Financial Executives International

Gauging the Path of Private Canadian Pensions

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CGA CERTIFIED GENERAL ACCOUNTANTS

Summary of Main Assumptions

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Table 1 (Risk Free Basis)

	December 31, 2004	December 31, 2008
Interest Rate Determined from yield on long-term Government of Canada bonds	5.00%	3.50%
Without indexation of benefits	0.00%	0.00%
With indexation of benefits Represents blended rate of pre-retirement indexation (based on wage increases) and post-retirement indexation (based on CPI increases)	3.25%	2.00%
Mortality Table	UP94G Uninsured Pensioner Mortality Table 1994 Generational	UP94G Uninsured Pensioner Mortality Table 1994 Generational
Retirement Age	Plan's own assumption	Plan's own assumption

Overall Funding Position of Canadian DB Plans

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Table 2 - Results without Indexation of benefits

Status	Number of Plans		Plan assets market value ($Bn)		Plan liabilities ($Bn)		Surplus/ (Deficit) ($Bn)		Funding Ratio	
	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008
Plans with deficit	460	696	45.5	239.3	54.1	315.4	-8.6	-76.1	84%	76%
Plans with surplus	324	65	177.8	10.1	145.6	8.7	32.2	1.4	122%	116%
Total	**784**	**761**	**223.3**	**249.4**	**199.7**	**324.1**	**23.6**	**-74.7**	**112%**	**77%**

Overall Funding Position of Canadian DB Plans

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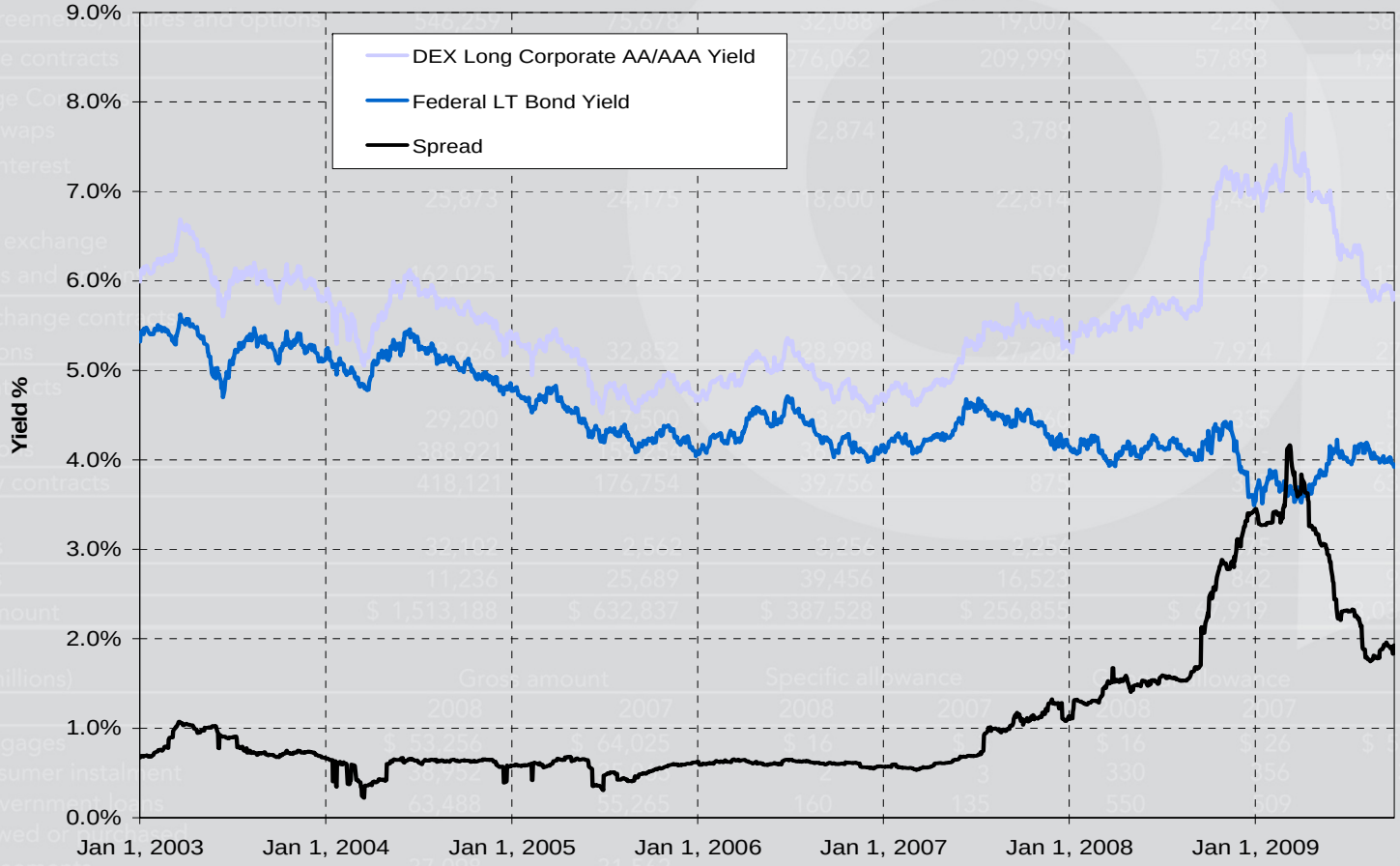
Table 3 - Results with Indexation of benefits

Status	Number of Plans		Plan assets market value ($Bn)		Plan liabilities ($Bn)		Surplus/ (Deficit) ($Bn)		Funding Ratio	
	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008
Plans with deficit	751	735	220.6	247.8	310.5	436.7	-89.9	-188.9	71%	57%
Plans with surplus	33	26	2.7	1.6	2.2	1.4	0.5	0.2	123%	118%
Total	**784**	**761**	**223.3**	**249.4**	**312.7**	**438.1**	**-89.4**	**-188.7**	**71%**	**57%**

Canadian Bond Yields



Solvency Ratios

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Table 4 – Solvency Deficit

	2006	2007	2008
Proportion of Plans in Solvency Deficit	66%	71%	92%
Total Assets/Total Liabilities (All Plans)	103%	104%	82%
Total Assets/Total Liabilities (Plans in Deficit)	89%	92%	81%

Effect of Crisis on Canadian DB Pension Plans

- **Direct Cost Reduction**
- **Liability – Driven Investing**
- **Increased Focus on Governance**
- **Adverse Financial Effects on Employees**

Current State of Canadian DC Pension Plans

- **Private Sector DC Plan Membership has doubled between 1991 and 2006**
- **No significant change in Public Sector**
- **DC Plan Growth mainly from Active Plan Membership**

Current State of Canadian DC Pension Plans

- **Risk Management**
- **Control**
- **Flexibility**
- **Employee Empowerment**
- **Employee Incentives**

Action Plan

- Design of Fair, Sustainable, Simple & Efficient Pension System
- Pension Benefits = Deferred Compensation
- Adoption of Hybrid Models
- Principle of “One Law, One Regulator”
- Universal & Compulsory Coverage
- Consolidation of Private Sector RPP Functions
- Harmonization of Tax Treatments

Guiding Principles

- **No Player Too Big to Fail**
- **Nationalize**
- **Avoid Failed Theories**
- **Confront Asymmetrical Pay Structures**
- **Self-Sufficient & Sustainable Pension Plans**

Context

- **Challenges of "New Normal" World & Aging Population**
- **Holistic Approach versus Piecemeal Measures**
- **Innovation versus Old Dogma**
- **Coordinated Pan-Canadian Effort**
- **Opportunity to Underwrite**

Thank you!

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