

Legislative News Release

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Employee Pension Plans

The aim of these news releases is to keep you up to date on the most recent legislative changes governing pension plans and various aspects of the way in which your plan works. This initiative is part of Assumption Life's information and communications program for employers, pension committee members, and employees participating in your pension plan. This particular news release shares with you some current investment and pension legislative issues. We encourage you to send copies of this news release to your employees.

Expanding CPP Best Solution

Expanding the Canada Pension Plan would be the most effective way to ensure all Canadians have adequate retirement income, says a report by the Canadian Centre for Policy Alternatives (CCPA). The report states the CPP has certain strengths that make it the most effective way to ensure Canadians have sufficient retirement income. "Expanding the CPP, whether by increasing the replacement rate or increasing the level of covered earnings, or both, would address the issue of coverage, security of benefits, and low cost of administration – all the key objectives of pension reform," says pension expert and CCPA research associate Monica Townson.

Canadians Need to Save More

Canadians – even those who think they have great company pension plans and solid RRSPs – need to save far more if they want to retire comfortably, says David Dodge, former governor of the Bank of Canada. In a study on savings for the C.D. Howe Institute, he says if Canadians want to maintain the same standard of living after they retire, they need to save between 10 and 21 per cent of their pre-tax earnings every year if they save for 35 years. Canadians over the age of 35 who have not kept up with their savings need to put aside far more than 20 per cent of their income, for a smooth retirement, or, they'll have to work well past

the age of 65. The study makes numerous assumptions including that Canadians would want to replace 70 per cent of their working incomes when they retire and would retire at age 65. However, scenarios with a later retirement age and only a 60 per cent replacement of preretirement income still indicated that savings need to be substantial.

Increased Productivity Needed

Canada must increase productivity or else go into decline, says Glen Hodgson, senior vice-president and chief economist for the Conference Board of Canada. He told the '2010 Summit on the Future of Pensions' that there are a couple of reasons that Canada must focus on productivity. First and foremost is the loonie. For the first time in years, it is on par with the U.S. dollar and it is likely to stay there. Plus, like it or not, the Canadian dollar is now a petro-currency, a currency linked to oil and commodities. A great deal of this rise of the Canadian dollar is due to an increase in oil prices, which are likely to keep going higher. The other reason increased productivity is necessary is the aging of the population. Right now, the labour participation rate (the percentage of working-age persons who are employed or unemployed but looking for a job) is around 68 per cent. By 2030, it will be down to 62 per cent if nothing is done to change things. As people grow older and retire, it puts more strain on the social systems needed to support an aging population and it reduces the number of people coming into the labour force. This, said Hodgson, will 'suck the life' out of our economy by 2030 unless we can increase productivity.

Strong Dollar Hurts Returns

The strengthening of the Canadian dollar versus most other major currencies had an overall negative impact on foreign equities held by pension funds during the first quarter of 2010, says the Mercer Pension Health Index.

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For example, international equities, as measured by the MSCI EAFE (CAD) index, provided a return of -2.3 per cent in the last quarter. In local currency terms, it returned 4.4 per cent over the same period. As a result, despite stable federal bond yields and modest overall returns for diversified investment portfolios, it meant very little change in the financial health of most pension plans in Canada. Measured on a solvency basis, they ended the first quarter at 74 per cent, which reflected no change from the beginning of the year.

Canadians More Optimistic

Positive economic indicators and stock market gains have helped Canadians feel more optimistic about their financial health of late, says the Russell Financial Health Index. It is at its highest level since the fourth quarter of 2008, up to 51.1 points from its low of 47.9 points in the third quarter of 2009. Investors who recently used the online calculator displayed less concern across almost all of the 11 potential areas of financial concern listed. Having sufficient income to cover essentials saw the greatest decrease in concern among Canadians. Investors are also less concerned about having enough income for their lifestyle, riding out Canada's economic performance, and having a reliable source of income.

Return Expectations Consistent

Canadian institutions' expectations for returns on their investment portfolios have remained remarkably consistent throughout the financial crisis, says Greenwich Associates. Average expectations for fixed income dipped to 4.7 per cent in 2009 from 4.8 per cent in 2008, while expected returns on Canadian equities inched to 7.8 per cent from 7.7 per cent. Expectations for U.S. equities fell to 7.6 per cent in 2009 from 7.8 per cent the prior year, while expectations for EAFE/international equities increased to 8.2 per cent from 8.1 per cent. Only in alternative asset classes did Canadian plan sponsors report significant movement in return expectations from year to year, with expectations for private equity dropping to 10 per cent from 10.7 per cent, real estate expectations falling to 7.1 per cent from 7.8 per cent, and expected returns on hedge

funds declining to an annual 7.2 per cent from 7.8 per cent. In line with their higher allocations to fixed income and more modest exposure to equities, Canadian endowments and foundations report lower expected returns on their portfolios overall.

Government Starts Consultation

The federal government is launching a cross-country consultation on how the pension system should be reformed. It will be staging a series of town hall meetings, expert roundtables, policy conferences, and public online consultations. The government will be looking at areas such as increasing mandatory contributions to the CPP to improve benefits; adding a voluntary supplement to the CPP; streamlining and expanding the tax inducement system to encourage more individual savings; and giving the private sector more leeway to manage retirement savings funds, especially for people who have no access to company-sponsored plans.

Nova Scotia Plans Get Relief

The Nova Scotia Government has implemented solvency relief, providing some funding relief to pension plan sponsors and administrators in the wake of the 2008 financial crisis and resulting decline in global equity markets, says a McInnes Cooper Pension and Benefits Legal Update. The measures are consistent with what was announced by the prior Nova Scotia government in April and bring the province into step with relief already implemented in other Canadian jurisdictions early this year. Key provisions include temporarily extending the amortization period for a solvency deficiency from five years to 10 years. This applies to both existing and new solvency deficiencies. However, within the first five years, plans may not be amended to increase benefits (unless the cost of the benefits has been fully funded) nor to decrease employee contributions. The measures do not provide for plan sponsors to utilize letters of credit as alternate funding vehicles.