An Open Letter to Canadian Pension Plan Sponsors, Foundations, Endowments and their Advisors

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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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When Should We Retire?

By: Joe Hornyak, Executive Editor

RAising the retirement age solves a fiscal problem facing government, but it does not solve the political or social problems, says Malcolm Hamilton, of Mercer. Speaking on ‘Longevity Risk and Retirement Age’ at the ‘Eighth International Longevity Risk and Capital Markets Solutions Conference,’ he said the dilemma for government is that working Canadians pay more for the benefits they receive while retired people use more benefits.

The solution seems simple. Make Canadians work longer. But Hamilton notes, quite rightly, that there is no link between how long you can work and how long you live. For example, it has been estimated that 40 per cent of people retire not because they want to, but because their health prevents them from continuing to work.

Certain Jobs

There is also a consideration of whether or not someone can continue to do certain jobs as they age. Judges, teachers, lawyers, doctors, and even pension plan sponsors and magazine editors can probably work as long as they are mentally capable. But what about miners, construction workers, garbage collectors, and a host of other jobs where physical strength and manual dexterity are the requirements? As the body ages, it just can’t do what it once did anymore.

So the solution isn’t as simple as saying for each year that longevity increases, you need to work another year. A softer approach is needed and that does already exist to some extent in Canada. You can retire anytime between age 60 and 70. Those who want, or must, can start collecting their Canada Pension Plan benefits earlier. Those who choose not to or can’t afford to retire, keep working for as long as they can. That being the case, why set an upper limit at all for when CPP starts?

Granted, there are concerns about letting older people stay on the job. One is this blocks younger employees from advancement. But maybe we need to change our view on compensation and the structure of our workforce to accommodate those who need to work longer. In fact, maybe this is part of the new employer pension plan – the promise of a job for as long as possible at compensation levels based on the duties of the position. We’re not sure it would keep more people on the job longer, but in this day of warnings about labour shortages, this could be an opportunity.

No Sense

Part of this is, however, when should CPP benefits start. Frankly, it makes little or no sense that a highly paid professional, a company CEO, for example, can keep working long past age 70 and still be required to collect their CPP at that age. Clearly it should start when someone retires. Or, perhaps we need to use CPP as a bridge between full employment and through phased retirement to the day someone finally does retire.

Simply, we need to get past thinking about when people should retire and how they should retire. The onus should shift to how can we keep people who want to keep working on the job using the existing financial support mechanisms.

And, within all this, those who want to retire can still do so. However, their personal responsibility for saving for retirement should be the determining factor when it comes to their quality of life in retirement.
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Mercer
Ryan Bisch is Canadian leader for Mercer’s alternatives boutique. He has spent the last 10 years in Australia and New Zealand in the investments and retirement businesses of Mercer. He is currently the director of exotic alternatives.

Standard Life Assurance
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George & Bell
Jeremy Bell and Brendan George have formed George & Bell Consulting. Bell has worked in the pension, benefits, and investment fields for more than 12 years. George has worked in the pension and investment fields for 18 years, specializing in financing and actuarial analysis of pension plans and investment consulting.

Crestpoint
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Harris & Company
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BlackRock
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INTEGRIS
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Caisse
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PBI Acquiring ACBA
PBI Actuarial Consultants Ltd (PBI) will acquire Actuaires-Conseils Bergeron & Associés inc. (ACBA). ACBA was founded in 1992 in Montreal, QC, by Pierre Bergeron, its senior partner. The firm is owned by its founding senior partner and three other employees of the firm. It offers consulting services related to pension plans, investments, group benefits, and compensation. It currently has more than one hundred clients comprised of retirement committees, unions, associations, and employers.

PRPPs Not A Silver Bullet
Pooled Registered Pension Plans (PRPPs) are not a silver bullet when it comes to saving for retirement and they were never intended to be, says Ted Menzies, federal finance minister. Speaking on ‘Pensions In Canada,’ he told the Economic Club of Canada they are just another tool for people to use to save for retirement and a tool for employers who want to provide a retirement savings vehicle for their employees. PRPPs, he said, are in response to an OECD conclusion that there is a growing role for private pensions in saving for retirement. With their lower fees and outsourced administration, they become a low cost way to put money in the pockets of Canadians, he said. Their target is more than a hundred clients comprised of retirement committees, unions, associations, and employers.

Helik Among First Designates
Jim Helik, the Back Page columnist for Benefits and Pensions Monitor, is among the first to receive the HRMP designation. This year, the Society for Human Resource Management (SHRM), through its strategic partner, The HR Certification Institute, launched the new designation and corresponding exam for senior HR professionals outside of the United States. Successful completion of the exam placed him among the fewer than 1,000 in 49 countries worldwide, to have the designation. The SHRM represents more than 250,000 individuals throughout the United States, with subsidiary offices in China and India.

The following was not available for the Managers of U.S. Assets for Canadian pension funds directory in the April issue of Benefits and Pensions Monitor.

LOOMIS, SAYLES & COMPANY, L.P.
John Gallagher, Executive Vice-president, Director of Institutional Services, One Financial Center, Boston, MA 02111 PH: 617-346-9759 Fax: 617-423-1291 eMail: jgallagher@loomissayles.com Web: www.loomissayles.com Managed US Since: 1926 Other Assets Managed: Equity – All Cap Growth, Global Equity Opportunities, Large Cap Growth, Mid Cap Growth, Small Cap Growth; Core – Equity Research Core, Small/Mid Cap; Value – Focused Value, Large Cap Value, Mid Cap Value, Small Cap Value; Fixed Income – LDI; Sector Specific – Bank Loan, High Grade Corporate Only, High Yield Conservative, High Yield Full Discretion, Investment Grade Corporate Bond, Investment Grade Intermediate Corporate Bond; Relative Return – Core Disciplined Alpha, Core Fixed Income, Core Plus Fixed Income, Core Total Return, Intermediate Total Return, Short Duration Fixed Income Full Discretion – Core Plus Full Discretion, Multi-sector Full Discretion; Global – Emerging Debt & Local Currencies, Emerging Market Debt, Global Bond, Global Credit, Global High Yield

Within 40 years, DBRS predicts Defined Benefit pension plans to be slowly unwound and removed as an employer benefit offering. Its review of 451 Canadian and U.S. Defined Benefit pension plans shows a combined funding deficit of $389 billion and in order for companies to address this funding gap, employers will have to maintain high levels of contributions. This means, it says, “many plans have now entered the danger zone of funded status.” The report also found more than two-thirds of plans reviewed this past year were underfunded by a significant margin.

40 Years Left For DB

The following was not available for the Managers of Alternative Investment Assets for Canadian pension funds directory in the May issue of Benefits and Pensions Monitor.

SSQ FINANCIAL GROUP
Marc Trépanier, Vice-president, Business Development, Individual & Group Saving, 1245, Chemin Sainte-Foy, Suite 1-210, PO Box 10510, Station Sainte-Foy, Quebec, QC G1V 0A3 PH: 418-688-3457 ext. 5215 Fax: 418-688-3848 eMail: marc.trepelanier@ssq.ca Web: www.ssq.ca Alternative Assets: Infrastructure, Real Estate Equity, Specialty Ownership: Mutual Management Corporation Managed Since: 2003

The following was not available for the consultant directory in the June issue of Benefits and Pensions Monitor.

J.J. McATEER & ASSOCIATES INCORPORATED
Susan Bird, President, 45 McIntosh Drive, Markham, ON L3R 8C7 PH: 905-946-8655 Fax: 905-946-2535 eMail: sbird@mcateer.ca Web: www.mcateer.ca Consulting Services Offered: Benefits Consulting, Investment Consulting, Healthcare Consulting, Recordkeeping and Third-party Administration, Software and Technology.

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Do-it myselfers Face More Risk
Retirement plan participants who choose their own investment options are generally exposed to greater risk than target-date fund (TDF) investors, says research from Principal Financial Group. It found that generally, do-it-myself participants were less diversified by asset class and number of investment options, rarely used automatic rebalancing to meet their investment goals, and, at younger ages, frequently had much less exposure to equities. These participants are using an average of two to four investment options across the board, compared with the average 15 to 20 underlying investment options, representing a variety of asset classes, within the typical target-date portfolio.

Hedge Fund Fixed Income Trading Increases
Fixed income trading volume generated by U.S. hedge funds increased more than 30 per cent from the second quarter in 2011 to the same quarter this year, says Greenwich Associates ’2012 North American Fixed Income Study.’ That growth far surpassed the 20 per cent increase in trading volumes among all institutions and a 14 per cent pick-up in trading volumes among other types of funds and advisors. As a result, hedge funds increased their clout as a source of U.S. fixed income activity. In 2011, hedge funds generated 18 per cent of overall fixed income trading volume in the United States. In 2012, that share grew to 24 per cent.

Mexican Fund Assets Will Double
Mexico’s pension funds probably will double their assets under management over the next five years as the country’s economic expansion fuels job growth, says BlackRock. Money managed by Mexican pension funds, known as Afores, might reach $300 billion by 2017 from $139 billion now. Assets managed by mutual funds may also almost double over the period, bringing the combined total managed by pension and mutual funds to $500 billion in the next five to seven years.

Supermarkets Lower Risk
Pension funds should target long-lease assets such as supermarkets and social housing to lower the risk of investing in the marginally overpriced UK property market, says a report from Aberdeen. It says investors should be targeting assets with 20-year lease terms – compared with average lease lengths of 5.8 years – and strong covenants.

Drugmakers Offering Coupons
U.S. drugmakers have started offering U.S. patients coupons to reduce copayments on brand-name medicines to compete with new generic versions of the drugs. The medicines include cholesterol fighter Lipitor, blood thinner Plavix, and blood pressure drug Diovan, as well as drugs for depression and breast cancer. Pfizer Inc. tested the new trend last year and now offers co-pay coupons that can bring insured patients six of its medicines for as little as $4 a month each. Predictions are other manufacturers will do the same for some of their big sellers as their revenue drops from the wave of drugs whose patents are expiring.

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The purpose of any pension plan is to help ensure that workers have a means to support themselves after they leave the workforce. With the Canada Pension Plan and Old Age Security providing only about $18,000 of retirement income per year (assuming maximum benefits), it stands to reason that those fortunate enough to be a member of an occupational pension plan depend on it to be a significant source of income in retirement.

Sponsoring a Defined Benefit pension plan in the 21st century is more challenging today than it was just 12 years ago, both from financial and governance perspectives. The S&P/TSX Composite Index has returned a disappointing five per cent per year over the past 12 years (2000 – 2011), a far cry from the double digit expectations of the late ’90s that were used to support many a pension plan’s actuarial discount rate assumption. In addition, yields on fixed income investments have dropped from about six per cent in 2000 to about three per cent today. As a result, the contributions needed today to fund a DB pension plan for the long term are significantly higher than those required 12 years ago. This means pension plans without large surpluses or sponsors without deep pockets have their work cut out for them.

Target Benefit Plans

Specified multi-employer pension plans (SMEPPs) are target benefit plans that have, by design, the ability to adapt to the kinds of circumstances straining today’s pension plans. SMEPPs rely on a fixed contribution rate, negotiated with employers (usually a dollar amount per hour worked, sometimes a percentage of pay). In such plans, employer funding obligations are generally limited to the negotiated contributions. In the event that a plan has insufficient funds to pay members the intended benefit in full, benefits may be reduced both prospectively and retrospectively.

Pension trustees are responsible for making difficult and sensitive decisions about the financial well-being of others. They are assessed on, and held responsible for, these decisions. While they may not receive credit for plan successes, they most likely will be held accountable if things go wrong. An effective governance structure that is documented and observed will improve a plan’s chances of success, while protecting individual trustees.

The notion of pension governance is generally understood. It is the need to have in place processes to ensure compliance with laws and ensure the effective administration and investment of a pension plan. The potential benefits of sound pension governance include:

- Maximized performance of the pension assets
- Efficient use of resources
- A framework for the decision-making process
- Minimized risk of benefit reductions

When it comes to a SMEPP or target benefit plan (or any pension plan for that matter), principles should guide a solid governance framework. Plan members are entitled to a fair pension or benefit in exchange for contributions they make or that are made on their behalf. Plan members are entitled to understand their rights, responsibilities, and any risks under the pension plan.

These principles are best supported by a sound funding policy and a sound communication policy.

Funding Policy

The purpose of a funding policy is to establish a framework for funding a DB pension plan, taking into account factors that are relevant to the plan and the sponsor, including:

- benefit security
stability and affordability of contributions
ability of employer(s) and plan members to make additional contributions
plan provisions and terms of any collective bargaining agreements

These factors and the decisions made on funding have a significant impact on benefit levels, the security of members’ benefits, and the ongoing viability of the plan itself. Therefore, these types of decisions should not be made on an ad hoc basis, they should be made as part of the overall application of the funding policy.

An effective and comprehensive funding policy is an essential governance tool for trustees of any pension plan. This is especially the case for trustees of a SMEPP where plan members take on a significant share of the risk owing to the potential for benefit reductions. In fact, given that the level of contributions is usually outside the trustees’ control, a better term would be a ‘benefit policy,’ rather than a ‘funding policy.’

A well-constructed and well-written funding policy, that is supported by appropriate accountability and oversight, will provide a game plan to establish an appropriate discount rate; the amount of reserves or margin to maintain in the plan; the appropriate mix between equities and fixed income; and rules for decision-making when faced with challenges (e.g., when to seek a contribution increase and how to distribute benefit reductions between active members and pensioners).

Every pension plan will eventually experience adverse results. A carefully constructed and executed funding policy will support the purpose and goals of the pension plan and demonstrate that the trustees understood the risks and performed their due diligence as fiduciaries if decisions or actions lead to adverse results.

**Communication Policy**

Sound governance practices are important for ensuring that all communications are truthful and accurate and that they provide sufficient information for members to fully understand their pension plan.

Since the plan members of a SMEPP clearly bear the risk of any funding shortfall, both active and retired members should have the right to full and transparent disclosure of their entitlements and any associated risks. All policies and practices governing operation of the plan should be communicated to plan members and beneficiaries at the adoption of any such policy and reviewed annually. Plan member information sessions – beyond an update of the plan’s performance and a review of plan provisions – enhance the members’ perception of the plan. Sessions that focus on where the plan is headed, its governance practices and policies, and the upside and risks are accepted best practice today. Informed members will better understand trustees’ decisions before they are even made.

As we discussed at the beginning of this article, DB pension plans are more expensive to operate today than they were in the ’90s. This higher cost not only applies to future pension accruals, but also to past accruals, and has brought the target nature of a SMEPP and the possibility of benefit reductions to the forefront. It is essential that trustees communicate and members understand the ‘target’ in a target benefit plan.

The ‘target’ benefit formula is based on a number of factors such as contributions flowing into the plan, member demographics, ancillary benefit costs, assumptions about future investment returns, and anticipated retirements, terminations, etc.

If a pension formula turns out to be overly conservative given actual plan experience, benefits can be increased. Conversely, if a formula turns out to be too generous, benefits can be reduced, hence the term ‘target’ benefit plan. The goal, of course, is to maintain, over time, a stable formula that provides members with a predictable benefit.

**Building Trust**

Although a member’s level of engagement or understanding won’t have a direct impact on his or her pension outcome, that doesn’t make communication any less important. Anyone involved in any type of promise – whether it is a promise from a friend or the promise built into a pension plan – will tell you the cornerstone is trust. Good governance and transparency around operation of a plan will build and maintain that trust and provide for a successful target benefit plan. To build that trust, plan members need to know:

- how a plan works
- who’s accountable and how decisions are made
- the pension amount a member can expect to receive, based on the formula that their pension amount and the formula can change and what factors can affect it
- how the plan is invested and how investment decisions are made
- the financial status of the plan and its outlook for the future

Engaging plan members and keeping them fully informed goes a long way to building trust and, ultimately, their appreciation of the pension plan.

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The actual birth of the pooled registered pension plan (PRPP) – from concept to reality – seems to be more painful than originally expected. Still, we are seeing some progress with the introduction of a first (partial) draft for PRPP regulations. These regulations are mostly aimed at clarifying the playing field for future PRPP providers, who desperately needed some direction as they are trying to get ready to offer PRPPs.

Politically, governments are trying, over the long run, to reduce the pressure on public pension programs. The whole idea of the PRPP is to offer Canadians a broadly available retirement savings product that is simple, effective, and affordable, with no (low?) fiduciary responsibility for employers offering it. And that is generally what appears to be in the making when you talk to future PRPP providers. The result should be an increase in pension coverage and overall Canadian retirement savings.

There are still a lot of unknowns, but based on what we are hearing, we are starting to get a sense of what the PRPP will look like – enough at least so we can begin to think about the potential impacts of the PRPP on DC pension plans.

**Pros**

What would make a DC sponsor (new or existing) consider a PRPP? Let’s first consider some key potential benefits from a sponsor standpoint.

- **Low fees** – Early discussions regarding programs like the PRPP had proponents talking about targeted management fees of 50 basis points (0.50 per cent) annually. The intention was to have all-in fees somewhat comparable to those of a decent-sized Defined Benefit plan. In reality, the nature of the PRPP (likely a huge number of members with small cash flows and account balances), simply makes such a goal unattainable. So fees are currently expected to be in the 100 to 125 bps range (this might vary based on the distribution channel used by the various providers). Such a fee level is much lower than fees for retail products or those that would normally apply for a ‘regular’ DC plan with similar participant characteristics.

  Depending on your plan’s size and the services you are actually receiving (your fees might be a bit higher if your plan is paying commissions to a consultant or an advisor, which is fine if you feel your members are getting their money’s worth), PRPP fees may be attractive. In fact, based on the little DC litigation we have seen up to now (mostly around fees in the U.S.), you should have good, documented reasons to have your plan members pay more than what PRPPs will be charging. But again, you need to balance overall member services and costs.

- **Limited fiduciary responsibility** – The government’s intention is to make PRPP providers solely responsible for the plan’s oversight and quality – that, and competition. Some important DC providers disagree, indicating they would be in an inherent conflict of interest by selling their own products such as funds. They definitely have a valid point and this aspect still needs final resolution. Nevertheless, I expect employers will end up being off the hook.

  In this era of risk management, we have seen a number of sponsors – including some large ones – who would love to offer a plan where they have no/low potential liability, even if this would mean losing a lot of control. But would they switch?

  Similarly, if you are a small employer without the resources required to effectively oversee the plan and comply with, for example, the CAP Guidelines, moving to a PRPP might be the right solution. As nothing is simple, however, I’m sure switching from DC to PRPP involves some potential sponsor liability.

- **Automatic features** – Quebec’s VRSP proposal (which died on the order paper when the election was called in that province) included automatic enrolment and automatic con
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distribution rate increases by design. It is not clear if other jurisdictions will follow suit (or if providers will decide to include some automatic features in their own PRPP designs, possibly as a differentiator). Automatic features have been proven to be very effective, but they are somewhat cumbersome to implement in a DC pension plan (and even more so in a Group RRSP/DPSP arrangement) and may represent some risks for the sponsor. So if you like auto features, you should look at PRPPs.

► Easy implementation – Technically, apart from a payroll perspective, you have little to do to implement a PRPP (once you’ve picked your provider). So implementation costs, including disruption on the business, should be low. This is a potentially good solution then for a new plan or to cover employees of a new, smallish division in a different jurisdiction (for instance, a large client of mine had used the Quebec Simplified Pension Plan for an affiliated company doing business only in that province).

► (Very) limited array of investment options – As much as many would put this down as a con, the fact that Quebec’s VSRP proposal and federal PRPPs are limited to six investment options including the default, puts an end to long and fruitless discussions about index or how many Canadian equity managers or …). Fewer funds means less emphasis on investments and more member bandwidth available to think about retirement planning – something I wish all DC plans would do. Obviously, sponsors enjoying a majority of smarter-than-average DC members and looking for more choice would dislike PRPPs.

Surely there are more advantages to the PRPP, but let’s turn to the main reasons that might prevent an employer to consider PRPPs.

Cons

In his best-selling business book ‘Swim with the Sharks without being Eaten Alive,’ author Harvey Mackay wrote: “Price, quality, service. Pick any two.” As low price (fees) here is a given, PRPP providers need to balance the other two, service being the biggest loser.

► Limited service and support – To provide a quality retirement arrangement to masses of participants with small accounts at a reasonable price, heavy use of technology and automation is unavoidable. So don’t expect to see warm provider bodies come in and present to employees. Same thing for most independent advisors who simply will not receive enough commissions (pricing being too tight) to justify their time. And you can forget about personalized investment or retirement planning advice.

Do expect, however, to have most everything done via the web or call centre, directly with the provider. Expect to see significant leaps in the quality and sophistication of web tools and support, particularly as volumes increase. These might very well become the key differentiators between providers. The good news is also expect all these improvements to be available to traditional DC arrangements (DC pension plans, Group RRSPs, and the rest).

► Mostly (only?) provider proprietary funds – To make the product work from a pricing perspective, providers will have no choice but to offer mostly funds managed by their own investment management firms, hence retaining higher margins on investments. This may mean less-than-optimal managers in certain asset classes. It also translates into potential conflicts of interest in deciding when to replace an internal manager when performance is not satisfactory (which takes us back to the fiduciary responsibility conundrum mentioned above).

Providers may also be tempted to use (internally managed) indexed funds or ETFs in lieu of going to more expensive external managers, particularly in asset classes where they would not have enough volume to get low management fees. One could even think of providers going 100 per cent indexed, keeping higher margins, and eliminating the relative performance/conflict of interest issue.

Another, broader, industry issue is that providers may start making investment manager acquisitions (as we’ve already seen happening in the last couple of years) to ‘plug the holes’ in their internal manager stables. This might result in some good managers not being available at competing providers – the latter preferring to use their own managers – which could eventually lead to significant DC investment manager consolidation and concentration, in turn meaning less choice for everyone.

All this could have an impact on PRPP fund performance, albeit providers will need to ensure they remain competitive on returns to grow their business.

► No flexibility – The PRPP is a standardized product and should be seen as a standalone offering, with no possibility to customize to the specific needs of a sponsor. Employers looking to leverage their DB investment manager relationships in their DC arrangements, those with non-standard contribution formulas or those looking for communications in line with their branding and company style will continue choosing to run their own DC plan.

► Continued regulatory complexity – Perhaps this is beside the point, but the PRPPs being subject to pension regulators will make it unattractive for sponsors with employees in multiple jurisdictions who will end up with different sets of rules (just like DC pension plans), in true Canadian fashion. Those employers would likely be much better off with the simplicity, flexibility, and low sponsor costs afforded by a Group RRSP/DPSP arrangement.

The Future Will Tell

There are still many unknowns about the PRPP – namely its adoption by the provinces. For now, it looks like the attention is focused on target benefit plans and other closer-to-DB alternatives.

That said, we can already say that PRPPs will not replace DC pension plans, but rather co-exist. The PRPP will sit at the low-cost/no frills range of the retirement savings spectrum, posing much more of a threat to retail retirement savings products than institutional ones.

The one thing desperately needed to be fair to other DC sponsors (pension plans or others) is a set of safe harbour rules so they are not exposed to more risks than those going the PRPP route.

Jean-Daniel Côté
is vice-president, retirement, at ACT conseillers inc.

BPM
Bringing retirement savings to life with augmented reality

The entertainment field has been using augmented reality for some time, but it hasn’t been seen in group retirement savings—until now!

Augmented reality connects the real and virtual worlds and Martin, an education advisor from Desjardins helps bring these two worlds together.

Martin already meets with participants in real life and since this summer, he’s also been available virtually. Participants simply point an iPhone or iPad at his picture and he springs to life! According to feedback, virtual Martin is “cool” and adds a much needed fun factor into group retirement savings.

To get participants involved in their own retirement planning, education needs to be more of a personal experience. By stepping into their reality and communicating with them both virtually as well as personally, we create conversations that have never happened before – conversations that help enrich our relationships with clients. Stay tuned to see what’s next!
We have to make Defined Benefit Plans more attractive to employers.” This sort of statement is frequently made by people who still believe that DB pension plans should be the plan of choice for all ‘intelligent’ folk. The main trouble with ‘intelligence’ is that it is largely based on what we know, rather than on what we are capable of learning, and on what we have been taught, rather than on what we can decipher from the context around us.

Years ago, a couple of actuaries proposed adding Defined Contribution features to a DB plan – combining apples and oranges into an orapple, or was it an applange? It didn’t fly, basically because people like real apples and real oranges – they cater to different tastes.

Now we have the ‘Target Benefit Plan’ – a real ‘horse designed by committee’ if ever I saw one. Even the Association of Canadian Pension Management has jumped onto the bandwagon and is promoting this plan design. Now these people are brilliant people – more brilliant than I will ever be. But what they are trying to do is to keep the dodo bird alive when we all (or most of us less intelligent people) know that it is extinct.

Present Realities

I was raised in DB-land and it has done me very well over the years. However, I have to take account of present realities. There is no point in trying to make the DB plan work slightly better, when the world in which it was conceived and thrived has ceased to exist. The DB plan is a product of a paternalistic ‘cradle to grave’ employment environment and served a generation very well. But that environment no longer exists and likely will not return, at least for many years. Designing a better mouse-trap when mice have become extinct isn’t really helping anyone.

Ah, say the promoters, companies can reduce benefits under a Target Benefit Plan, if costs appear to be getting out of control. But why would any CFO get herself into a situation where ‘out of control’ was a possibility! Prevention is better than cure; why put yourself in harm’s way just because you’ve been told that there is a way out?

But, let’s say a company goes for this design. It communicates to its employees very clearly that benefits can be reduced in certain circumstances; all its literature states this, and the plan text is water-tight (whatever this may mean to a court in the future!). Ten years later, it decides it has to trigger a reduction and informs employees accordingly. The result … WAR!

Employees haven’t read the literature for 10 years and, anyway, nobody really believed that this would actually be done. People close to retirement haven’t planned for this reduction; middle-aged employees, who you attracted to the company with this plan, feel betrayed. Younger employees are once again cynical about pension plans. You console yourself in the belief that you did everything right. But you are still … at WAR!

Dirty Taste

When employers are faced with this situation, some will bite the bullet – and everyone ends up with a dirty taste in their mouth – or some will back down – making it even harder to reduce next time. Whatever the theoretical design, the bottom line is that it’s a DB plan with all its disadvantages.

We need to stop looking at the perceived pension problem through old-fashioned DB glasses. We need to see the world as it is now. Only then can we find viable solutions that work going forward.

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At T. Rowe Price, we believe it’s critical to research investment opportunities from the ground up. Our dedication to hands-on, fundamental research is just one way we seek to avoid unnecessary risks and find true long-term opportunities for our clients.

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A growing number of investors are starting to think about environmental, social, and governance (ESG) indicators in a new way. How a target company is managing ESG-related risks, such as climate change, can either provide a positive indicator of corporate performance or foreshadow future financial risks. Beyond a risk-based perspective, some businesses are considering how certain investment opportunities are positioned to create social or environmental value – as well as financial returns. Known as impact investing or social finance, this approach is gaining the attention of foundations, high-net worth individuals, and institutional investors.

A number of Canadian pension plans are among the almost 1,100 signatories to the Principles for Responsible Investment (PRI), an investor initiative launched in 2006 in partnership with the United Nations Environment Programme (UNEP) Finance Initiative and the UN Global Compact. Institutional investors from around the world collaborated on the development of the PRI, based on the view that ESG can have an impact on the financial returns of an investment portfolio.

One Step Further
Impact investing takes things one step further and provides a different way of thinking about the value created by the investments in pension fund portfolios. To help advance thinking in this area, a new PRI work stream called ‘Investing with Impact’ was launched last year. A key objective is to raise “awareness of investment opportunities that generate attractive financial returns by addressing environmental and social challenges.”

To provide a sense of the market potential, JP Morgan and the Global Impact Investing Network’s (GIIN) global research report, ‘Impact Investments: An Emerging Asset Class,’ differentiates impact investments as investments intended to create positive impact beyond financial return.

In Canada, impact investments were estimated at $4.45 billion in 2010 based on a survey by the Social Investment Organization. The Canadian Task Force on Social Finance estimates the market potential to be $30 billion. Momentum is growing in mainstream finance circles in Canada with key players such as the Royal Bank of Canada entering this space. Its RBC Impact Fund is designed to “finance projects by organizations and entrepreneurs tackling social and environmental challenges.”

Despite the interest and progress made, barriers do exist. A recent study by Venture Deli and Purpose Capital ‘Redefining Returns: Social Finance Awareness and Opportunities in the Canadian Financial Sector,’ includes a comprehensive summary of the barriers, with the overriding theme being lack of awareness and understanding.

Lack Of Differentiation
Although primarily related to assessing risk, respondents recognized the importance of non-financial considerations. Lack of differentiation between similar investment approaches – including socially responsible investing – led to language confusion among respondents. For example, the word ‘social’ creates a perception more aligned with philanthropy than finance. Other concerns include challenges in measuring social impact and concerns about transparency and reporting.

Lack of awareness and understanding leads to misconceptions including the perception of increased risk and also lower returns. Not surprisingly, a concern of fund managers and institutional investors was potential compromise of their fiduciary duty.

The perceived risk of breaching fiduciary duty was also noted as one of the three key barriers in the Canadian Task Force on Social Finance’s report. The task force’s seven recommendations in ‘Mobilizing Private Capital for Public Good One’ included encouraging federal and provincial governments to mandate pension funds to disclose responsible investing practices, providing clarity on fiduciary duty in this respect, and offering incentives to mitigate perceived investment risk.

In their report, Venture Deli and Purpose Capital suggest demonstrating that impact investments are able to produce market returns and viewing fiduciary duty from an intergenerational perspective would alleviate concerns. Regarding the latter point, the objective of these investments would be to support a broader view of risk to include indicators that maintain current standards of living for future generations.

Two Other Barriers
The other two barriers noted by the task force specific to pension funds include limited infrastructure due to the few investment professionals with the
appropriate expertise, track records and products, and the lack of scale and standardization which result in high transaction costs. These findings are consistent with the findings of ‘Redefining Returns’ noted above.

The PRI recently issued a report called ‘Investing in the Sustainable Economy’ which notes that more than two-thirds of PRI signatories who participated in the 2011 reporting and assessment process made investments in social and environmental areas. Most popular were investments in clean tech, often made through private equity, but other investment areas include microfinance, global health, social infrastructure, renewable energy, energy efficiency, and water and waste technology, with sustainable agriculture as an area of increasing interest.

The report includes examples of how investors, including Denmark’s PKA pension fund and the California Public Employees’ Retirement System (CalPERS), are incorporating approaches to achieve both financial and sustainability goals without compromising fiduciary duty and realizing long-term risk adjusted returns.

One aspect of CalPERS’ investment strategy has placed $1.2 billion through private equity in hundreds of companies involved in the alternative energy sector. This represents a significant investment in the sector, but overall is a small percentage of a total portfolio that is planned to grow as the sector matures. CalPERS is willing to take the lead in the hope that other investors will participate, as has happened following their involvement with the AIM Environmental Technology Program.

PKA has ventured into investing in sustainable agriculture in Africa based on anticipated increased demand from the growing middle class. PKA has also partnered with other pension funds and a semi-government organization to invest in microfinance and an offshore wind farm to help fulfill their board and member supported mandate of “seeking out opportunities to generate the financial returns the fund needs while, at the same time, contributing to meeting sustainability challenges.”

In summary, impact investing is a nascent, but growing, space. An important recent development in Canada is the launch of the MaRS Centre for Impact Investing. The first of its kind in Canada, the centre is a national hub dedicated to promoting impact investing. Key initiatives of the centre are designed to address some of the existing challenges including awareness and the effectiveness of social finance, and supporting the development of talent and capacity of organizations seeking financing.

**Early Supporter**

TMX Group and KPMG have pledged their support as founding partners of the MaRS Centre for Impact Investing. TMX Group has been an early supporter of one of the centre’s key initiatives – the creation of an online impact investing platform called the SVX which will help address liquidity issues. SVX is currently awaiting approval from the Ontario Securities Commission and is expected to launch later this year.

More examples are emerging that demonstrate how impact investing is providing funds with new opportunities to diversify risk and create long-term value while investing in companies that are addressing issues that threaten economic, social, and environmental conditions. The vast reach of pension funds can do much to propel investment in new technologies and infrastructure development that will address current gaps in the market. Many pension funds are already actively investing in these areas with success, but likely not identifying these holdings as impact investments.

Tania Carnegie, (MBA, CA) is national executive director, community leader, for KPMG in Canada

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ABERDEEN ASSET MANAGEMENT INC. Renee Arnold, Head of Business Development, Canada; 161 Bay St., 44th Floor, TD Canada Trust Tower, Toronto, ON M5J 2S1 PH: 416-777-5571 Fax: 866-290-9322 eMail: renee.arnold@aberdeen-asset.com Web: www.aberdeen-asset.com SRI Products/Services: Sustainable Investment Program Managed Since: 1992 Canadian Clients: 2 SRI Philosophy/Style: Starting with Canadian Equity strategies, the firm’s approach to sustainable investing is evolving to include more explicit consideration of environmental, social, and governance (ESG) factors in the investment decision-making processes and enhanced monitoring of the ESG issues the investee companies face and are managing.

BMO GLOBAL ASSET MANAGEMENT Marija Finney, Senior Vice-president, Head of Institutional Sales & Service; 77 King St. W., Ste. 4200, Toronto, ON M5K 1S5 PH: 416-359-5950 Fax: 416-359-5950 eMail: marija.finney@bmo.com Web: www.bmobiglobalassetmanagement.com SRI Products/Services: Offers separate accounts with client directed SRI guidelines for most Canadian, U.S., Global Equity, Fixed Income products Managed Since: 2002

CANADA LTD. Simon Segall, Chief Executive Officer; 155 Wellington St. W., Ste. 3110, RBC Centre, Box 149, Toronto, ON M5V 3H1 PH: 416-365-5003 Fax: 416-365-3983 eMail: simon.segall@bnpparibas.com Web: www.bnpparibas-ijp.com Products/Services: BNP Paribas Asset Management – Equities, Fixed Income, Balanced Solutions, Structured Solutions; IMPAX Asset Management – Environmental Equity Strategies; BNP Paribas Clean Energy Partners GP – Clean Energy; FundQuest – Multi-management SRI Strategies; THEAM – Easy-ETF Tracker Range Managed Since: 2001 Philosophy/Style: Offers a complete range of sustainable investment solutions that add value by capturing new opportunities resulting from sustainable development, reducing emerging risks created by unsustainable development, and supporting a higher degree of responsibility

BMO GLOBAL ASSET MANAGEMENT INC. Taras Klymenko, Vice-president, Institutional Business Development; 1000 de la Gauchetière W., Ste. 3200, Montreal, QC H3B 4W5 PH: 416-214-8838 Fax: 416-364-4472 eMail: taras.klymenko@cbic.ca Web: www.cibcam.com SRI Products/Services: Canadian Equity Managed Since: 1980 Canadian Clients: 10 SRI Philosophy/Style: Searches for firms that rank highly for addressing social, ethical, environmental concerns; identifies companies in sound financial condition whose management team is focused and credible; generates and maintains a properly diversified portfolio

ACUITY INVESTMENT MANAGEMENT INC. Michael Peck, Senior Vice-president, Institutional; 66 Wellington St. W., 31st Floor, Toronto Dominion Bank Tower, Toronto, ON M5K 1E9 PH: 416-865-4253 eMail: michael.peck@agf.com Web: www.agf.com SRI Products/Services: Social Values Balanced, Social Values Equity, Clean Environment Equity, Pooled Social Values Canadian Equity Managed Since: 1991 Canadian Clients: 1 SRI Philosophy/Style: Investment style is growth-oriented and this style is applied across all mandates; believes that companies that apply sustainable investment practices are also more likely to have strong business models over the long term

ADDENDA CAPITAL INC. Michel Jalbert, Senior Vice-president, Business Development & Client Partnerships; 800 Boul. René Lévesque O., #2750, Montreal, QC H3B 1X9 PH: 514-287-7373 Fax: 514-287-7200 eMail: m.jalbert@addenda-capital.com Web: www.addenda-capital.com SRI Products/Services: Sustainable Investment Program Managed Since: 1995 Canadian Clients: 5 SRI Philosophy/Style: Employs bottom-up fundamental analysis, focusing on absolute return and invests in companies with sound fundamentals that pass their investment criteria of quality and price; for SRI mandates, companies must also pass a screening process for acceptable social behaviour


Desjardins Financial Security Jean-Francois Pelletier, Regional Vice-president, Business Development; 1 Complexe Desjardins, South Tower, 21st Floor, Montreal, QC H3A 1E2 PH: 514-285-7899 Fax: 514-285-8766 eMail: jeantfrancois.pelletier@dfe.ca Web: www.dfs.ca Managed Since: 2009 Canadian Clients: 13 Philosophy/Style: Ethical Income – Core fixed income product that mainly relies on yield curve and sector spread analysis; Ethical Canadian Equity uses multi-management strategy that allocates capital between three different mandates, each with a specific approach; Ethical Global Equity
– style is core, investment approach based on a combination of qualitative company selection strategies and strict pricing disciplines

**DEXIA ASSET MANAGEMENT** Christophe Vandewieele, Head of Dexia Asset Management, Canadian Representative Office; 155 Wellington St. W., 6th Floor, Toronto, ON M5V 3L3 PH: 416-974-9055 Fax: 416-955-6226 eMail: christophe.vandewieele@dexia.com Web: www.dexia-am.com SRI Products/Services: World, North American, European, Pacific, Emerging Markets Equities; European Balanced Mandates; World, European, Corporate, Short-term Fixed Income; Microfinance Products Managed Since: 1996 SRI Philosophy/Style: Offers SRI solutions that use a combination of some or all of Best-in-class, Norms-based, and Exclusionary approaches, with the overall objective of generating competitive returns while advocating responsible behaviour towards sustainable development

**FIERA CAPITAL CORPORATION** David Pennycook, Vice-chairman & Executive Vice-president, Institutional Markets; 1501 McGill College Ave., Montreal, QC H3A 3M8 PH: 514-954-3300 Fax: 514-954-3325 eMail: dpennycook@fieracapital.com Web: www.fieracapital.com SRI Products/Services: Active Fixed Income; Canadian Equity; Canadian Equity – Environments; U.S. Equity; Global ESG; Endowments, Trusts, and Foundations Balanced Fund; Social Value Canadian Equity Managed Since: 2004 Canadian Clients: 118 SRI Philosophy/Style: Line of SRI and ESG strategies allows the firm to offer solutions capable of meeting the specific SRI and ESG needs of clients

**GENUS CAPITAL MANAGEMENT** JP Harrison, President; 6th Floor – 900 West Hastings St., Vancouver, BC V6C 1E5 PH: 604-683-4554 Fax: 604-683-7294 eMail: jharrison@genuscap.com Web: www.genuscap.com SRI Products/Services: Biosphere Plus Canadian Equity, Biosphere Plus Global Equity, Biosphere Plus Bond Managed Since: 2000 SRI Philosophy/Style: Screened portfolios use the same investment approach as traditional mandates, but also integrate environmental, social, and governance factors to screen out companies that do not meet social and environmental criteria; portfolios are diversified across sectors and industries

**GLC ASSET MANAGEMENT GROUP LTD.** Craig Christie, Vice-president, Institutional Investment Counselling; 100 Osborne St. N., Winnipeg, MB R3C 3A5 PH: 204-946-4083 Fax: 204-946-8818 eMail: susan.haut@glc-amgroup.com Web: www.glc-amgroup.com Products/Services: Great-West Life Ethics Fund

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Guardian Ethical Management (GEM) is a joint venture between Guardian Capital LP, one of Canada’s longest-established investment management firms, and NEI Investments, home to Ethical Funds – Canada’s leading socially responsible mutual fund family for more than 25 years.

GEM combines the investment management expertise of Guardian Capital LP and the corporate engagement program developed by Ethical Funds.

For more information please contact Brian Holland: bholand@guardiancapital.com 416-350-3146 1-800-253-9181 www.gemportfolios.com

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Equity Fund – Invests in shares of publicly traded Canadian companies that conduct business operations in a socially responsible manner, according to ‘ethical’ screens, that show strong growth prospects; some exposure to foreign companies that meet these criteria; integrated top-down, bottom-up style; SR Bond Fund – invests in Canadian federal and provincial government debt obligations and an ‘ethical’ screened listing of medium-to-high-quality corporate debt securities

GUARDIAN ETHICAL MANAGEMENT
Brian Holland, Senior Vice-president; Commerce Court W., 199 Bay St., Ste. 3100, Toronto, ON M5L 1E8 Ph: 416-350-3146 eMail: bholland@guardiancapital.com
Web: www.gemportfolios.com SRI Products/Services: Canadian Equity Pool, Global Equity Pool, Fixed Income Pool, Balanced Pool, and segregated strategies. Managed Since: 2005 Canadian Clients: 7 SRI Philosophy/Style: Guardian Ethical Management (GEM) is a joint venture between Guardian Capital LP, one of Canada’s longest-established investment management firms, and NEI Investments, home to Ethical Funds – Canada’s leading socially responsible mutual fund family for more than 25 years. GEM combines the investment management expertise of Guardian Capital LP and the corporate engagement program developed by Ethical Funds.

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Web: www.assetmanagement.hsbc.com SRI Products/Services: Global Equity; Global Thematic Equity; Regional Equity; Single Country Equity; Balanced Mandate; Global Fixed Income; Regional Fixed Income; Quantitative Single Country, Regional, Global Strategies; SRI investment teams able to design customized solutions, responding to any number of specific needs and constraints a client may have including alignment with the corporate mission, influence from beneficiaries and stakeholders, reduction of investment risk, legislative environment, employee saving plans Managed Since: 1994 SRI Philosophy/Style: Investment philosophy embodies the commitment with which it develops innovative products and customized solutions; drawing on the global presence of the HSBC Group, it benefits from an understanding of sustainable development issues and is able to offer its clients new investment opportunities all over the world and in line with SRI values
LEG MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 Bay St., 4th Floor, Toronto, ON M5J 2W4 PH: 416-594-2979 Fax: 416-860-0628 eMail: ddgregoire@leggmason.com Web: www.leggmasoncanada.com SRI Products/Services: Brandywine Global Investment Management – Large Cap Core Equity, Large Cap Value Equity; ClearBridge Advisors – Socially Aware Investment Program; Global Currents Investment Management – Global Value Equity, International Value Equity Labour Friendly; Legg Mason Investment Counsel – Global Equity, Equity; Western Asset Management – Fixed Income Managed For: More than 10 years SRI Philosophy/Style: Through its affiliates, offers a range of strategies with focus on socially aware investments; portfolios cover multiple styles and market capitalizations in International Equity, Global Equity, U.S. Equity, Fixed Income

LINCLUDEN INVESTMENT MANAGEMENT Wayne Wilson, Vice-president; 1275 North Service Rd. W., Ste. 607, Oakville, ON L6M 3G4 PH: 905-825-9000 Fax: 905-825-9525 eMail: wayne.wilson@lincluden.net Web: www.lincluden.com SRI Products/Services: Canadian Equities, U.S. Equities, MSCI EAFE, MSCI World Managed Since: 2012 Clients: 1 SRI Philosophy/Style: Value investors that believe while financial markets are efficient in the long term, they can be inefficient in the short to medium term; financial markets will often misprice the stock price of a company in the short run. This gives an investor the opportunity to buy securities at a discount to their economic or intrinsic value

MFS MCLEAN BUDDEN Christine Girvan, Managing Director; 145 King St. W., 25th Floor, Toronto, ON M5H 1J8 PH: 416-361-7273 Fax: 416-862-0167 eMail: cgirvan@mfs.com Web: www.mcleanbudden.com or www.mfs.com SRI Products/Services: Balanced Fund, Fixed Income Fund, Canadian Equity Fund, Global Research Fund Managed Since: 2000 Canadian Clients: 20 SRI Philosophy Style: Generally, socially responsible investors favour corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity
PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT* John Skeans, Head of Consultant Relations (Canada); 20th Floor, 200 Burrard St., Vancouver, BC V6C 3N5 PH: 604-408-6238 Fax: 604-685-5712 eMail: data@phn.com Web: www.phn.com SRI Products/Services: Pooled Investment Services using Community Values Funds – Balanced Fund, Bond Fund, Canadian Equity Fund, Global Equity Fund; Segregated Investment Services Managed Since: SRI accounts on a segregated basis – Early 1990s; Pooled Community Values Investment Funds – 2002 Canadian Clients: 1 plus a number of other non-pension SRI clients SRI Philosophy/Style: Funds are modeled after the firm’s ‘core’ funds and managed according to the Community Values Investment Principles, which are applied to a company’s environmental, social, and governance record; investments are not made in companies that score poorly against the criteria in the investment principles

*Part of RBC Global Asset Management Inc.


RENEWAL2 INVESTMENT FUND Nicole Bradbury, Vice-president; 500-163 West Hastings St., Vancouver, BC V6B 1H5 PH: 604-844-7474 Fax: 604-844-7441 eMail: nicole@renewal2.ca Web: www.renewal2.ca SRI Products/Services: Social Investment Fund U.S. Limited Partner-

ship, Social Investment Fund Canadian Limited Partnership, Social Investment Fund Canadian Trust SRI Philosophy/Style: Social venture fund dedicated to delivering financial returns by investing in leading environmental and social mission businesses in Canada and the U.S.; focuses on underfunded sectors critical to a sustainable economy and early-stage, scalable businesses generating meaningful shifts in consumer behaviour

SARONA ASSET MANAGEMENT INC. Gerhard Pries, Managing Partner, 110 Froebisher Dr., Waterloo, ON N2V 2G7 PH: 519-883-7557 eMail: info@saronafund.com Web: www.saronafund.com SRI Products/Services: Private Equity in Frontier and Emerging Markets, in Small/Mid-market companies, structured as diversified fund-of-funds, for accredited investors only Managed Since: 1993 SRI Philosophy/Style: Targeting top-quartile returns with strong ethical, social, and environmental values

STANDARD LIFE INVESTMENTS INC. Jay Waters, Vice-president, Central Canada; 121 King St. W., Ste. 810, Toronto, ON M5H 3T9 PH: 416-367-2049 Fax: 416-367-1329 eMail: jay.waters@standardlife.ca Web: www.sli.ca SRI Products/Services: Offers separate accounts according to screening criteria specified by the client. Managed Since: 1999 (globally)

TD ASSET MANAGEMENT INC.* Robin Lacey, Head of Relationship Management; 161 Bay St., 34th Floor, Toronto, ON M5J 2T2 PH: 416-982-6585 Fax: 416-944-6158 eMail: robin.lacey@tdam.com Web: www.tdaminstitutional.com SRI Products/Services: Global Sustainability Fund

Managed Since: 2007 SRI Philosophy/Style: Invests in a combination of companies from around the world viewed as-best-in-class with respect to environmental stewardship, stakeholder management; and/or corporate governance and/or emerging specialists in clean energy technology and resource efficiency

WELLINGTON MANAGEMENT COMPANY, LLP Susan Pozer, Vice-president; Director, Canada, Global Relationship Group; 280 Congress St., Boston, MA 02210 PH: 617-790-7441 Fax: 617-790-7441 eMail: smpozer@wellington.com or mg@wellington.com Web: www.wellington.com SRI Products/Services: SRI guidelines are client directed; firm is willing to discuss those guidelines for most of its U.S., Global, International Equity, and Fixed Income products. Managed Since: 1994 SRI Philosophy/Style: The firm assists clients in the development of investment ‘screens’ or complete investment styles that seek to achieve specified investment goals while complying with the restrictions

GROUPE INVESTISSEMENT RESPONSIBLE INC. Olivier Gamache, CEO; 255 St. Jacques St. 3rd Floor, Montreal, QC H2Y 1M6 PH: 514-448-5400 Fax: 514-448-5558 eMail: info@gir-canada.com Web: www.gir-canada.com SRI Products/Services: Proxy Voting Services – Voting recommendations are available to clients using the CAUCUS policy; Research Services – GIR Note to Professionals newsletter, corporate issues report, portfolio review, ESG monitoring, ad hoc research; Consultation Services – Developing integration tools for ESC filters, developing a voting-right exercise portfolio; financial product development Managed Since: 2001 Canadian Clients: 9 Philosophy/Style: Guides clients through the environmental, social, corporate governance issues that affect public companies

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By: Michael Biskey

Healthcare experts continue to warn Canadians about the increasing cost of prescription drugs. Since the late 1980s, the cost of prescription drugs has risen 600 per cent in Canada, according to the ‘2010 Group Health Care Cost Control in Canada’ report by the International Foundation of Employee Benefits Plans. Unfortunately, the soaring cost of prescription drugs threatens the sustainability of the privately and publicly funded drug plans that many Canadians rely on for vital medications.

Over the past several years, to help curb these spiralling costs, many provinces have introduced generic drug reforms. Although these reforms have provided some short-term relief, we do not believe this will last long due to the rapid growth and increasing availability of high cost specialty drugs. In addition, it has been determined that private plans are wasting more than $5 billion in drug spend each year where waste is defined as spending more money without improving actual health outcomes. Plan sponsors must react and begin to implement methods to assist in the reduction of pharmacy waste to keep plans manageable, affordable, and sustainable.

Express Script Canada’s ‘2011 Drug Trend Report,’ an annual analyses into the use of prescription drugs and related trends in the private sector, found that the country’s steadily aging population has had a profound effect on the use of prescription drugs – particularly maintenance medications or drugs that are used to treat an ongoing medical condition. Utilization becomes more prevalent as we age, resulting in higher drug spend per claimant. Utilization has increased in two ways – increased intensity (more prescriptions per patient) and increased prevalence (greater percentage of eligible members with claims).

Generic Drug Reforms

The average cost per prescription decreased in 2011 due to generic drug reforms and the increased availability of lower cost generics as patents expired on a number of brand-name prescription drugs. However, private sector costs for prescription drug plans increased overall due to increases in utilization, prevalence, and a number of other factors.

The cost per prescription is primarily influenced by three main factors – dispensing fee inflation, brand drug inflation, and brand/generic mix. In Canada, dispensing fee inflation continues to influence the average cost per prescription. Ontario currently has the highest dispensing fee in Canada.

Brand drug inflation is being driven by the increased use of specialty drugs, as well as changes in the therapeutic mix of traditional medications. Less than one per cent (0.99 per cent) of all drug claims are from specialty drugs. However, they contributed to almost 20 per cent of the total spend in 2011 due to their high cost and the number of new specialty drugs approved by Health Canada.

Generic Claims

The brand/generic mix can be measured by looking at the generic fill rate (GFR) which is the number of generic claims as a percentage of total overall scripts. GFR continues to be a key metric for gauging the efficiency through which drug plans are taking advantage of providing lower-cost clinically equivalent medications to plan members. In 2011, the expiry of patents helped drive the national generic fill rate to 50.8 per cent of all prescriptions. However, this remains well short of the clinical potential.

Private (company-sponsored) drug plans provide drug coverage to millions of Canadians and are viewed by many companies as an integral component of their strategies to attract and retain employees. As the cost of prescription drugs rises and the utilization increases, drug benefit plans will become unaffordable for many plan sponsors, leaving Canadians who depend on prescription drugs to subsidize the cost of their medications.

Huge Amount

The unfortunate reality is that a huge amount of money is being wasted within most healthcare plans. According to the drug trend report, private plans wasted more than $5 billion in drug spend and an additional $7 billion to $9 billion was wasted in healthcare spend due to non-adherence in 2011 alone.

Pharmacy benefit management (PBM) services are an option available to plan sponsors to help them better manage the cost
of the prescription drug benefit they provide to employees, while offering members an enhanced prescription drug service.

For example, a PBM service may use tools that apply behavioural sciences to healthcare decision-making to influence plan member behaviour. Plan members, with the support of their physician, are encouraged to interact with a team of professionals to learn about generic and therapeutic medication alternatives, enabling them to make more informed choices. The result will be decisions that offer the best possible health outcomes while reducing costs for both the plan member and the plan sponsor. Plan sponsors can add this service as an enhancement to an existing drug benefit plan without changing insurance carriers or adjudicators.

**Channel Waste**

To maximize the value of a prescription drug benefit, it is imperative that waste is reduced wherever possible. There are several points of waste that have been identified within prescription drug plans. They include channel waste, drug-mix waste, and non-adherence waste.

Channel waste is created by using suboptimal dispensing intervals for maintenance medications and not using the most cost-effective distribution channels. For example, channel waste is created by refilling a maintenance medication for chronic conditions more frequently than necessary.

Drug-mix waste is created by using a higher-cost medication that generates no additional health benefit. Research indicates the estimated cost of drug-mix waste in the private sector drug spend to be $4.2 billion. Since doctors often prescribe higher-cost brand medications, an integral component of the value a PBM service offers is the ability to present the patient with a clinically effective therapeutic alternative. This involves the pharmacist working with the patient and their prescribing doctor to get approval to switch the patient to a more cost-effective medication with an equivalent clinical and/or therapeutic effect.

**Non-adherence**

Non-adherence waste occurs when patients do not take their medications as prescribed. Consequences can include a decline in the patient’s health and increased treatment costs, which can lead to absenteeism and additional drug therapy, physician visits, hospital admissions, and short-term disability costs. Non-adherence is a major problem in Canada’s healthcare system. Express Scripts Canada’s research has determined that 57 per cent of high-cholesterol patients are adherent to their medication, only 48 per cent of high-blood-pressure claimants are adherent, and just 43 per cent of diabetes patients are considered to be adherent.

**Optimal Health**

Eliminating waste is one way to assist in the reduction of pharmacy benefit plan costs. To get there, plan sponsors need to encourage plan members to significantly change the way they purchase and use prescription medications for themselves and their eligible dependents. Research shows that the vast majority of patients want exactly what plan sponsors want – lower costs and optimal health. Although they may have the same overall goals, the amount of waste in private sector drug plans proves there is a huge gap between what consumers want and what they do.

An active PBM service uses tools that apply behavioural sciences to healthcare decision-making to influence plan member behaviour. Plan sponsors, this kind of service has enhanced the employee drug benefit while generating better patient decisions that have resulted in reduced waste and lower drug benefit costs.

The HR leaders for these Canadian plan sponsors have delivered value to their businesses by leveraging proven approaches to improve member behaviour and reduce costs while generating very little employee disruption. These HR leaders can now choose to reinvest the savings to improve employee benefits or use them to improve the bottom line for their company.

Michael Biskey is the president of Express Scripts Canada

www.express-scripts.ca

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Eldercare and caregiving is becoming an increasingly important issue for employees and employers alike. In 2009, more than 28 per cent of employed Canadians had responsibilities for eldercare. This trend is expected to grow with the boomer and over-80 population cohorts outpacing younger generations.

As a result, caregiving is expected to impact employees and organizations through increased absenteeism and decreased productivity as employees struggle to deal with the challenges facing them. Fortunately, provincial governments are starting to take notice and introduce new legislation that helps employees facing a caregiving challenge. Employers are working to provide additional access to benefits and services to help employees deal with the problem.

New Legislation

Last December, the Ministry of Labour of Ontario introduced Bill 30, An Act to amend the Employment Standards Act, 2000, in respect of family caregiver leave. If passed, it would amend the current employee leave entitlement section to include a provision that allows employees to take a leave of absence without pay in order to provide care or support to an individual. Individuals include a spouse, parent (step, foster, or employee’s spousal), child (step, foster, or employee’s spousal), grandparent (step, foster, or employee’s spousal), spouse of a child, brother, sister, dependent relative, or any other family member. Under the change, employees can take up to eight weeks each year. This unpaid leave is supposed to build on the existing Family Medical Leave which currently provides unpaid leave for an employee to provide care or support to an individual who has a serious medical condition with a significant risk of death occurring within a period of 26 weeks. Bill 30 would provide additional unpaid leave time to Family Medical Leave or could be used in separate situations. The Ontario Family Medical Leave program builds upon a 2004 federal Compassionate Care Benefits program where employees can receive eight weeks of Employment Insurance (really six weeks paid plus a two-week wait period) for an approved leave to provide care or support to an individual with a serious medical condition that has a significant risk of death occurring within 26 weeks. In all instances, a medical note is required to qualify. Denial of the federal benefits does not exempt the employee from being eligible for the provincial leave.

Saskatchewan leads the country in caregiving provisions. Saskatchewan provides up to 12 weeks per year for any serious illnesses that require caregiving with an additional four-week top when the employee is in receipt of EI compassionate care benefits. Similar to the proposed Ontario legislation, employees in Saskatchewan are not limited to taking a leave during only a palliative caregiving situation. Rather they can be protected during a broader caregiving need. Quebec also provides up to 12 weeks. However, it is similar to the Family Medical Leave in

Family Caregiver Leave: How This Impacts You

By: Jamie Marcellus
that the caregiving must be for someone with a significant risk of death within 26 weeks. All other provinces, except for Alberta, provide up to eight weeks unpaid leave as part of a provincial based Compassionate Care Leave legislated program (Saskatchewan, Quebec, Newfoundland, and Ontario are named different). Alberta currently has no such provisions.

**The Good And The Bad**

The proposed legislation certainly presents a better opportunity for employees in Ontario (as well as Saskatchewan), as it provides coverage beyond a palliative or imminent death situation. While care needs often increase during the last few months of a loved one’s life, there is strong evidence to suggest that the length of time providing care can often exceed three years. In the National Evaluation of the Cost-Effectiveness of Home Care (2001), the study found that 9.5 per cent of the population surveyed received care for the full 10 years of the study. More than 40 per cent surveyed received a combination of home and facility based care for an average of three to five years before death.

Some of the pros of the new Ontario legislation (as well as existing in Saskatchewan) include:

- **Job Security** – Clearly the benefit to the employee is job-protection over the period they require to participate in the caregiving of their loved one, up to the program maximum.
- **Cost effective to the employer** – For the employer, there is no need to pay additional salary for the absent employee. There are, however, some costs associated with the lost productivity of the employee during this time as it would be impractical to replace the employee for this time frame.
- **Good for acute episodes** – The proposed changes will assist employees who are faced with providing support and care to a loved one with an acute care episode and need. While the leave can be used in other situations, the relative shortness lends itself well to more short-term situations such as recovery from surgery and minor accidents.
- **Can be used as a springboard** – Employees can use the leave in chronic and longer term care situations for planning and arranging for ongoing care and supports to their loved one. This process can often take days to weeks (especially without the guidance and support of a care advocate) to arrange. The employee will also need to ensure it is adequate to allow a return to effectiveness at work.

As with any program of this nature, there are also some drawbacks:

- **Short-term fix** – As described earlier, the leave only provides enough support/protection for those in a very short-term care giving situation. Requirements for caregiving often last years, during which this would address a very small window of time.
- **Expensive to the employee** – The leave of absences (outside of compassionate care benefits under EI for near-death situations) are unpaid and are designed to provide job protection for the employee. Depending on the financial situation of the employee, this can offer additional stress as the employee not only has to address the caregiving challenge, but also worry about the financial impact of the leave.
- **Requires pre-planning** – In each of the programs outlined earlier, there is a requirement to have medical documentation. Unfortunately, this can often take days to weeks to arrange. In addition, the leaves of absence must be in at least ‘week’ blocks (meaning a minimum of one week up to the maximums, in increments of weeks, with no partial week leave). This can present challenges for employees that have caregiving responsibilities that fluctuate depending on the needs of their loved one.

**Other Options**

Over the past few years, employers have begun to introduce programs that offer additional supports to employees facing a caregiving challenge. Examples include:

- **Care management and advocacy** – These programs provide the employee with access to an expert case manager who can provide guidance, navigational support, case management, and access to resources and services (such as homecare and emergency monitoring services) to assist with the caregiving challenge.
- **Paid leaves** – Some top employers have begun to provide some short-term paid leaves of absence that can be used for a number of different reasons, including a caregiving situation. Most often these programs offer three to five days of time that can be used on short notice throughout the year.
- **Back-up care providers** – Leading back-up care providers provide services to address both childcare and eldercare needs of the employee. Care can be arranged on an emergency basis across the country as needed. In some cases, top employers provide direct funding that can be used to pay for the care.
- **Employee Assistance Programs** – Most EAPs have expanded their offerings to include access to resources to help the employee with their caregiving challenge. These programs provide non-specific general information to the employee about caregiving resources that the employee then needs to contact to arrange services.

The number of employees facing a caregiving challenge is expected to increase considerably over the next few years. This is largely due to the aging population combined with the challenges faced by the Canadian health and homecare systems. As caregiving continues to grow as an issue for employees, provincial governments are starting to make small changes to employment and labour legislation.

In addition, employers are beginning to implement benefits and programs that help address the inherent absenteeism and decreased productivity associated with the problem. Successful top employers are using multiple strategies to improve the situation for their employees.
Lifting Shame Of Incontinence

By: Caroline Tapp-McDougall

Considered to be one of the chronic conditions that most adversely affect quality of life, it impacts the ability to work, interact socially, and travel. It can also lead to discomfort, isolation, and even depression. Its cost to Canadian employers totals more than 11 million days of lost work and $1.5 billion in reduced productivity each year. So, why don’t you hear about this problem in your workplace? Unfortunately, it’s because urinary incontinence is usually surrounded by shame and embarrassment. Employees with this condition are usually too uncomfortable and humiliated to discuss it so they often suffer in silence.

More Women Than Men

Because of the stigma associated with incontinence, estimates of its prevalence are largely inaccurate. However, a conservative guess estimates that more than 1.5 to 3.3 million Canadians suffer from mild to extreme incontinence on a daily basis. Furthermore, the condition tends to worsen with age.

There are several types of urinary incontinence. Some may affect those in the workplace more than others. Levels range from mild and moderate to severe. Leakage may occur on a daily basis to weekly, monthly, or less often.

Stress incontinence is associated with urine leakage due to exertion such as coughing, sneezing, straining, or exercise. It is the most common type, especially in younger women. Urge incontinence occurs when a rapid, overwhelming need to void the bladder leads to leakage. Mixed incontinence is a combination of urge and stress incontinence. Along with urge incontinence, mixed is also the predominant type affecting older women. Overflow incontinence is a persistent trickling of urine from a filled bladder. Functional incontinence includes causes unassociated with the urinary system. Medical issues, a lack of mobility, and physical barriers to getting to the bathroom may be involved.

Studies show that those with chronic incontinence use 7.6 sick days annually. Unfortunately, absenteeism isn’t the only lost productivity issue associated with the condition. It has been proven that people cannot work at their best while being distracted by health concerns. Involuntary leakage can lead to loss of concentration, inability to finish tasks without interruption, and disruption of daily routine. When you add this lack of full-functioning to the absenteeism statistics cited above, you get a total of 12.6 days of lost work for each person with incontinence.

Workplace Tips

Incontinence is not usually openly discussed for personal reasons and can often be well concealed. Because of this, it may be difficult to spot the problem. So, what can you do if you suspect or know that an employee may be suffering from urinary incontinence?

First, it is important to be understanding and sensitive. Jumping to conclusions that your worker has poor work habits and a lack of commitment because of their distraction at work is not the best action to take.

Allowing frequent urination breaks without impunity can lower the stress level of those suffering from leakage. You may want to alter your employee’s workload by eliminating tasks that require long commitments, travel, or straining physical activity as well. Furthermore, having absorbent products and odour preventers available in the bathrooms can help eliminate the need for excessive toilet breaks.

If the condition is severe, you may need to consider allowing the employee to work from home if possible. Having a behavioural therapist on hand to discuss treatment options such as bladder retraining, dietary/liquid intake alterations, or deep breathing exercises could also help.

Urinary incontinence in the workplace can be difficult and stressful to manage. Getting through long meetings, telephone calls, or client lunches is something that most workers take for granted. For those suffering from incontinence, just a regular day at the office, as well as the aforementioned extended commitments, can cause anxiety and worry.
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Benefits and Pensions

245 Fairview Mall Drive, 5th Floor, Toronto, ON M2J 4T1 Canada - Ph. 416-494-1066 - Website: www.bpmmagazine.com
Re: Article in June 2012 issue of Benefits and Pensions Monitor, ‘Speak English Please’

I t was with increasing dismay that I read this article by Yafa Sakkejha. We agree that plan sponsors are looking for ways to slow the rate of cost increases of their benefit plans and underwriting strategies can be an effective tool in this process.

However, I believe there are a number of errors in this article.

To start, the statement was made that when choosing to self-insure, it is critical that the group be no less than 100 employees. This is simply wrong. Depending upon the benefit, dental or eye glasses, for example, it is perfectly appropriate to self-fund much smaller plans. The size of the group is much less important than the financial arrangement in place. These arrangements would include proper claims analysis to assist in the correct funding contributions and proper risk management through appropriate stop loss arrangements.

The article goes on to say that the self-funding arrangements can be offered by insurance companies or third-party administrators (TPAs). It is claimed that TPAs are not brokers. Yet, many Canadian TPAs offer brokerage services as well as benefit plan consulting, in addition to their traditional role in administration and/or claims payment services.

In the section on internal controls, the scenario described by the author is consistent regardless of the financial underwriting arrangement. No personal member claims information can be released to a plan sponsor. Virtually all major group insurance carriers contract out at least some third-party claims payment and administration work. They only do this after a rigorous assessment of the third-party service provider’s systems and controls. Certainly they would not agree to the contracting out if they believed the internal controls were more lax than their own.

With respect to alternate arrangements, the co-operative approach is described. Perhaps it was not described adequately. If, under the co-operative approach, surplus contributions are returned and deficits are forgiven, one does not need to be a financial genius to see where that plan is going.

Ms. Sakkejha claims that retention accounting is pure self-insurance, other than some smoothing provisions. This is completely incorrect. Retention accounting is simply a method of financial accounting within an insured context. In a basic format, retention accounting takes income from premium payments, adds interest on reserves, then deducts claims, changes in reserves, operating expenses, and interest on prior deficits. The result is either a surplus or a deficit for the year. Surplus funds are first used to pay off prior year deficits and fully fund required reserves. Once this happens, any remaining funds would be available to the plan sponsor.

What makes this arrangement an insured arrangement, rather than a self-insured or self-funded arrangement, is that the plan sponsor can walk away from any plan deficit. In fact, the insurance company will charge a risk premium, typically one to 1.5 percent of the total premium in recognition that the carrier may be left with a plan deficit if the plan sponsor changes carriers.

The chart accompanying the article contains some remarks that are inflammatory at best and simply wrong at worst. The statement made is that insurance companies usually give a low quote in order to ‘buy the business’ in the first year. As a general statement, this is ridiculous. Typically, this is the knee-jerk reaction to losing a client or prospect in a competitive bidding process. We have all been there and it hurts, but when we are on the winning side, we justify the result as smart underwriting.

With respect to ‘hidden’ fees, they are hardly hidden. Every carrier will show their trend, inflation, and IBNRs as a matter of course. Most agents/brokers/consultants will disclose the commission rate, if any, within a plan. All that’s necessary is to ask the question.

Finally, let us deal with the concept that health and dental programs are simply cash flow management. There certainly is some truth to this on the dental side, although breaking a tooth or requiring a root canal are seldom discretionary expenses. Few of us undergo these procedures just because we can.

On the extended health component, there certainly is an insurance risk. Taking our families to Disneyland on vacation would generally not include planning for a car accident or cardiac arrest; both of which would put a serious hole in the family finances if not covered by insurance.

Harvey Mason
President
D.A. Townley & Associates Ltd.
Warren Jestin, Scotiabank’s senior vice-president and chief economist; and Paul Mortimer-Lee, global head of market economics at BNP Paribas; will share their market predictions for the year ahead at the ‘CFA Society Toronto Annual Forecast Dinner.’ Theme of the event is ‘May We Live in Less Interesting Times - Economics and Politics in a Changing World.’ It takes place October 2 in Toronto, ON. Visit: www.cfatoronto.ca

The importance of early identification of mental health issues and communicating the value of Defined Benefit and Defined Contribution pension plans will be among the topics covered at the 2012 CPBI Pacific regional conference. Liz Scott, a principal at Organizational Solutions Inc., will provide a summary of evidence-based best practices and illustrate solid return to work strategies for dealing with mental health issues. Corina De Guire, director of communication for the BC Pension Corporation, will look at the world of DB communication, while Sharon Vanderwerff, of Mercer, and Laura Murray, manager, pension and benefits, at Unilever will explore the DC plan angle. Theme of the conference is ‘Keep Calm And Carry On.’ It takes place October 3 to 5 in Victoria, BC. Visit: www.cpbi-icra.ca

An executive roundtable on global benefit and pension plans will be among the highlights at this year CPBI Ontario Conference. It will also feature sessions on prudent investment practices, and designing pension plans to meet the needs of organizations. It takes place October 17 to 19 in Niagara Falls, ON. Visit: http://www.cpbi-icra.ca/en/regionalpage.ch2?region_id=6&uid=Ontario587

The Conference Board of Canada’s ‘Benefits Summit 2012’ features original benefits benchmarking research which can be used to help make critical benefits decisions and balance cost and value. Sessions will look at the move to flexible benefits, revamping retiree benefits, and integrating a wellness strategy into a benefits plan. It takes place October 23 in Toronto, ON, and November 16 in Calgary AB. Readers of Benefits and Pensions Monitor can save $300 on registration by using the rebate code PRM3. Visit: www.conferenceboard.ca

Martin Reeves, senior partner and managing director at BCG; and Heinz Rudolph, chief economist at the Worldbank; will be among the featured speakers at the ‘WorldPensionSummit 2012.’ It takes place November 14 to 16 in Amsterdam, The Netherlands. Visit: www.worldpensionsummit.com BPM
Things I Didn’t Know About The Pension World

By: Jim Helik

The past years of turmoil in capital and pension markets have given us little time to step back and gain some perspective on where we stand. Helping us with this task have been a slew of reports in the past few months from Standard and Poor’s. Here are some useful findings about the pension world:

▶ In The U.S., An Increasing Exposure to Alternative Assets

In the companies in the Standard and Poor’s 500 index, there has been a growing exposure to alternative assets over time, at the expense of investments in equities, says the report ‘Pension and OPEB Funding Deficits Have Ballooned For S&P 500 Companies.’ Current (2011) exposure to real estate and ‘other’ assets is at 10.7 per cent of total plan assets, about 2½ times the rate found in Canada. This shift has come at the expense of equities which, in 2004, accounted for 64.9 per cent of plan assets, but only 48.4 per cent today.

▶ Individual State Pension Funding Ranges From Very Good To Very Bad

When it comes to funding status, individual states exhibit a ‘barbell pattern’ with funds either clearly in the funded end or else in the ‘we have a big problem’ end. The top five states have funded status ranging from 95 per cent to 100 per cent, while the bottom five range from a low of 45 per cent to 57 per cent, says the ‘States’ Pension Funding Decline Decelerates, But Reform Issues Loom Large’ report.

▶ Things Have Been Worse

This report also notes that comparisons of the funding ratios for U.S. state pension plans often are relatively short-term. The average funding ratio was more than 100 per cent in the year 2000 after at an 80 per cent average in the 1990s. But things have been worse. In 1975, the aggregate funded ratio of public pensions for state plans was only 51 per cent.

▶ Overall Underfunding Averages Hide Some Information

A growing number of large Canadian companies will be putting some cash in their DB plans in the coming years, says this report. The percentage of plans with more than 80 per cent funding has fallen every year, from 74 per cent in 2007 to 40 per cent in 2011.

▶ But Little Change in Plans’ Investment Outlook

Finally, this report shows volatile markets had little impact on the expected investment returns on plan assets. The weighted average expected rate of return in 2007 was 7.2 per cent, which fell only modestly to 6.6 per cent in 2011. However the range of these expected returns was quite tight. Most firms expected returns between six and seven per cent, with very few predicting returns greater than seven per cent.

Depending on your point of view, there is either data to encourage you (a shift by some players outside of the 60/40 split and a realization that funding ratios have been lower in the distant past), or to discourage you (continued underfunding and little movement in asset allocations).

Regardless, there is plenty of food for thought here as we struggle with our own daily pension issues.
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Source: Standard Life Investments Limited, gross performance from 06/12/2006 to 12/31/2011. Portfolio performance is based on the £, institutional pooled pension portfolio. The performance of the UK pension steering fund may differ from that of GARS investment vehicles or separate accounts offered in Canada. The difference in performance is due to many factors, including but not limited to, the structure of the product, cash flows, and any local investment restrictions. 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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