

**> Long bond yields on the rise**

The sharp increases in bond yields in recent months may spell the end to a downward trend that started 25 years ago. In the US, treasury bond yields have climbed above 5% for the first time in nearly 5 years while in Canada, yields on 10-year government of Canada bonds have increased about 60 basis points since March.

**WHY PLAN SPONSORS SHOULD CARE**

Higher bond yields translate into higher discount rates. This may provide some relief to DB pension sponsors, both in terms of their funding requirements and the pension costs they show on their income statements. Many plans which had solvency deficits may swing back into a surplus position by year-end. This apparently positive situation may produce a variety of different responses: some sponsors will want to take contribution holidays, some will want to formalize their funding policy to dampen future swings in required contributions and some will see this as an opportunity to terminate their DB plans (see next story for the reason why). Immunization through a fixed income portfolio is another possible action.

FOR MORE INFORMATION, PLEASE CLICK ON THE FOLLOWING LINK:

[The Evolution of the Financial Situation of Pension Plans](#)

**> US Pension Plans being frozen or terminated**

A study by McKinsey & Co. indicates that 3/4<sup>th</sup> of all US corporate DB pension plans may be frozen or terminated within the next 5 years. The study also suggests that an improvement in the funded situation of these plans may actually accelerate this trend. This rather counter-intuitive reaction reflects the fact that some sponsors have been waiting for their plans to return to health before terminating them in order to avoid onerous funding or accounting consequences.

**WHY PLAN SPONSORS SHOULD CARE**

An acceleration of the trend away from DB in the US is bound to have ramifications for Canada. Not only are more Canadian subsidiaries likely to convert to DC, so are the Canadian companies that compete with them.

**> Kerry decision overturned**

The 2006 decision by the Ontario Divisional Court in the Kerry case put into question the right of a plan sponsor to use DB surplus to take contribution holidays for DC accruals in the same plan. It also questioned the ability of plan sponsors to pay certain expenses from a pension plan. The Ontario Court of Appeal overturned that decision. Before employers celebrate, though, note that the decision is subject to appeal to the Supreme Court.

**WHY PLAN SPONSORS SHOULD CARE**

This is an employer-friendly result that removes at least some of the uncertainty surrounding the ability to take contribution holidays in DB-DC plans and to pay expenses.

**> SRI Trend Continues to Grow**

We previously reported a significant rise in Socially Responsible Investing with SRI assets valued at more than \$500 billion (includes US assets). In the latest quarter, the first SRI Exchange Traded Funds (ETFs) were launched in Canada. Also, there are signs the phenomenon is spreading to DC plans.

**WHY PLAN SPONSORS SHOULD CARE**

It is difficult to be neutral about the mushrooming SRI phenomenon. Some will see it as a big step forward in terms of enlightened investing and others as a non-event that is borne of political correctness. Either way, plan sponsors need to take a position. Paradoxically, SRI investments might outperform other investments as more investors jump on the bandwagon and subsequently underperform once they become too popular.

FOR MORE INFORMATION, PLEASE CLICK ON THE FOLLOWING LINK:

[Socially Responsible Investing is Gathering Steam](#)

## > **Maple Bonds flourishing**

Maple bonds are Canadian-pay bonds issued by foreign entities. The removal of the foreign property investment limit in 2005 opened the door for Canadian pension funds to invest in them without crowding out how much such funds can invest in foreign equities. Investment in maple bonds surged in the latest quarter.

### **WHY PLAN SPONSORS SHOULD CARE**

In the ongoing search for alternative investments, maple bonds offer Canadian pension funds diversification and potentially higher yields than Canadian bonds. The other good news is that there is no currency risk.

FOR MORE INFORMATION, PLEASE CLICK ON THE FOLLOWING LINK:

[Large Pension Funds Increasing Foreign Content](#)

## > **FSCO releases a report on DB funding**

The Financial Services Commission of Ontario report showed that the average valuation interest rate assumption had declined from 6.79% to 6.33%. It also showed that 96% of 2005 valuations used the 1994 mortality table compared to only 47% of 2002 valuations.

### **WHY PLAN SPONSORS SHOULD CARE**

Plan sponsors will want to know how the valuations of their DB plans compare to the norm. The decision to be different should be a conscious one. (See the next story.)

## > **Quebec starts prescribing funding valuation assumptions**

In a recent Newsletter, the Régie des rentes du Québec issued specific instructions to actuaries regarding the selection of interest rate assumptions in the valuation of DB pension plans. In particular, the Régie indicates that the valuation interest rate on a going concern basis should be less than 6.75% net of expenses. Actuaries using a valuation interest rate that does not comply with the Régie's instructions will have to justify it to the Régie.

### **WHY PLAN SPONSORS SHOULD CARE**

This may be a new trend in the supervision of pension plans where pension supervisory authorities override the actuary's judgment to prescribe certain key assumptions. This would potentially remove flexibility in the funding of pension plans and impose additional costs upon plan sponsors.

## > **Mandatory Retirement Case Headed to the Supreme Court of Canada**

The Supreme Court of Canada has agreed to hear a case of the New Brunswick Human Rights Commission v. Potash Corporation of Saskatchewan Inc. The hearing is expected to be scheduled in the fall 2007. The case deals with a section of the New Brunswick Human Rights Act that allows an employer to have a mandatory retirement policy if there is a bona fide retirement or benefit/pension plan.

### **WHY PLAN SPONSORS SHOULD CARE**

The court is expected to decide the basis on which benefit/pension plans will be continued for employees older than age 65. The decision could range from having employers extend all coverage beyond age 65 no matter what the cost to being able to terminate benefit or pension contributions based on a reasonable and customary industry standards.

## > **Employees Value Benefit/Wellness Programs**

Monster Canada recently published survey results in which 68% of employee respondents stated that their employer did not offer wellness programs such as fitness/nutritional coaching, gym memberships, training seminars etc., but wished they did. Similarly, the 2007 Sanofi-Aventis 2007 Healthcare Survey showed that 61% of employees said they would rather have their plan than \$20,000 in cash.

### **WHY PLAN SPONSORS SHOULD CARE**

Health benefits and wellness programs are a barometer for employee satisfaction levels. The value employees place on these programs is likely underestimated by many employers when they are assessing recruitment and retention strategies. Such programs can also assist employers in reducing the annual trend increase for health and absenteeism/disability incidence costs.

## > Rules for Dependent Coverage to Change for Quebec Employees

Effective October 1, 2007, the Quebec prescription drug insurance act will be amended to include the following rules for dependent children:

- A parent who participates in a private health plan will be required to provide coverage for a child living with the other parent if the other parent does not have access to private coverage.
- A parent with access to private health coverage who acquires a new spouse who also has access to a private health plan must waive coverage as a dependent under the new spouse's plan and participate in the private health plan to which he or she is already entitled, and must provide coverage for his or her child living with the other parent.
- If both parents are registered under a public drug plan, and the parent with whom the child is living acquires a new spouse who is covered by a private health plan, the new spouse must immediately provide coverage for the parent and the child under his or her private health plan.

### WHY PLAN SPONSORS SHOULD CARE

Employers offering private plan coverage to their employees working in Quebec will have to modify their health insurance administration to comply with the pending amendments. This may add additional liability to employer sponsored private health plans as additional dependents become eligible for coverage under the new guidelines.

## > Elder Care

The needs of various employee groups within your organization are constantly changing. This is particularly true of baby boomers; the oldest of whom have now reached age 60. Many boomers have the dual challenge of caring for children as well as elderly parents. In a recent report, Statistics Canada reported that in 2002, 1.7 million adults aged 45 to 64 were providing informal care to 2.3 million seniors who had some form of physical or cognitive limitation. 70% of these caregivers were in the workforce.

### WHY PLAN SPONSORS SHOULD CARE

Many employees are losing time at work to attend to the needs of aging parents. While most employees do not expect their employer to provide eldercare as a benefit, both the plan sponsor and the employee could benefit from better co-ordination of existing resources. For example, an Employee and Family Assistance Plan usually already includes help in finding appropriate caregivers; coverage of seniors could also be considered.