Assumption Life

Employee Pension Plans

Legislative News Release

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Pensions and Investments Division, Actuarial Department

Marc Robichaud
Director,
Pensions and Investments

Justin Belliveau
Junior Actuary

Rita Poirier
Administrative Assistant

Bernice Gallant
Pensions Representative

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 involving pension plans and investments.
We encourage you to send copies of this news release to your employees.

Actuaries Have Plan to Save DB

The Canadian Institute of Actuaries has developed a 10-point plan to reverse the decline in Defined Benefit pension plans. "Healthy Defined Benefit pension plans are too important to Canadians, our economy, and our future to let them slowly die as a result of misperceptions and false economies," says Normand Gendron, president of the institute. Actions proposed include passing legislation to allow employers to set up employer-funded Pension Security Trusts to hold payments required to fully fund plans. These trusts would allow employers to withdraw these funds when the pension plan assets reach a fully funded level. Both suggestions are designed to create some symmetry in pension funding.

The problems that have beset Defined Benefit pensions in recent years are symptoms of defects in the model itself that require tax and regulatory changes and new pension models, says a C.D. Howe Institute Commentary. 'Ill-Defined Benefits: The Uncertain Present and Brighter Future of Employee Pensions in Canada' says attempts to shore up classic, single-employer, DB pension plans are an inadequate response to Canada's occupational pension problems. The DB sector's immediate problems are the result of changes in the economic environment – in particular, a decline in long-term interest rates – that caused their balance sheets to deteriorate, and of changes in accounting standards to more market-based methods that revealed the under funded state of these plans in stark form. The immediate policy challenge, they say, is to ensure the recovery and/or restructuring of sick plans, and the continued health of sound ones.

Pension Income Splitting FAQ Released

The Canada Revenue Agency has issued a list of frequently asked questions about pension income splitting. As stated in the last legislative news release, beginning with their 2007 income tax returns, Canadian residents will generally be able to allocate up to one-half of their income that qualifies for the existing pension income tax credit to their spouse (or common-law partner) for income 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.

International Equity Most Popular Product

International equity was the most popular product category for global investment manager searches, followed by U.S. equity, says Mercer Investment Consulting data on investment manager search activity for 2006. Among its clients, there were 143 international equity searches accounting for nearly $29 billion, or just over 31 per cent, of total assets placed. There were 76 U.S. equity searches with more than $4 billion in assets placed. There was significant growth in search activity in Asia where searches nearly doubled to 83 in 2006. As well, there was continued growth in search activity for non-traditional asset classes.

The economies of the BRIC countries will affect world markets for the next 10 to 15 years, says Stephane Levy, senior vice-president, head of quantitative business development, HSBC Investments (USA) Inc. The BRIC countries (Brazil, Russia, India, and China) are on track to becoming economic giants. Currently, they have about 42 per cent of the world's population, but produce only 10 per cent of its GDP. So it is easy to see something is going to happen here, said Levy, as there is a huge potential in these countries.

P.O. Box 160/770 Main Street, Moncton, NB E1C 8L1
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Soaring Loonie Dampens Pension Returns

Interest rate jitters and the strengthening Canadian dollar largely erased healthy stock market gains in the second quarter, says a survey by RBC Dexia Investor Services. The loonie's dramatic rise against most major currencies prevented most Canadian pension plans from benefiting from buoyant equity markets outside the country. The MSCI World index's six per cent rise in local currency terms translated into a loss of 1.8 per cent for the quarter, once Canadian exchange rates were taken into account.

Market Corrections Normal

While markets in the short-term have been more turbulent than usual, this volatility reflects the normal functioning of healthy, expanding capital markets, says the president and CEO of the Investment Industry Association of Canada. Commenting on the market decline of the past month, Ian Russell says “Since the beginning of 2003 the average value of Canadian stocks, as reflected in the S&P/TSX index, has more than doubled. Since the end of 2005 they have increased by 30 per cent. The Dow has made similar gains. Those numbers include the corrections of the past month. In short, we're in a period of remarkably strong growth. And no investor should feel unduly concerned about corrections in such a strong market.”

Canadian pension plans are in their best financial position in recent years

The financial health of Canadian pension plans continued to strengthen in the first half of 2007, adding to the improvement made in 2006. The Mercer Pension Health Index is now back to levels not seen since the fall of 2004.

The improvement is due to an increase in long-term interest rates that have lowered the cost of pensions, as well as growth in equity markets worldwide.

Most boomers aren't saving enough for retirement

Only a third of Canadians hoping to retire in 2030 are saving enough to guarantee a comfortable retirement, according to a new study that looked at how baby boomers will likely fare in the decades to come. The findings were not encouraging for many of those born in the early to mid-1960s. People in that age group who are counting on only one kind of savings to fund their retirement will likely have to work past age 65 or increase their savings to avoid financial hardship.

The study — which was carried by a research team at the University of Waterloo — found that it tended to take some combination of personal savings, RRSPs, company pensions and home ownership to fill the gap left by the "modest income base" provided by such government retirement plans as the Canada Pension Plan and Old Age Security.

Growing equity in a home is an important retirement savings tool, the authors said. So many boomers will likely need to count on their homes to help fund their retirements, the study's authors recommend that mortgage interest on a principal residence be made tax deductible, as it is in the United States.

"We found that home equity can make a significant contribution to narrowing the gap, provided your home is paid for when you retire," said Steve Bonnar, one of three actuaries who directed the study. "Yet while home equity is important, on its own, it is not enough to close the gap."

The study's findings — that most boomers are off course for a well-funded retirement — are at odds with the perceptions of the boomers themselves.

A survey the actuarial body carried out in April showed that 55 per cent of Canadians aged 40 and over feel confident they'll have enough accumulated to retire comfortably. The actuaries' figures suggest that many Canadians will get a nasty surprise once they leave the workforce.

Pre-retirees believe they will need to make their retirement savings last until an average of age 83, yet estimates today give a healthy 65-year-old man a 24 per cent chance of living to at least 90 and healthy women a 35 per cent chance of living to 90, says a report from the Fidelity Research Institute**.** Over half (53 per cent) of pre-retirees indicated they are concerned about outliving their retirement savings. However, 61 per cent admit they have not made a formal calculation of how much they can afford to spend monthly to keep from doing so.

"There's a message for those in their 20s and 30s," Bonnar said. "That is to think broadly about saving for retirement. You can't start saving too early."

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