a dynamic investment policy is a prudent course of action.

A dynamic investment policy is an objective-based process in which the target asset allocation of the plan varies based on specific criteria — generally, improvements in the funded ratio of the plan. As the funded ratio improves, the assets are moved from growth assets (mainly equities) to liability-hedging assets (mainly bonds). Not only do dynamic investment policies reduce equity market risk as the funded ratio improves, they also reduce interest rate risk by adding to the assets that hedge the interest rate risk in the liabilities. A major advantage of these policies is that they take the emotional element out of asset mix decisions.

In implementing a dynamic investment policy, plan sponsors employ a decision-making framework that is continuously aligned to the investment strategy of the plan and the plan sponsor’s stated goals and objectives. In doing so, the pension risk management process differs from the traditional approach in at least three key ways:

- **Asset allocation is linked more clearly and directly to the plan liabilities.**
- **Plan sponsors measure and monitor the key asset-liability variables on a more frequent basis.**
- **Plan sponsors develop specific strategies based on changes to those key asset-liability variables (as opposed to a static asset mix or one based purely on capital market expectations).**

Some plan sponsors may be hesitant to put a dynamic policy in place that is strictly responsive to increases in a plan’s funded ratio. They may not want to shift assets into long duration bonds and be protected against interest rate risk when yields on long duration bonds are at an all-time low. These sponsors may want to add a second dimension to their policy, creating what is referred to as a ‘two-dimensional dynamic investment policy.’ Here, within their liability hedging assets, they would hold more short duration bonds when rates are expected to rise and high duration bonds when rates are expected to fall. By setting an explicit two-dimensional dynamic policy that defines the desired bond duration based on the level of long bond yields, the sponsor minimizes the temptation for uncontrolled market timing bets on interest rates. **Chart 2** illustrates what a glide path to implement a two-dimensional dynamic investment policy would look like.

The greater the funded ratio, the greater the allocation to liability hedging assets and the greater the hedge ratio (a measure of how aligned assets and liabilities are — a ratio of 100 per cent means that assets and liabilities would respond in tandem to interest rate movements). At any funded ratio level, the hedge ratio...
can be above or below the target (within limits) depending on the level of interest rates at that point in time.

Mismatch Risk

Assuming some asset/liability mismatch risk is common in building retirement funds. Ensuring the return is maximized for the risk taken is key. With the events of the last few years, plan sponsors are increasingly seeking reduced volatility, without sacrificing return. In particular, they are looking for diversification, not only in ‘regular’ markets, but also in times of severe market stress. As such, plan sponsors have been increasingly investing in alternative asset classes such as infrastructure, private equity, and hedge funds.

Unfortunately, there are often minimum investment requirements, even in pooled structures, that are prohibitive to small pension plans. Additionally plan sponsors may not have the time to fully understand the pitfalls and risks associated with such asset classes. It is possible for sponsors to gain access to such investments via delegated investment providers that assume the plan’s investment management and related fiduciary operations to effectively manage the plan’s cost, risks, and governance.

For those plan sponsors who do not have the appetite or investment time frame for alternative assets classes, low volatility equity strategies are starting to pick up traction. These strategies construct portfolios of stocks that have historically had, and are expected to continue to have, lower volatility. They are not focused on trying to beat a particular market index.

Last year, Canadian plan sponsors responding to the ‘Global Pension Risk Survey’ showed a great deal of interest in hedging longevity risk, but providers of risk solutions were not as enthusiastic. The corresponding ‘Global Pension Risk Provider Survey,’ conducted around the same time, clearly demonstrated that longevity risk was the risk attracting the least attention from providers. This may change as the Canadian Institute of Actuaries has adopted new standards for the calculation of commuted value of pension benefits that require the use of generational mortality. Many plan sponsors will see an increase in their funding requirements as a result and this will bring

more attention to the cost of improving mortality rates. In the future, sponsors may well develop an appetite for hedging against the risk of stronger than expected mortality improvements.

Since 2001, pension plan sponsors have experienced three once-in-a-lifetime events (2001, 2008, and 2011) and the perfect storm of 2011 will be much worse for most plans than 2008 was. As a result, there will be many difficult pension committee meetings in the coming months as the financial impact of 2011 is measured and the realities of increased funding requirements sink in.

The main question for CFOs and risk managers coming out of 2012 has to be ‘What can we do to avoid a recurrence of 2011?’ Recent history (since 2008) has shown that just waiting for the markets to turn things around is not an actionable strategy. Even though interest rates are very low, no one knows when they will go up, by how much, and at what points along the yield curve. If nothing else, sponsors seeking to avoid a repeat of 2011 should be conducting a risk review of their plans to understand where the greatest risks are and what strategies can be implemented to address them. Having an approved plan ready to implement that takes the plan sponsor from the current state to its desired long-term state will ensure it is ready to take the appropriate actions at the appropriate points in time. Without that, all plan sponsors can do is hope for the best and get out their lucky rabbit’s foot.

- BPM

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Is the Defined Contribution plan lexicon too complicated?

Recently, I had the opportunity to observe a very professional member education session conducted by one of the service providers for one of my plan sponsors. The presentation covered a significant number of topics related to the accumulation of retirement savings, the need for same, and the basics on fund selection and tolerance.

The presentation had clearly been vetted by the legal and compliance sections of the provider and contained all the necessary disclaimers and used all of the generally accepted vocabulary for clear and effective communication of investment concepts and ideas. In addition, we had scheduled follow-up one-on-one meetings for plan members wishing to deal with more specific questions.

Body Language

As I sat there, I observed the faces and body language of the plan members and observed that a greater than normal number of member’s eyes were glazing over. In the follow up sessions, the reason became pretty clear. The basic words and terms of the session were not clearly understood.

Upon my return to my office, I wondered if this was just a function of the group demographics or if truly we needed to make the language even plainer than the plain that is now generally accepted.

I decided to poll a financial services firm with a higher than average level of financial acumen and see whether there was a disconnect with even the most basic concepts. The following terms or concepts were included in the poll which was in multiple choice format and garnered 100 separate responses – Equity, Bond, Vesting, Standard Deviation, Alpha, Index, Annuity, Stock, Quartile Ranking, EAFE, Asset Allocation, Dividends, Compound Interest, Gross Rate of Return, and No-load Fund.

Analysis of the answers produced some interesting results.

The terms Bond, Standard Deviation, and Dividend were understood by a significant majority of the respondents, with Bond being the most correctly matched term to its definition at more than 90 per cent, with the other two terms over 75 per cent correct. Compound Interest and Annuity scored in the next quartile and a pattern leaning towards an understanding of fixed income concepts looked to be coming through.

Surprisingly terms such as Stock, Equity, and Index produced results where 40 per cent to 50 per cent of the respon-
dents were not able to identify the correct answer.

As expected, when terms like Alpha and Quartile Ranking were introduced the correct response percentage dropped until it hit rock bottom with the results for No-load and EAFE.

Now, perhaps European Adjusted Foreign Equity was just more appealing than the alternative, but the fact that almost 70 per cent of the respondents did not clearly understand what No-load meant in reference to investment funds was troubling indeed.

I am not a behavioural economist, but I think my unscientific poll shows several things worth noting.

One, respondents clearly had been exposed to education regarding bonds and basic interest and dividend concepts. I think we can safely assume that the constant bombarding from an early age about Canada Savings Bonds and higher interest from banking direct in various media has had an effect. The understanding level of the more difficult equity and market related questions has not really benefited from the constant exposure in the media – other than index up, good; index down, bad – in that the respondents to the poll really don’t know what the TSX is.

Financial Literacy

Two, the need for education in financial literacy is urgent and the sooner we act on the recommendations of the blue ribbon panel the better. Basic financial literacy concepts on a curriculum should be started early and a basic degree of competence should be demonstrated before graduation from high school is achieved.

Three, unlike the Baby Boomers, who won’t be helped by changes to CPP or the new PRPPs, we can take some steps now to improve the level of understanding for all DC plan members. The new online polling capability allows for sessions with the vocabulary geared to the specific group, visual concepts delivered in a clear and perhaps animated manner are possible in a variety of media, and improved language around the ‘simplified prospectus’ or Pooled Fund Information sheet would all help.

Employers may also want to engage third-party education specialists to provide hands on literacy training to provide assistance in such areas as mortgage financing, credit cards, and pay day loans.

Finally, those providers that will act as PRPP administrators will have the chance to design from scratch a product that will meet the definition for disclosure as laid out in the ‘Framework for PRPP’ document issued by the Department of Finance which says “Plain language disclosure of plan provisions and investment performance is critical for members to understand the nature of their participation in a PRPP.”

If it is going to be the case for the new PRPP, I think it is the least we can do for existing DC plan members.

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Can Your Benefits Plan Touch Its Toes?

By: Kevin McFadden

Been to Yoga lately? If so you will know that flexible is definitely in. The same applies to employee benefits in that employers are providing an interesting twist on benefits, expanding beyond ‘traditional’ health and dental plans. Many employers now refer to their benefit offering as their ‘flex plan’ rather than simply ‘the group insurance plan.’ This trend has been brought on by the shortage of available talented and qualified employees in today’s competitive job marketplace. In an effort to stay competitive and attract and retain their prized talent, many employers are offering their employees flexible benefits offerings.

To use a simple analogy think of your benefits plan as spaghetti. It can be dry or cooked – rigid or supple. Both serve a purpose and have gastronomic value, however, try to feed your employees a steady diet of uncooked spaghetti and, well, the feedback is predictable. Many companies are still feeding their employees dry spaghetti benefits and wonder why there is no enthusiasm towards the menu. Others are cooking the spaghetti adding a little sauce and momma mia what a difference! That dull lacklustre traditional benefits plan suddenly becomes the talk around the water cooler. This is what a flex plan can do to liven up dreary traditional group insurance plans.

Flexible benefit plans come in a variety of options such as modular, cafeteria style, or healthcare spending accounts (HCSA). All options serve a purpose, however, HSCAs proportionately are growing most significantly and for good reason. They are straightforward to set up, easy to understand by employees, tax-effective, and can be added at little or no cost if implemented strategically.

Healthcare Spending Accounts

A healthcare spending account is a pre-determined amount of money provided to employees at the beginning of each benefit year for coverage of their medical and dental expenses – similar to their own personal benefits bank account. This amount is held in trust and claims are submitted by employees and reimbursed in a similar fashion to a traditional benefits plan. Eligible expenses are reimbursed at 100 per cent up to the total dollar amount available in the HCSA. A healthcare spending account can replace or exist alongside traditional medical and dental coverage. It ensures controlled benefit costs for the employer and complete claim flexibility for the employees.

An HCSA also allows a plan participant to be reimbursed for healthcare expenses not covered under any given group plan, such as deductibles or co-insurance.

Healthcare spending accounts provide a way for plan sponsors to deliver benefits to their employees, using pre-tax dollars.

Kevin McFadden is a benefits consultant and principal with Sigurdson McFadden Benefits & Pensions.
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Few of us have not been touched by cancer. We may have had a cancer diagnosis ourselves, or it may have been a family member, a friend, a spouse, or a child. Most of us will not be aware of the increasing challenges cancer patients face as they try to access care through the public health system in their province of residence.

According to 2007 data from Statistics Canada, cancer was the leading cause of death among Canadians. While four out of every 10 Canadians are likely to receive a cancer diagnosis during their lifetime, survival rates have improved with the benefit of earlier diagnosis and the availability of new therapies. If not curable, cancer can often be controlled as a chronic disease.

Feel Thankful

When someone we know is diagnosed with cancer, we usually feel thankful that we have a public health system with access to oncologists who provide surgery, radiation, chemotherapy, and a host of other services and therapies. However, the average Canadian is not aware that the cost of some services may be passed onto the patient.

In the past, cancer drugs were administered intravenously in hospitals and employers may have paid only for an employee’s absence and disability benefits. With the introduction of more oral cancer therapies, employer drug plans have picked up a significant and, unexpectedly, expensive share of the cost of cancer treatment for both employees and dependents. A Canadian Cancer Society report that highlights the high cost of cancer drug therapies shows eight of 12 newer drugs cost at least $30,000 per course of treatment.

Fortunately, almost all private plans reimburse oral cancer meds, although this varies by province and by employer. In Alberta, for example, Blue Cross typically waits for the public plan to approve a cancer drug for reimbursement before it reimburses its private plans. IV therapies administered in a private clinic are generally eligible, but while the drug cost is paid, associated administration charges are not.

Decline Coverage

The majority of insurers decline coverage for intravenous infusion therapies even when administered outside of a hospital setting. The reasons cited include cost shifting from public domain, perception as ‘generous’ to public plans and hospital, and off label prescribing. Because of this, increasingly more patients must find other ways to pay for their cancer therapies.

There are also significant inequities between provinces for take-home cancer drugs. A patient living in Ontario could have a significantly different cost burden than one from British Columbia even when prescribed the same drug. As well, the Cancer Advocacy Coalition of Canada’s ‘2007 Report Card on Cancer in Canada’ noted that there was a significant percentage of ‘take-home’ cancer drugs not approved, or with limited access/funding under provincial plans. It coined the term ‘take-home cancer drugs.’ At that time, public plans in Ontario, New Brunswick, Nova Scotia, and Newfoundland were the most restrictive.

Innovative therapies administered outside of a hospital setting that can improve patient health outcomes and save lives can only work if patients have access to them. Patient advocacy groups are actively working to engage provincial health ministries in dialogues about reimbursement. Plan sponsors have a significant financial stake in the funding of cancer care and have an opportunity to join with other stakeholders, including patient groups, to dialogue with the public sector and address the shifting burden of cancer care to the private sector, including the uninsured, and address the inequities between provinces across Canada.

On April 19, Dr. Mark David Vincent, medical oncologist, London Regional Cancer Program, will join the ‘Connex Employer Forum’ in Niagara Falls, ON, to address the issue of cancer treatment and reimbursement from a physician’s perspective. To find out more about the event, which runs April 18 to 20, contact Denise Balch at 905-637-2775 x224 or email denisebalch@connexhc.com.

Denise Balch is president of Connex Health.
The Shareholder Foundation for Education and Research (SHARE) ‘Pension Bootcamp’ session is an introduction to pension issues and terminology. It takes place March 1 in Vancouver, BC. For more information, visit http://www.share.ca/courses-conferences/

‘De-Risking for Long-Term Success’ is the theme of the conference board of Canada’s ‘Pension Summit 2012.’ Attendees will hear speakers such as Leo J. de Bever, chief executive officer, Alberta Investment Management Corporation; Caroline Blouin, vice-president, pensions and benefits, RBC Financial Group; and Carol L. Craig, director, human resources, benefits and pensions, TELUS Communications Inc. It takes place March 1 in Toronto, ON, and March 5 in Calgary, AB. For more information, visit www.conferenceboard.ca

The International Foundation of Employee Benefit Plans’ ‘Certificate in Global Benefits Management’ delivers the knowledge needed to be successful in managing and administering international employee benefit plans. The program is taught by expert professionals who will provide the latest information on existing and emerging international employee benefits. It takes place March 12 to 16 in Boston, MA. For more information, visit www.ifebp.org/global

‘Private Payers and the Case of the Missing Drug Plan Strategy’ and ‘What is the Pension Promise?’ will be among the sessions at the CPBI Saskatchewan Regional Conference. It takes place April 18 and 19 in Regina, SK. For more information, visit http://www.cpbi-icra.ca/

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. For more information, visit www.connexhc.com

Jacques Attali, an honorary member of the Council of State (France), a special advisor to the president of France, and founder and first president of the European Bank for Reconstruction and Development; and Yvan Allaire, executive chair of the board for the Institute for Governance of Private and Public Organizations and a member of the global council on the role of business of the World Economic Forum; will be among the featured speakers at ‘CPBI FORUM 2012.’ It takes place May 15 to 17 in Montreal, QC. For more information, visit http://www.cpbi-icra.ca/
Talking About Deflation

By: Jim Helik

The battle that governments around the world have fought against inflation has been very effective in most cases. In North America, we live in a world where inflation is in the very low single digits and has been that way for decades. Governments seem to be aware of the distortions that rapid inflation can cause to individual retirement plans, business future plans, and the economy in general.

And we, as investors, know what we should do if inflation ever rears its ugly head again, we buy ‘stuff.’ That can include anything from gold or other metals, almost any commodity, and real estate. And there are more specialized products such as real return bonds to help us cope with inflation.

But what if the opposite were to happen in the future? In other words, we are talking about deflation.

Continuing Debate

We will leave aside the continuing debate among economists about the causes of inflation and deflation (ranging from government action or inaction and money supply issues to cyclical economic factors), and instead focus on what may happen if we find ourselves in a deflationary environment.

To most people, deflation is not on their radar screen and is unfamiliar to today’s investor. The argument goes like this. Countries haven’t seen deflationary periods since the late 1800s or the Great Depression (whether deflation is a cause or effect of recessions and depressions is still being debated). Canada’s last recorded deflationary period was 1929 to 1933. The exceptions are Japan, which has had decades of deflation beginning in the early 1990s, Ireland beginning in early 2009, and Greece right now.

Okay, maybe there are some reasons to pay some attention to deflation.

There are certainly some negatives associated with deflation. Historically, deflation is strongly correlated with economic recessions and depressions. However, there is another type of deflation, dubbed by some economists as ‘benign deflation’ which results in lower prices as a result of improvements in production, technology, and management. This allows goods to be produced with fewer inputs. These lower production costs are matched with lower prices to the consumer. My children and the students that I teach have lived much of their lives in this deflationary world. The technology that they spend their money on (computers, phones, game systems) either becomes cheaper over time for the same product or better over time (and thus a better product for the same dollars spent).

However to non-students, the effects of deflation can be dramatic, rewarding creditors at the expense of debtors, increasing the role of cash holdings at the expense of investment, and emphasizing short-term liquidity at the expense of long term capital gains producing investments in companies. This can lead to a ‘deflationary spiral’ as price decreases lead to lower production which in turn leads to lower wages which reduces demand and, therefore, leads to still further decreases in prices.

About the only person who speaks of deflation today is economist Gary Shilling, who for decades has been warning about the effects of deflation. And this time, he may be right. He has most recently noted that virtually all financial assets globally have declined, that tangible assets (notably real estate) have been dropping for years (in most countries except for ours), commodity prices are off from their peaks in 2011, wage deflation (as measured by unemployment rates) remain stubbornly high, and most world currencies have fallen against the safety of the U.S. dollar. All of these suggest that deflation is near, if not here already.

Load Up On Treasuries

So, how do we make money in such an environment? According to Shilling we should load up on Treasuries and zero coupon bonds, high quality corporate and government bonds, and the U.S. dollar. On the equity side, look for high-dividend paying stocks, and companies in the consumer staples areas as well as healthcare and energy. However, recognize that these equity categories might outperform other equities (such as those in the financial services industry), but are still inferior to cash and cash substitutes.

In short, it’s worth thinking about, and maybe even planning for, deflation precisely because so few people are thinking about deflation. If the past few years have taught us anything, it is to expect the unexpected.

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.
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![Graph](image)

Source: *Standard Life Investments Limited*, gross performance from 04/01/2006 to 03/31/2010. Portfolio performance is based on the £ equivalent of the portfolio's net asset value. Past performance is not a guide to future performance. The value of investments within the Fund may fall as well as rise - you may get back less than you pay in.

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1. Standard Life Investments Limited, utilized to explain fund performance based on institutional priced pension fund; gross returns. 2. Source: Standard Life Investments Limited, 01/01/06 to 03/31/10. Volatility of Absolute Return is the annualized standard deviation of monthly absolute returns, e.g., S&P 500 US volatility would be 16% per annum. Volatility of benchmark returns is the annualized standard deviation of monthly benchmark returns, e.g., 18% per annum. 3. Source: Standard Life Investments Limited, a sister of the Canadian GARS Fund will be offered in a private placement basis only, pursuant to exemptions from prospectus and registration requirements under applicable securities legislation only to those persons who are able to lawfully sell and who lawfully purchase the units. This communication is for information purposes only and under no circumstances is it to be construed as, a solicitation offering to sell, or a solicitation of an offer to buy securities. 4. The Fund is not guaranteed, a capital protected product or a substitute for cash. In order to achieve its investment objectives the Fund will make extensive use of derivatives. 5. The Fund aims to achieve 6 month 11.2% - 15% on a rolling twelve month basis, which is equal to equalizing returns. Standard Life Investments Inc., with offices in Calgary, Montreal and Toronto, is a wholly owned subsidiary of Standard Life Investments Limited. Standard Life Investments Limited is regulated in the UK by the Financial Services Authority. Calls may be monitored and/or recorded to protect both you and us and help with our training. ©2010 Standard Life. Images reproduced under licence.
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