

Pension Plans



Assumption Life

Investing in Your Future

Legislative News Release

Issue 22
Second Quarter 2006

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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 issues that have made national headlines.

We encourage you to send copies of this news release to your employees.

DC Shift In Canada May Be Cyclical

The shift from Defined Benefit to Defined Contribution pension plans may simply be a cyclical trend that could be reversed, says the president of the UK Institute of Actuaries. However, if there were a return to DB schemes, they would be without “bells and whistles,” says Michael Pomery.

Retirement Program Reserve Doubles

The financial reserves in Canada's three principal retirement programs, essential to the future of many Canadians, have doubled since 1990 and they represent one of the largest pools of investment capital in the country, says Statistics Canada. In total, Canadians had accumulated more than \$1.3 trillion in the three major retirement income programs at the end of 2003. This amount has doubled since 1990, taking inflation into account. Employer-sponsored registered pension plans (RPPs) accounted for the biggest chunk of assets, about 63 per cent, and registered retirement savings plans (RRSPs) another 30 per cent. The remaining six per cent were held in the Canada/Quebec Pension Plans (C/QPP).

RPP Coverage Slipping

Canada had nearly 14,800 active registered pension plans, covering close to 5.6 million members as of January 1, 2004. However, the percentage of workers covered by an RPP rate was down to 39 per cent from 45 per cent in 1991, says Statistics Canada. Coverage also differs greatly in the public and private sectors. Since 1977, the RPP coverage rate for the private sector has been steadily decreasing, from 35 per cent in 1977 to about 27 per cent in 2003. In the

public sector, more than 86 per cent of workers were covered. A number of factors may have contributed to the decline in RPP coverage rates including a drop in unionization and employment shifts towards low-coverage industries.

No Recovery Yet For Canadian Plans

Despite a return of 24 per cent in Canadian stock markets in 2005, the financial health of pension plans in Canada continued to deteriorate. “Pension plans continue to roll the proverbial rock up the hill,” says Paul Purcell, global retirement professional leader, Mercer Human Resource Consulting. “The ongoing decrease in long-term interest rates means the value of pension promises is growing faster than pension funds.” The Mercer Pension Health Index shows that plan funded ratios dropped off in the first half of last year and drifted sideways for the rest of the year.

Low Interest Rates Plague Pension Funds

Low interest rates continued to plague pension funds in Canada in 2005 and their funded ratio fell six per cent, says Frank Belvedere, a principal with Mercer Investment Consulting. Speaking at its annual Fearless Forecast, he said in the coming years he expects to see pension funds turning more to liability driven investing. As well, he said the interest that pension funds have been showing in long bonds will continue. On average plans' future pension benefits were 77 per cent funded at the end of 2005, down from 83 per cent a year earlier. The plans' funding status has been hurt by falling long-term interest rates and low bond yields.

Health Of Pension Plans Turns Positive

With Canadian stock markets returning eight per cent in the first quarter of 2006, the financial health of pension plans in Canada has made a turn for the positive, says the Mercer Pension Health Index. Funded ratios for plans tilted upwards in the first quarter following another disappointing year in 2005. “Actually, the modest increase in long-term interest rates over the quarter helped as much as the strong stock market,” says Paul Purcell, worldwide partner at Mercer Human Resource Consulting. “Higher interest rates may be bad news for bond fund managers, but not for pension plans. Even if stock markets were flat the rest of the year, we've estimated that the index would rise by eight per cent with a one per cent climb in long-term rates.

Canadian Expect Pension Reform In Next 10 Years

Fifty-five per cent of working Canadians anticipate pension reform to occur in the next 10 years-up 11% from the 2004 survey-according to an AXA Retirement Scope international survey of 6,915 working and retired people in 11 countries on retirement issues. "Canadians are increasingly aware of the problems related to the aging of the population and the decreasing number of workers versus retirees," explains Lise Allard, manager of communication at AXA Canada. "It is probably one of the main reasons why so many people expect pension reform to occur." Most working Canadians (75%) expect to work longer before retiring, and 70% are anticipating reduced public pension benefits. Interestingly, compared with other countries, working Canadians are some of the least prepared (35%) to assume complete responsibility for funding their retirement. Eighty-one per cent feel that the government is also responsible and 67% believe employers are responsible for funding their retirement. Whereas, 75% of workers in Japan, 72% of workers in Hong Kong and 62% in Germany believe retirement funding is mainly the individual's responsibility.

Behaviour Threatens Retirement Planning

Defined Contribution plan participants are hampered by two distinct factors: their own counter-productive investing behaviors and the inadequate design of most DC plans, says a report sponsored by Alliance Bernstein Investments. While plan sponsors and retirement plan service providers have spent tremendous amounts of time and money on participant education programs, most of these efforts have been unsuccessful in influencing participant behavior. The real issue is not just a lack of education, but a lack of action and the innate behavioral factors that drive plan participants to make decisions that undermine their own investment success.

Bank Of Canada Raises Rate To 4.00%

On Tuesday April 25, 2006 the Bank of Canada raised its key lending rate for the sixth time in a row as expected and said "modest" rate hikes may be required in the future. The central bank raised its target for the overnight rate to 4.00 per cent from 3.75 per cent, bringing it now to a quarter per cent higher than the rate was in just after the Sept. 11, 2001 terrorist attacks in New York. "Overall, indications are that the Canadian economy is continuing to operate at its full production capacity," the bank said. "Some modest further increase in the policy interest rate may be required to keep aggregate supply and demand in balance and inflation on target over the medium term," it added. The bank makes its next rate decision on May 24.

The GDP And Interest Rates Will Continue to Rise In 2006

For 2005, GDP increased 2.9 per cent, matching 2004's growth rate. "It appears that 'all systems are go' for domestic demand, and we look for another year of GDP growth of nearly 3 per cent in 2006," said Douglas Porter, deputy chief economist at BMO Nesbitt Burns. "With the economy already effectively operating at capacity, this will be strong enough to keep the Bank of Canada in tightening mode, despite the loonie's relentless strength," he said. Royal Bank economists expect the Bank of Canada will raise the overnight rate to 4.5 per cent by the third quarter of 2006 from the current 4.00 per cent.

Pension Rules Shouldn't Burden Plan Sponsors: Dodge (March 21, 2006)

In an impromptu press conference, Bank of Canada Governor David Dodge made clarifications and answered questions about the state of the economy and the most recent inflation numbers. But when posed the question concerning the state of defined benefit (DB) pension plans and the prospects for changes in light of a relatively new government, Dodge told Benefits Canada that there is an increased awareness on the need to look at the plans and that the Bank has reasons why DB plans should be monitored. "Our concern is twofold: One, it is clearly a very important part of the capital markets, so it's important that it works appropriately," said Dodge. "And secondly, that we not have rules and regulations which bias the choices that may be made by employers and unions as to what type of plan they set up." Speaking on the idea of a single national regulator in Canada, Dodge said the right securities law reform needs to be undertaken: "what is really important is that we have appropriate and uniform securities regulations and securities law in this country." He added, that it can be done in two ways: either through a single regulator, or a harmonization of laws in 13 jurisdictions. He stressed that the rules should not be too onerous that small companies cannot come to market, yet the laws should be accessible to all companies. Dodge added that a mechanism needs to be in place to reduce administrative burdens and paperwork.