

## 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 issues that have made national headlines.*

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

## Median RRSP contributions by Canadians is falling

Canadians are expected to contribute a record of nearly \$33 billion towards their registered retirement savings plans this year but this number is miniscule compared to the \$491 billion they still have in unused RRSP contribution room. Almost 90 per cent of Canadian tax filers currently have RRSP room.

As of 2005, the median amount of RRSP investment held by Canadians age 55 to 65 was only \$60,000. In today's low interest rate environment, the interest payments on such savings would amount to an income flow of only a few thousands dollars a year.

There is also a growing income disparity among Canadians, given that most of the growth in contributions is attributable to those who earn more than \$80,000 per year. In 2005, only 20% of Canadians between the ages of 35 and 64 with a yearly income of less than \$30,000 contributed to their RRSPs.

## Canadians Count On Employer Pension

Nearly half (46 per cent) of Canadians are banking on employer-sponsored pension plans as part of their retirement mix, says a Decima Research survey. But of the 40 per cent who contribute to a company pension plan, more than half (51 per cent) are unsure whether their plan is a Defined Benefit or Defined Contribution plan. As well, less than half of that same group knows what their pension plan will pay during retirement. Every pension is different and it's important to understand how yours works, and just how much income it will generate during retirement.

## 6.6 Per Cent Return Expected

Canadian plan sponsors expect their investment portfolios to generate an annual weighted average return of 6.6 per cent over the next five years, says Greenwich Associates 2006 *Canadian Investment Management Research Study*. When asked to report mean five-year rate-of-return expectations for various asset classes, Canadian plan sponsors cite the following: 8.3 per cent for international (EAFE) equities (down from 8.5 per cent); 8.2 per cent for domestic equities (up from 8.1 per cent in 2005); 7.8 per cent for U.S. equities (down from eight per cent in 2005); 7.0 per cent for hedge funds (down from 7.4 per cent in 2005), and 4.9 per cent for domestic fixed income (down from 5.2 per cent in 2005).

## Employers need to be more flexible: Dodge

Many people want to work past retirement age and barriers preventing that must be removed, Bank of Canada governor David Dodge has claimed.

Speaking on Thursday March 8, 2007 to the Calgary Chamber of Commerce, Dodge stressed the need to recognize changing demographics meant there would be fewer young people in the labor pool to draw upon. "We must therefore learn to concentrate on making the most of our experienced and trained workers," said Dodge. "Many individuals may wish to remain active in the labor well past the conventional retirement age, and to increase our flexibility, it's important that we remove any barriers to their continued participation." He also called on employers to hire more mature workers, "ensuring intellectual capital is not lost".

Dodge has made a number of statements highlighting the nation's pension problems. Most recently, he claimed pension regulation in Canada did not provide appropriate incentives for employers to maintain their defined benefit pension schemes and led to increased deficits.

He added the current regulatory framework actually provided a number of disincentives for firms. "These disincentives, along with recent low long term interest rates, have led to increased solvency deficits among many DB plans," he said.

# Employee Pension Plans

## **Market swings intensify yearning for bonds Ignored asset class can serve as a 'portfolio stabilizer'**

Stomach-churning swings in the equity markets have given a new sense of urgency to finding the right fixed-income fund. The asset class—anchored by core Canadian bond funds and supported by a mix of corporate and international bond funds—was an afterthought during the market's four-year bull run, said Jordan Benincasa, fund analyst at Toronto research firm Morningstar Canada.

As of Jan. 31, 2007 net assets in Canadian bond funds totalled about \$57-billion, about 8 per cent of all assets held in mutual funds. In comparison, equity funds hold \$337-billion, about 51 per cent of all assets. Then, on Tuesday, Feb. 27, Canada's benchmark stock market index suffered its biggest one-day drop in almost three years, falling 2.7 per cent. "The correction was a great wake-up call," Mr. Benincasa said.

That day, all equity fund classes fell while core fixed income was up 0.5 per cent and global fixed-income funds rose 0.7 per cent. An aggressive portfolio holding 30 per cent of its assets in bonds and 70 per cent of its assets in equities would have lost only 1.8 per cent in value on Feb. 27, Mr. Benincasa said. A less aggressive portfolio would have lost even less.

Bond funds are "a portfolio stabilizer".

A slowing economy prompts central banks to, at best, lower interest rates (great for bonds) or, at worst, leave rates alone (which means bonds will post positive returns). So, even though their future return potential is nothing to brag about, bonds serve an important role. Increases in interest rates have immediate negative impacts on bonds but thereafter provides positive future return potential.

There's some agreement, too, that volatile equity markets are here to stay, cementing the need for a good fixed-income portfolio. A 40-per-cent fixed-income weighting is a good recommended diversification in a balanced portfolio. It is better to not try and time the market but keep a fixed allocation of equities and fixed income and then rebalance.

## **Primary Objective Keeping Employees**

Keeping key employees is the primary objective of benefits package, says a study of workplace benefits. This marks the first time in the five years of the study that employee retention was identified as the primary goal. Previously, controlling costs was cited as the primary objective.

## **2007 FEDERAL Budget**

### **1. RRSPs, RPPs & RRIFs**

- the age limit at which Registered Retirement Savings Plans (RRSP) must be converted to a RRIF or used to acquire an annuity will be increased from 69 to 71
- similarly the age at which Employer's Registered Pension Plans (RPP) payments must commence will increase from 69 to 71
- with respect to Registered Retirement Income Funds (RRIF), the requirement to withdraw a specified minimum amount will be waived for 2007 for those who turn 71 in 2007, and for 2007 and 2008 for those who turn 70 in 2007

### **2. Allowing pension income splitting**

Once retired and receiving a pension income, the member can split his or her income with the spouse for tax purposes. It's important to note that the payment of the pension can not be split. The contract must provide the member with the entire amount of his or her pension under the plan but the reporting of income can be split on the income tax returns.

## **DB Plan Worth Saving**

Defined Benefit pension plans are worth saving because they are inherently more efficient in managing longevity risk, force members to save for retirement, and are professionally managed, says Ronald P. O'Hanley, vice-chairman of Mellon Financial Corporation and president and CEO of Mellon Asset Management. Speaking at a Mellon Asset Management Breakfast Presentation, O'Hanley said DB plans need to be retooled for the 21<sup>st</sup> Century so the costs and benefits are made meaningful and transparent to employees.