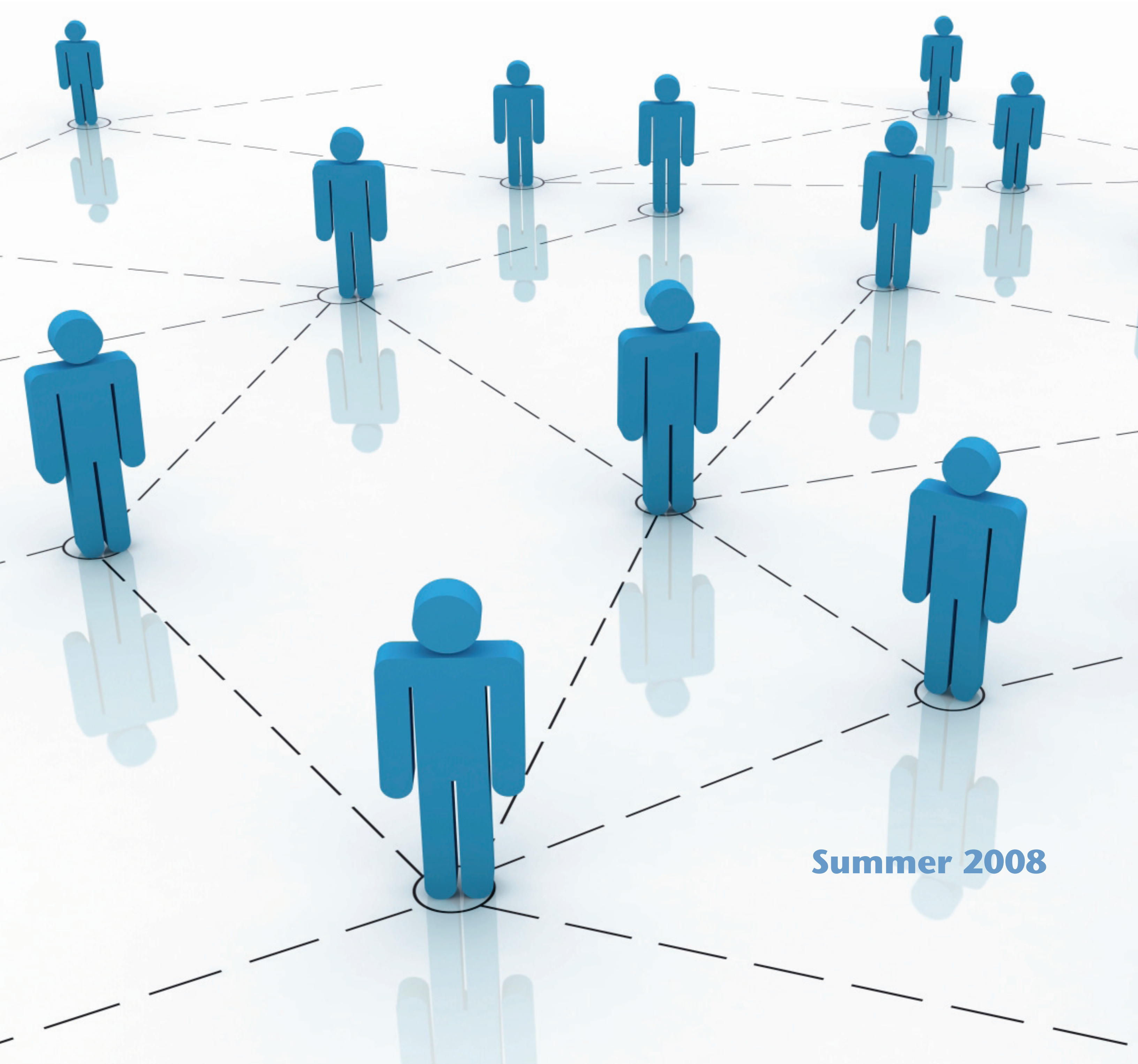
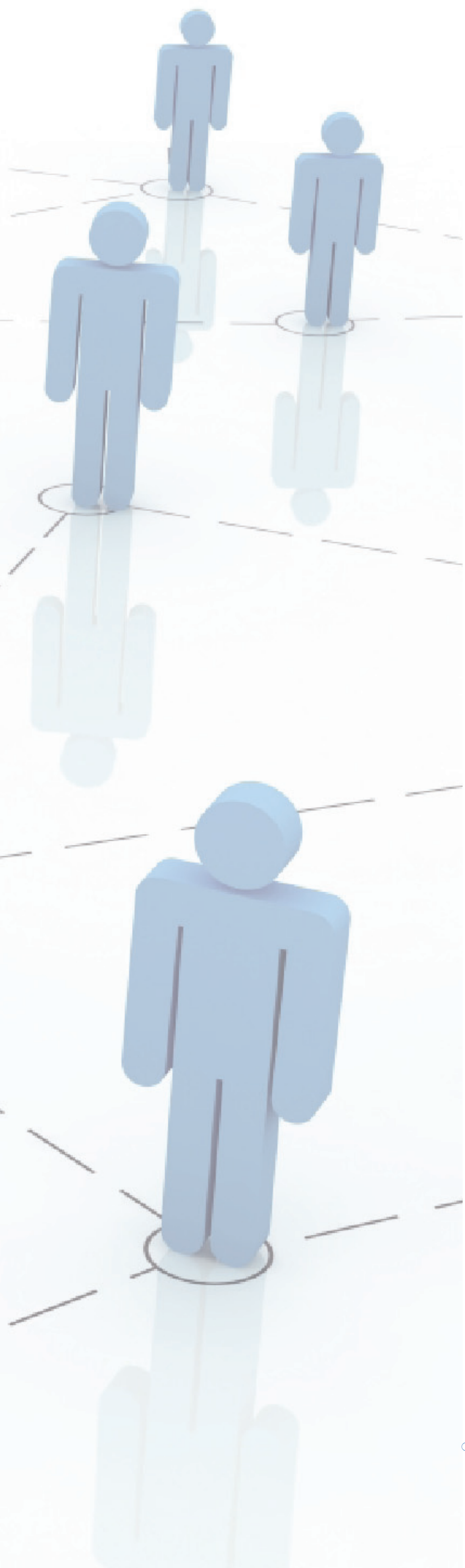
Canadian Pension Plan Survey

Co-sponsored by Aon Consulting & FEI Canada



Summer 2008



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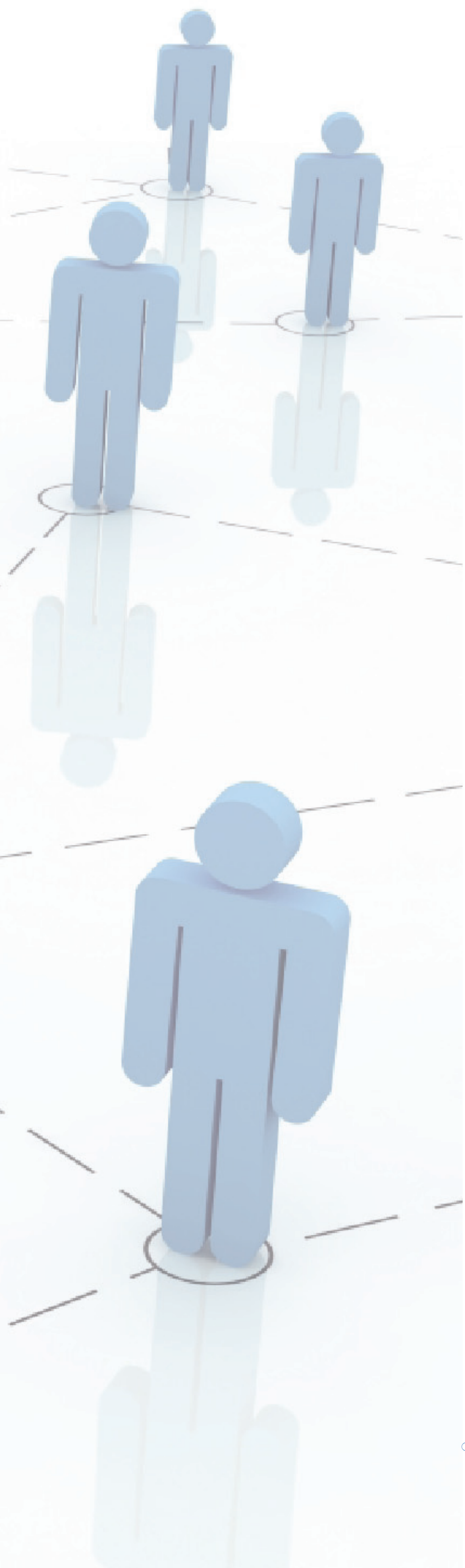


Introduction

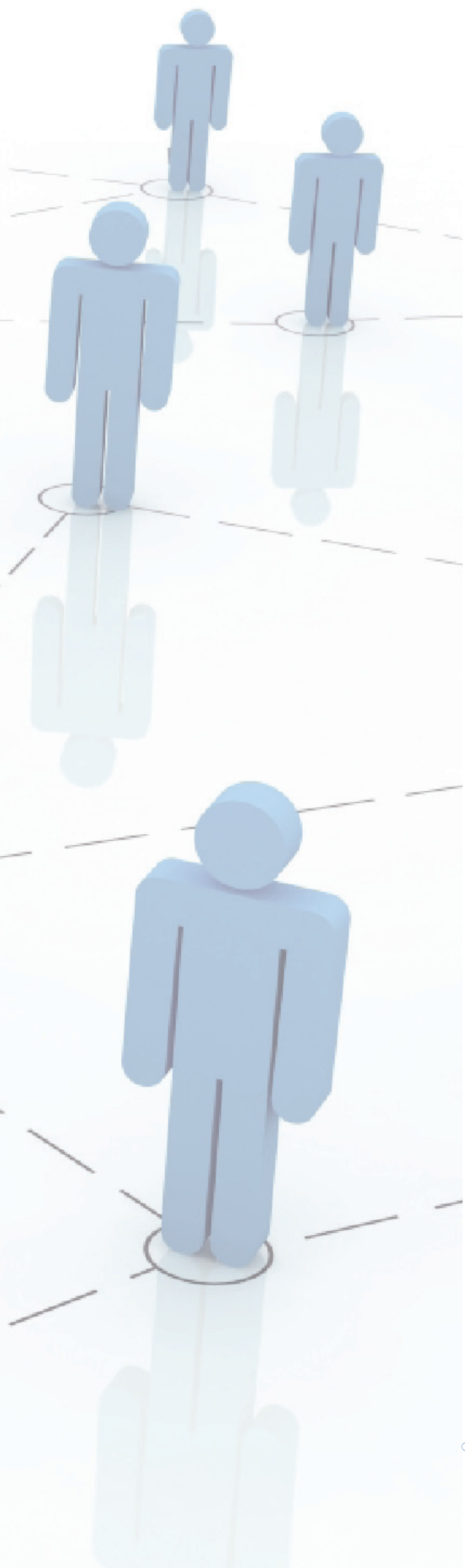
Canada's estimated $1.14 trillion pension plan marketplace appears to have entered a period of consolidation following the wave of conversions from defined benefit to defined contribution plans that took place since the early 2000s. A stabilizing within the ranks of both federal and provincially regulated defined benefit pension plans seems to be occurring, according to the findings of the Canadian Pension Plan Survey, sponsored by the FEI Canada and Aon Consulting.

Almost three-quarters of the survey respondents sponsoring defined benefit (DB) pension plans said they do not plan to convert to a defined contribution (DC) plan in the future. The prime reason given by respondents is that they have a "DB philosophy". Almost a third of the respondents also believed that having a DB plan provides them with a competitive edge in attracting and retaining staff.

Skilled labour shortages, plan governance and the need for regulatory change featured strongly in the survey's overall results, with many employers/ plan-sponsors calling for an updating of legislation across the provinces to reflect current market developments as well as recent changes to federal legislation such as the Income Tax Act (ITA). Over two-thirds of the survey respondents are unsatisfied with the current pension regulatory environment.

Notably, nearly 90% of the survey respondents reported experiencing a shortage in skilled labour which has forced many companies to look to phased retirement programs to keep employees on the job beyond the standard retirement age. While only 4% of the employers surveyed currently have some form of phased retirement arrangement in place, almost one in three companies said they will likely implement such a program within the next three years. Effective from the beginning of 2008, the ITA allows employees to engage in part-time salaried work and to continue accruing pension benefits whilst receiving up to 60% of their full pensions, subject to certain conditions.. However, several of the provincial pension acts as they currently exist restrict employers from implementing phased retirement programs. Nonetheless, most of the survey respondents (83%) reported they would permit their employees to benefit from the phased retirement changes to the ITA.

One of the challenges of the pension environment in Canada is that the primary alternatives - DB and DC plans – represent two extremes on the risk sharing spectrum. A significant number of the survey's respondents (45.1%) indicated, however, that they are at least somewhat interested in considering an alternative retirement arrangement that better balances the risk characteristics of DB and DC plans.



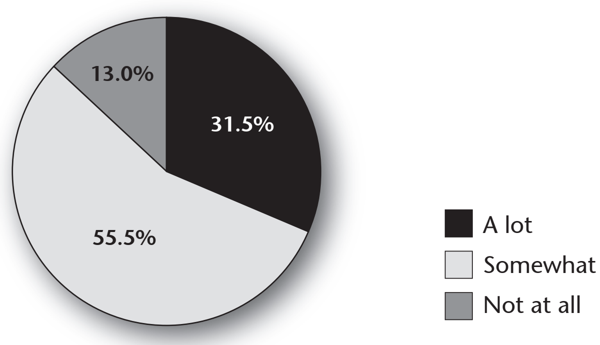
The Canadian Pension Plan Survey, undertaken in 2007, draws on the responses of 61 plan-sponsors from across the country, representing 63 DB plans and 58 DC plans. Over half of the participating employers/plan-sponsors have dealings with at least one collective bargaining group (trade union) – see Appendix A for further details.

General Trends and Priorities

A growing shortage of skilled workers has become at least somewhat of a challenge for 87% of the survey's respondents. Of these, 71.7% of employers have taken some form of action over the past three years. Of those employers who have not yet responded, a full two-thirds expected to take action within the next three years. Actions taken to address the shortage of skilled workers include:

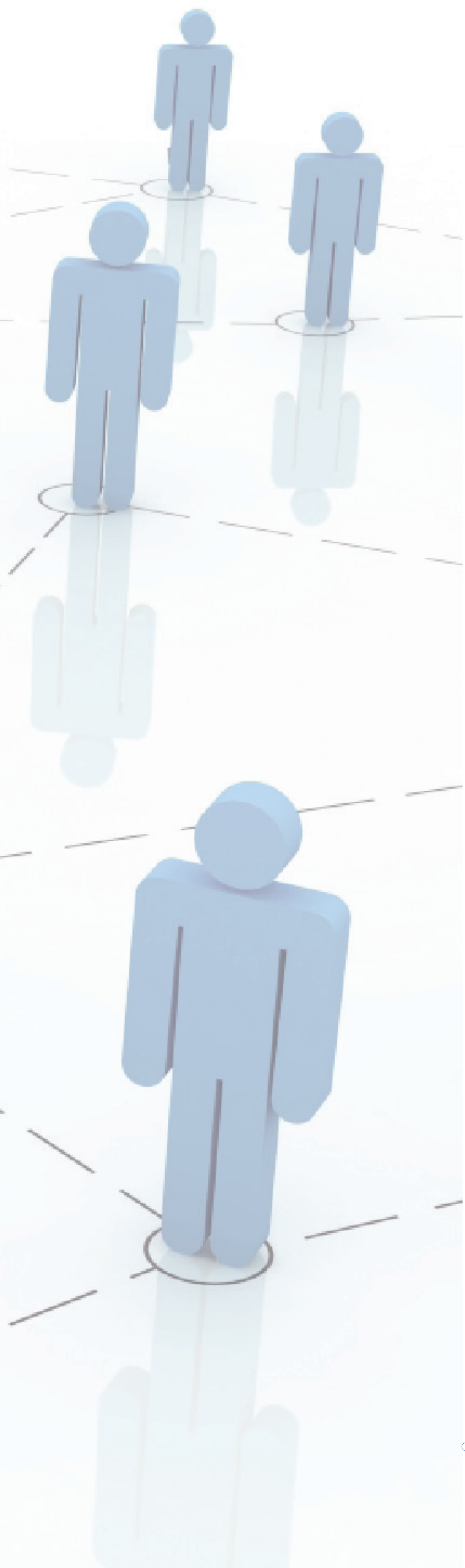
- Improving recruitment strategies;
- Improving work environment;
- Reviewing compensation and benefits programs for competitiveness; and
- Adding new rewards programs where appropriate (i.e., expanded training programs).

Shortages of skilled workers are a present or an imminent problem for our organization.



Regarding the performance of pension programs, 84.9% of respondents indicated that their pension arrangements are at least somewhat properly aligned with their recruitment and retention needs. Of the 58.9% who have not taken action to address misalignment in their pension programs, 48.1% expected to take action in the next three years.

Notably, more than two-thirds (67.9%) of the respondents indicated that they were at least somewhat unsatisfied with the pension regulatory environment.



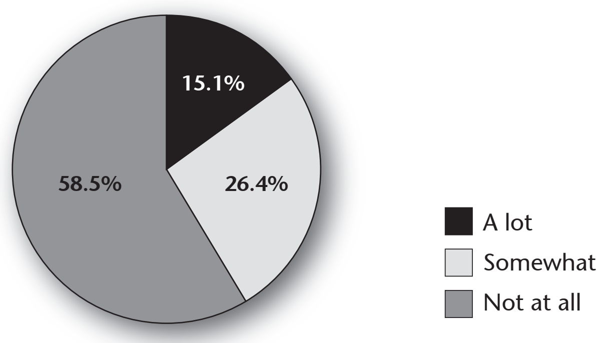
Common complaints include:

- Rules too complicated;
- Lack of uniformity across the country;
- Too much uncertainty regarding legal risks;
- Solvency funding rules; and
- ITA maximum funding limits are too low.

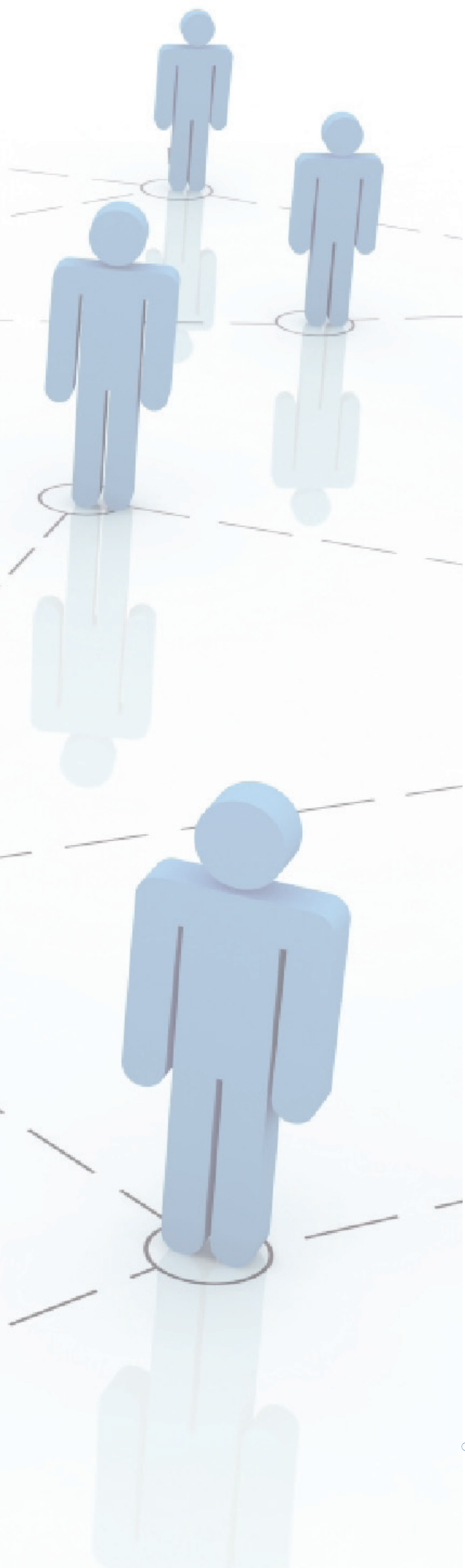
The majority of employers surveyed suggested that the rising cost of retiree benefits have not been a problem or that they have effectively dealt with it. Fully 58.5% of respondents indicated it is not a problem and only 26.4% indicated it is only somewhat of a problem. Organizations feeling the most vulnerable on this issue appear to be those providing benefits under a collective bargaining agreement (negotiated by trade union). Where organizations have taken action, they appear to have either:

- Eliminated coverage for future retirees; or
- Implemented cost sharing mechanisms, such as having employees pay for part of the cost of the coverage or introduced a health spending account.

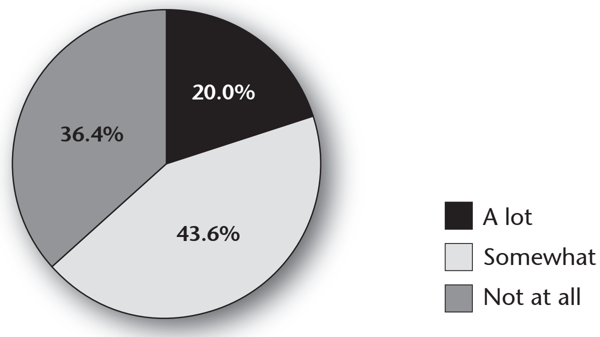
The rising costs of post-retirement benefits other than pensions are a present or imminent problem for my organization.



The growth in DC retirement programs over recent years has resulted in a dramatic increase in the number of employers providing employees with some form of retirement planning assistance. This is noted by the 63.6% of respondents who provide at least some retirement or financial planning education to their employees. Of those that do, 44.7% have incorporated such education in the past three years. Of those organizations not providing education, 38.1% expected to take action in the next three years. Only 5.3% of respondents are not at all happy with the effectiveness of their education programs.



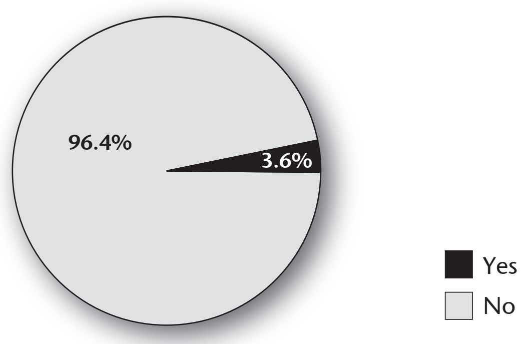
We provide retirement or financial planning education to our employees.

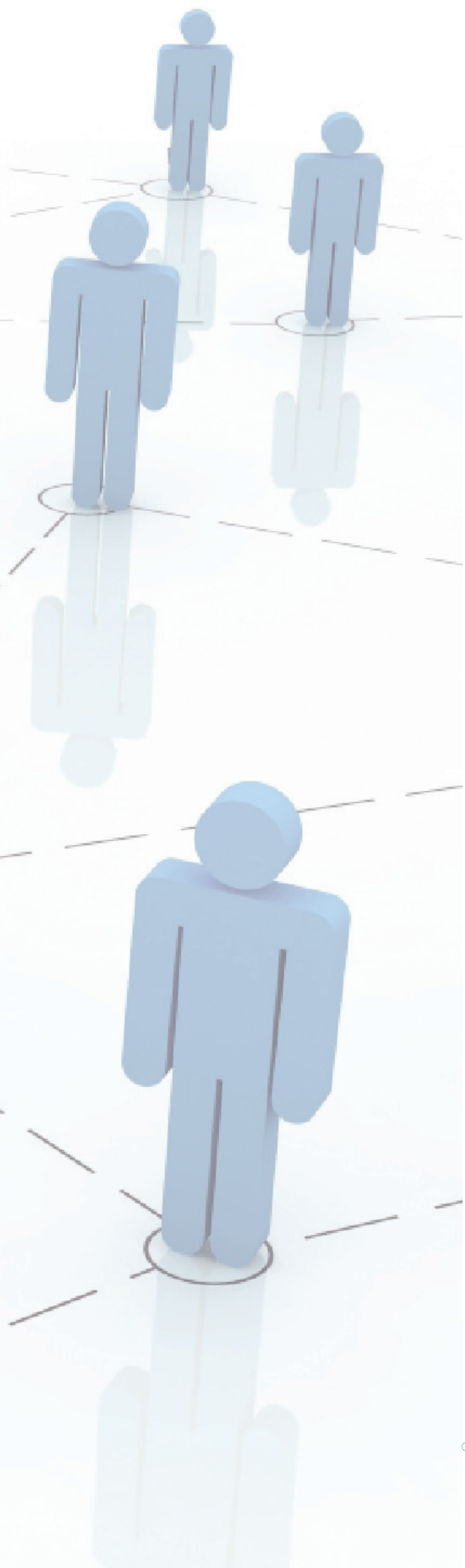


A trend related to both the skilled labour shortage as well as the aging "baby boomer" generation (those born between 1947 and 1966, of which the first generation is set to enter retirement) is an increased interest in understanding how phased retirement arrangements work. Changes to the ITA that took effect from the beginning of 2008 have given employers with DB pension plans more flexibility with respect to how they can implement phased retirement strategies.

However, the survey results suggest that few organizations have embraced phased retirement programs – only 3.6% of respondents have thus far introduced a phased retirement program. Of those that have not, 31.8% indicated that they plan to introduce such a program in the next three years. Furthermore, when asked about the recent ITA changes, only 16.7% of respondents had no interest in allowing employees to benefit from the changes introduced. Notably, the new ITA rules are in conflict with provincial pension legislation in a number of jurisdictions and these conflicts will have to be resolved before employers can take full advantage of the new ITA rules.

We have a program to allow employees to take phased retirement.





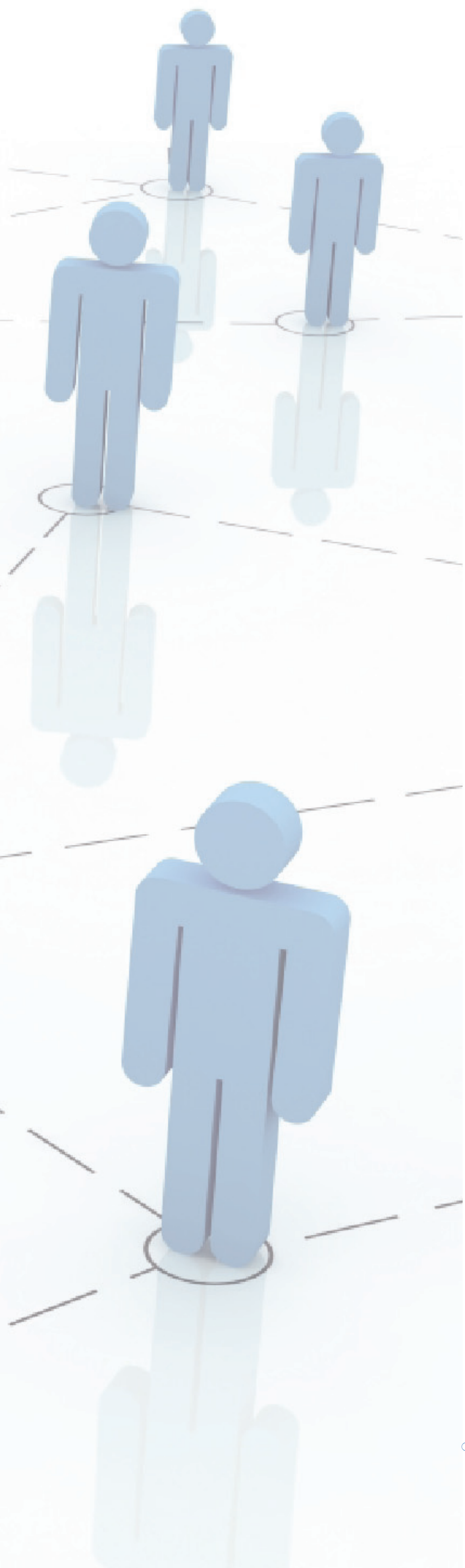
Defined Benefit (DB) Highlights

Virtually all of the respondent DB plans can be considered as "final average" (final being a fixed earnings period on which pensionable benefits are calculated) or "best average" (best average earnings period) plans. The most common averaging period for pensionable earnings is five years. The following table summarizes key provisions of these plans.

Pension Plan Provision	Survey Finding
Eligibility	• At hire for the vast majority of respondents. • The next most common condition for eligibility was a one-year waiting period
Employee required contributions	• 57.6% of respondents required employee contributions • The median formula was 5.0% of earnings up to the year's maximum pensionable earnings (YMPE) and 6.6% above
Other employee contributions	• 29.6% of respondents provided a voluntary contribution provision • 11.1% of the respondents offered a flex account (a flexible pension plan) that could be used to upgrade ancillary benefits
Pensionable earnings	• 46.4% of respondents included all or part of bonus as part of pensionable earnings • 32.1% of respondents included overtime
Retirement benefit formula	• The median benefit formula was 1.3% of earnings up to the YMPE and 2.0% of earnings above the YMPE

Early retirement	• The median conditions for unreduced early retirement were either:
	    • age 60 (with or without accompanying service conditions), or
	    • 85 points of age and service
	• The median reduction prior to eligibility for unreduced retirement was 4.0% per year early

Forms of payment for single members	• The median provision was life with a 5-year guarantee



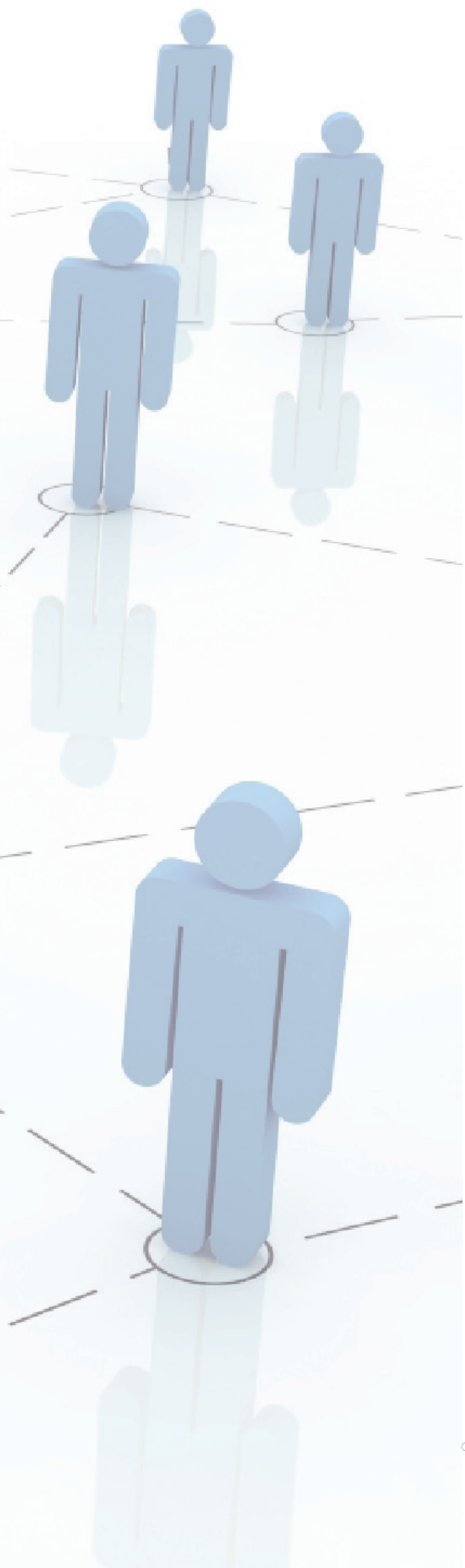
Pension Plan Provision	Survey Finding
Forms of payment for members with a spouse	• The median provision for a joint and survivor form was 60%. When a guarantee was added, the median guarantee was 5 years • The median provision for a pure guarantee form was life with a 10-year guarantee
Post-retirement adjustments	• 67.9% of respondents provided inflation adjustments to pensioners, where 60% of the increases were contractual and 40% were ad hoc • The median adjustment was 75% of CPI

The following table provides the average asset mix for the listed asset classes. As a result, the total does not add up to 100%.

Asset Class	Median Distribution (% of total assets)
Cash & short term	3.0%
Canadian fixed income	34.3%
Foreign fixed income	0.0%
Canadian equities	30.7%
Foreign equities	26.0%
Real estate	3.0%
Hedge funds	0.0%
Private equity	0.0%
Infrastructure	0.0%
Other	0.0%

In response to the question of a passive or indexed fund approach, approximately one-third of respondents used passive investment approaches with respect to at least one of the following asset classes: Canadian equities, Canadian fixed income, foreign equities or real estate. Only 25% of respondents planned on making changes to their plan's asset mix. The most common changes include:

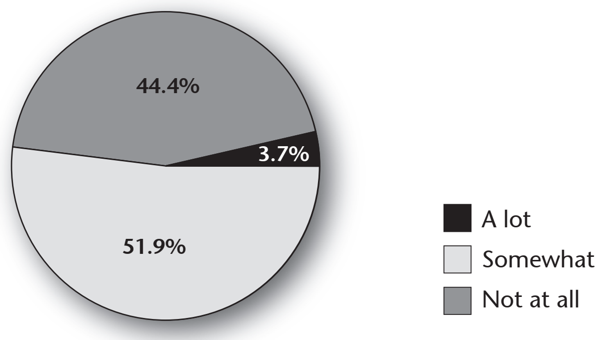
- Reduce cash;
- Move to specialty asset class mandates; and
- Increase foreign equity and decrease Canadian equity.



Despite the elimination of the foreign content limit, 60.7% of the respondents indicated no resulting change in their investment strategy. Virtually all of the 39.3% of respondents who introduced a change in strategy did so by increasing foreign equity holdings. Only one respondent indicated an increase in foreign fixed income holdings.

The survey results also showed little movement in the area of alternative investments (i.e., hedge funds, private equity and infrastructure). Although 55.6% of respondents indicated some desire to increase exposure in this area, the vast majority have not taken any action in the past three years and do not expect to do so in the next three years.

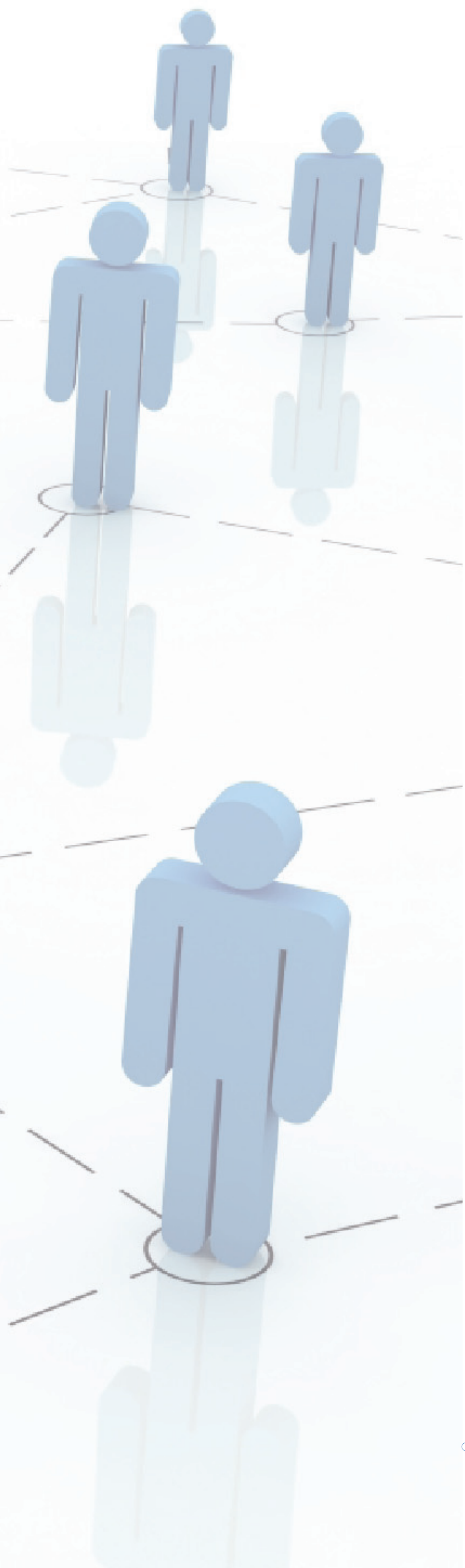
We should increase our exposure to alternative investments.



The following table indicates the average level of fees/expenses for 2006 in the categories listed. Note: The total is the median of total expenses, not the sum of the median component expenses.

2006 Plan Fees/Expenses	Median % of Assets
Investment management	0.38%
Records administration & custodial	0.12%
Consulting, legal & other	0.32%
Total Plan Fees/Expenses	0.72%

Most of the survey respondents (74.1%) with DB plans indicated that they do not expect to convert to DC plans. The primary reason - given by 60% of these respondents - is that they have a DB philosophy. However, 30% indicated they need a DB plan to attract and retain employees, while 40% believed that a DC plan would be inconsistent with their marketplace. The rest of respondents were split between those who expected to convert (7.4%) and those who do not know whether they will convert (18.5%).



Defined Contribution (DC) Highlights

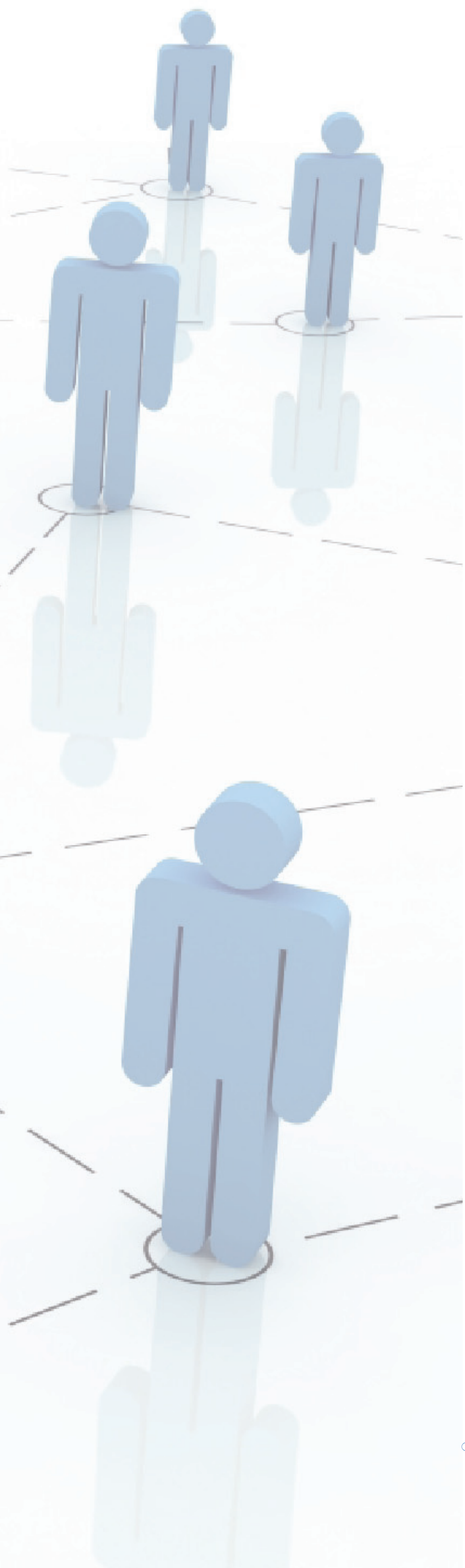
Most of the respondent DC plans (82.4%) are not the result of a DB conversion. Of the ones that are the result of a DB conversion, the year of conversion ranged from 1992 to 2003, the average year being 2001.

The following table summarizes the contribution rules of DC plans:

Type of Contribution	Range (% of earnings)	Median (% of earnings)
Basic employer contribution (not requiring employee contribution)	0-15%	4.0%
Mandatory employee contributions	1-8%	4.0%
Matching employer contribution on mandatory employee contribution	1-10%	4.0%
Maximum optional employee contribution attracting matching employer contributions	3-6%	5.0%
Matching employer contribution if member makes maximum optional employee contribution that will attract a match	2-6%	3.0%
Maximum voluntary employee contribution not attracting matching employer contributions	5-14%	8.8%
Total maximum employer contribution	2-15%	5.5%

As to what is included in covered earnings, 41.4% included at least some portion of bonus or incentive pay while 31% included overtime and 10.7% of plans included taxable benefits.

For a significant majority of the DC plans (84.8%), members direct the investment of all contributions. The following table profiles the investment options being offered in these cases:

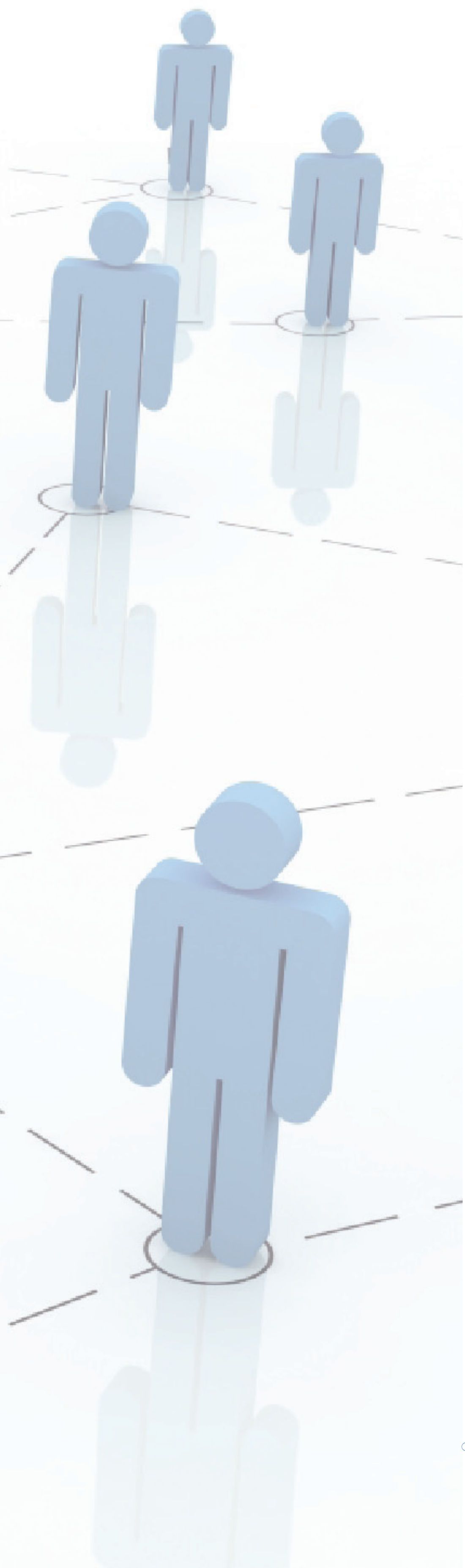


Investment Option	Percentage offering this option	Median no. of options	Median % of total assets invested in this option	Median fee level (% assets)
Money market	85.2%	1	3.8%	0.4%
Guaranteed Investment Certificates (GICs)	79.2%	1	4.6%	0.0%
Fixed income	84.0%	2	8.0%	0.9%
Canadian equity	92.6%	3	30.0%	1.3%
US equity	78.3%	2	3.9%	1.2%
International equity	88.5%	3	3.8%	1.4%
Balanced	88.9%	3	28.0%	1.3%
Lifecycle funds(1)	22.2%	5	65.2%	1.3%
Retirement date funds	6.3%	3	n/a	n/a

(1) Series of balanced funds covering a range of risk profiles

Vigorous discussion has emerged in the pension marketplace over recent years around how to effectively deal with member disengagement, in other words, when plan members do not make an investment election. In such situations, members' investments are placed in a "default option" fund, which traditionally have been money market or fixed income funds. However, the most common default option among the survey respondents was a balanced fund (44.5%), followed by a money market fund (22.2%). The remaining respondents indicated a variety of alternatives such as: daily interest, GICs and a bond fund.

Alarmingly, one in five DC plan-sponsors participating in the survey admitted that they have not been active in governance and either do not comply with the Cap Guidelines (the DC plan market relies on voluntary governance guidelines established under the Guidelines for Capital Accumulation Plans (Cap Guidelines) which were introduced by the Joint Forum of Financial Market Regulators in 2004) or have not checked whether they do. The following table summarizes respondents' level of DC plan governance:

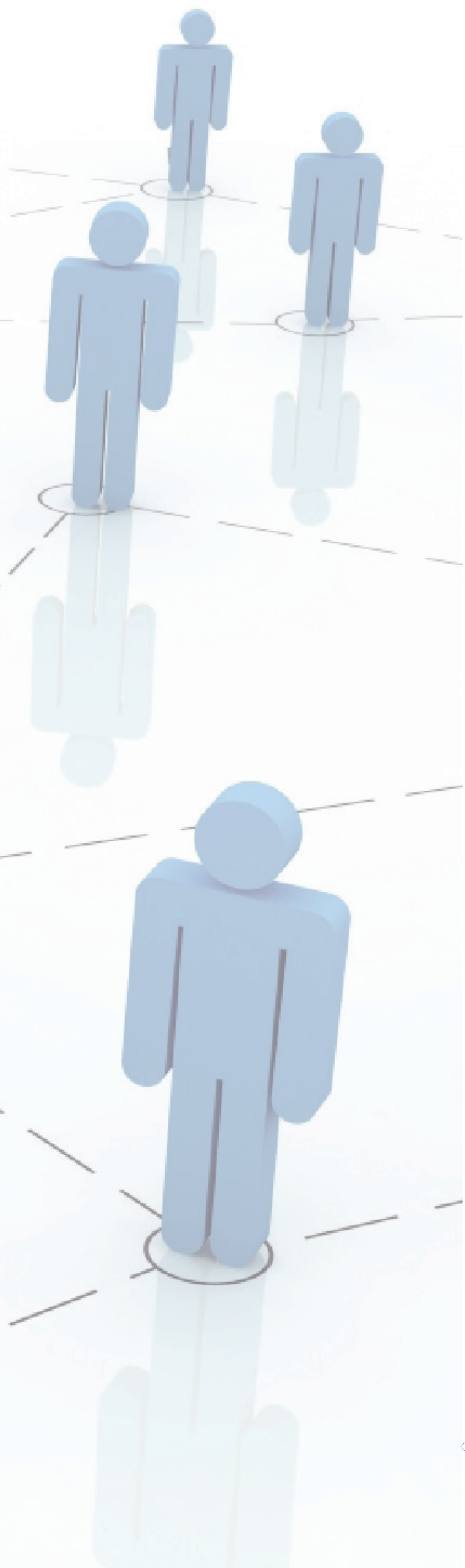


Level of DC Governance	% of Respondents agreeing
We have not been active in this area and either do not comply with CAP guidelines or have not checked whether we do	20.0%
We have allocated roles and responsibilities and know we are CAP-compliant, but we don't have a documented process for monitoring those responsibilities	16.7%
We have allocated roles and responsibilities, know we are CAP-compliant, and have a documented process for monitoring plan investments, but not for other responsibilities	30.0%
We have allocated roles and responsibilities, know we are CAP-compliant, and have a documented process for monitoring all allocated responsibilities	33.3%

The following table summarizes respondents' level of concern regarding specific governance issues:

Governance Issue	% of Respondents at least somewhat concerned
Members' ability to manage their plan decisions while employed	89.7%
Members' ability to manage their funds after they leave employment	55.2%
Plan governance structure	55.2%
Conflict of interest among consultants or service providers	37.9%

Another topical issue for DC plans is participation rates. The majority of respondents (64.5%) have DC plans with automatic enrolment of plan members.

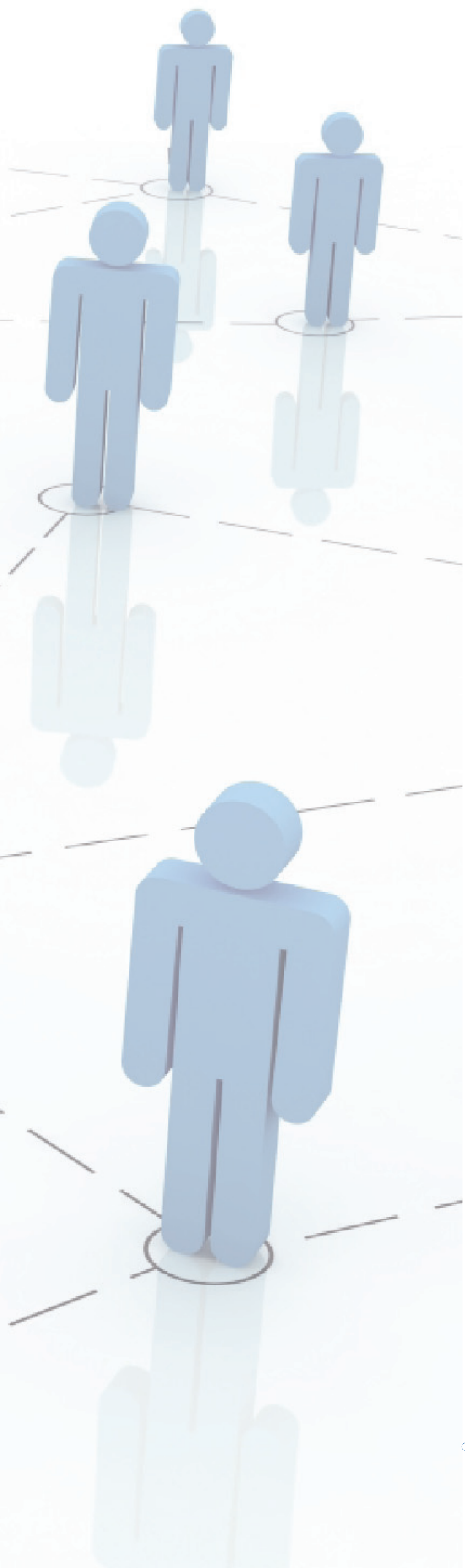


Supplemental Executive Retirement Plans (SERPs) Highlights

This section relates to supplemental retirement arrangements that provide benefits in excess of ITA limits or otherwise in excess of the benefits of the basic retirement plan provided to all employees.

The following table highlights some of the more general features of the survey participants' SERP arrangements:

SERP Provision	Survey Results
Eligibility	• 48.1% of respondents covered everyone affected by the ITA limitations on the base plan • The balance restricted SERP participation to some segment of senior executives
SERP benefit level	• 84.0% of respondents provide the same benefits that the base plan would provide, but without the restrictions of the ITA limits • 16.0% of respondents provide an enhanced level of benefits for specified individuals
Definition of covered earnings for SERP purposes	• 65.0% of respondents included bonuses, the median level being 100% • 20.0% included other incentive compensation • 15.0% included taxable benefits
Vesting rules	• 85.7% of respondents provide the same conditions for the SERP benefit as for the base plan benefit • 14.3% of respondents have vesting rules that are more restrictive for the SERP benefit than for the base plan benefit
Securitization	• 36.0% of respondents fund at least some portion of their SERP arrangements with conventional funding investments • 20.0% of respondents secure their SERP obligations through a letter of credit • For 44.0% of respondents, their SERP benefits are completely unsecured



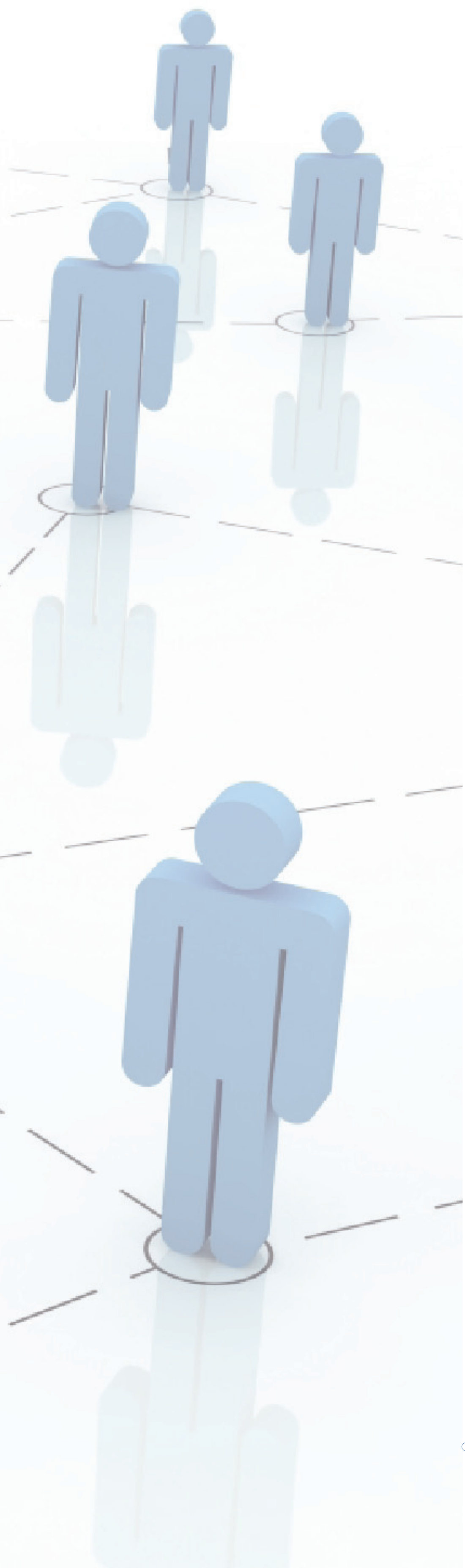
The following table highlights some of the features specific to survey participants' DB SERP arrangements:

DB SERP Provision	Survey Results
Recognition of past service	• 68.4% of respondents recognize past service fully on plan entry • 26.3% don't recognize past service at all • 5.3% only recognized past service that accrues after a specific date
Options provided on termination	• 55.2% provide a deferred pension • 37.9% provide a lump sum commutation option (net present value) with almost all respondents doing so without providing a gross-up for taxes • 6.9% provide no termination benefit under the SERP
Options provided on retirement	• 75.0% provide a lifetime pension • 25.0% provide a lump sum commutation

The following table highlights some of the features specific to survey participants' DC SERP arrangements:

DC SERP Provision	Survey Results
Method for crediting rate of return on DC SERP	• The most common method reported by respondents was using the return on the base plan fund or funds, followed by individual returns • None of the respondents reported using an external fund or index not related to the base plan
Options provided on retirement	• The most common method reported by respondents was to provide a lump sum payment

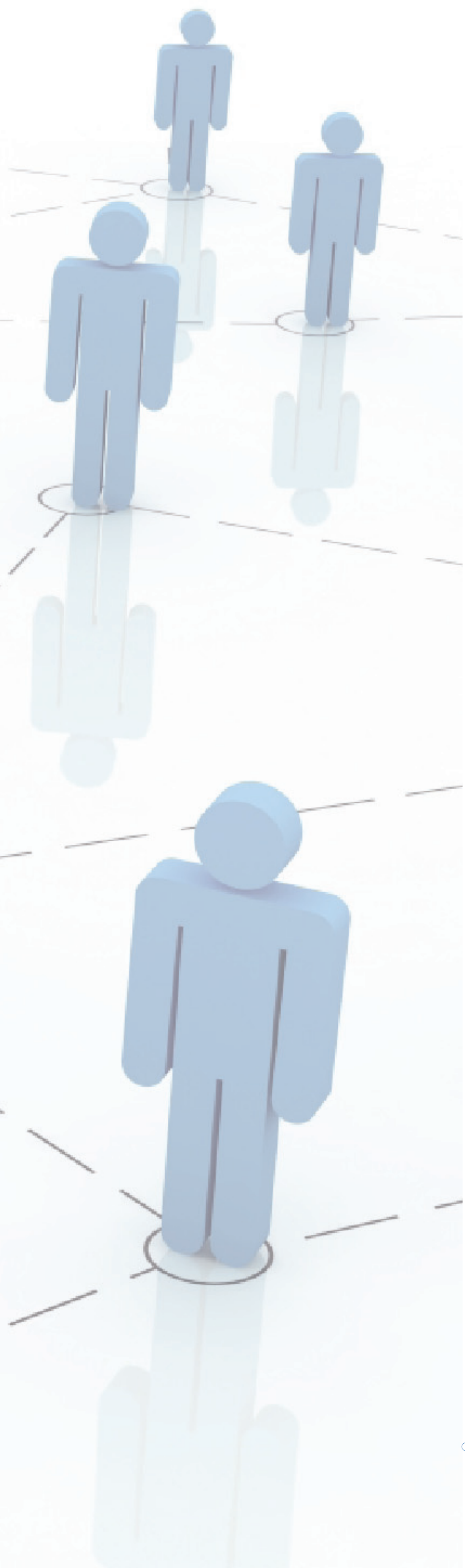
Regarding changes to SERP arrangements, 13.0% of respondents indicated they have made changes to their SERP arrangements in the past three years, with only 13.6% looking to make changes in the next three years. The two most common changes being contemplated were securing the SERP with a letter of credit and moving from a DB SERP to a DC SERP for all new hires.



Appendix A: Participants

The following organizations provided information:

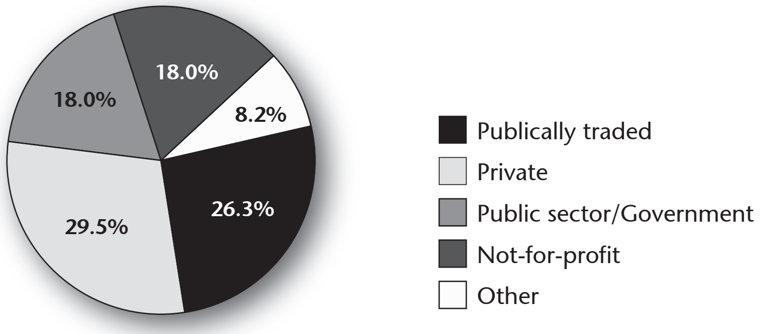
Air Liquide Canada Inc.
Alberta-Pacific Forest Industries Inc
Algoma Central Corporation
AltaLink Management Ltd.
Apotex Inc.
Bank of Canada
Bank of Nova Scotia
BBM CANADA
British Columbia Securities Commission
BCAA
Big White Ski Resort
Boutique Jacob
CAE
Canadian Broadcasting Corporation
Canadian Council for Donation & Transplantation
CCSI Technology Solutions, Corp.
Canadian Forces Personnel Support Agency
Capital Pension Plan
Canadian Institute of Chartered Accountants
City of Calgary
CMA Canada (Saskatchewan)
Decision Dynamics Technology Ltd.
E&E Seegmiller Limited
Export Development Canada
FortisBC
Franklin Templeton Investments
Green Shield Canada
Honda Canada Inc.
Impax Energy Services Income Trust
International Water Guard Industries Inc.
Investment Dealers Association of Canada
La Capitale
Metro Waste Paper Recovery Inc.
Mitsubishi Canada Limited
Morneau Sobeco
Neptune Bulk Terminals (Canada) Ltd.
Nortel Networks Limited
Ontario Power Authority
Ottawa International Airport Authority
Pacific Blue Cross
Pelican International
Progressive Solutions Inc.
Rice Financial Group Inc.
Russell Investments
SaskTel
Saxon Energy Services Inc.
School District No. 43 (Coquitlam)
Shepherd Village
Sherritt International Corporation
Simcoe County
St Joseph
Stewart McKelvey
TELUS
The BC Bearing Group
The Calgary Airport Authority
The Canadian Institute of Chartered Business Valuators
The Hospital for Sick Children
University of British Columbia
Volvo Financial Services
West Coast Reduction Ltd.
WorkSafeBC



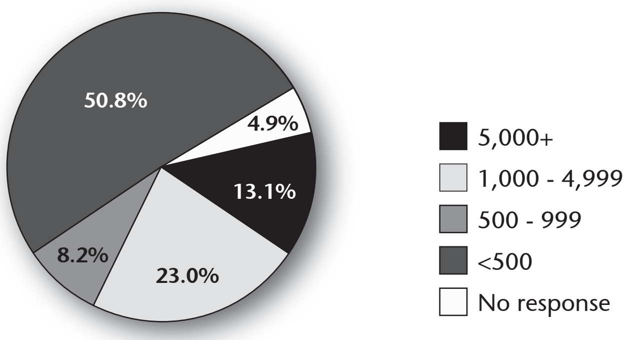
Participant Demographics:

Details on the sixty-one organizations that provided information to the Survey on Pension Plans in Canada follow:

The nature of the ownership of the participant organizations was as follows:

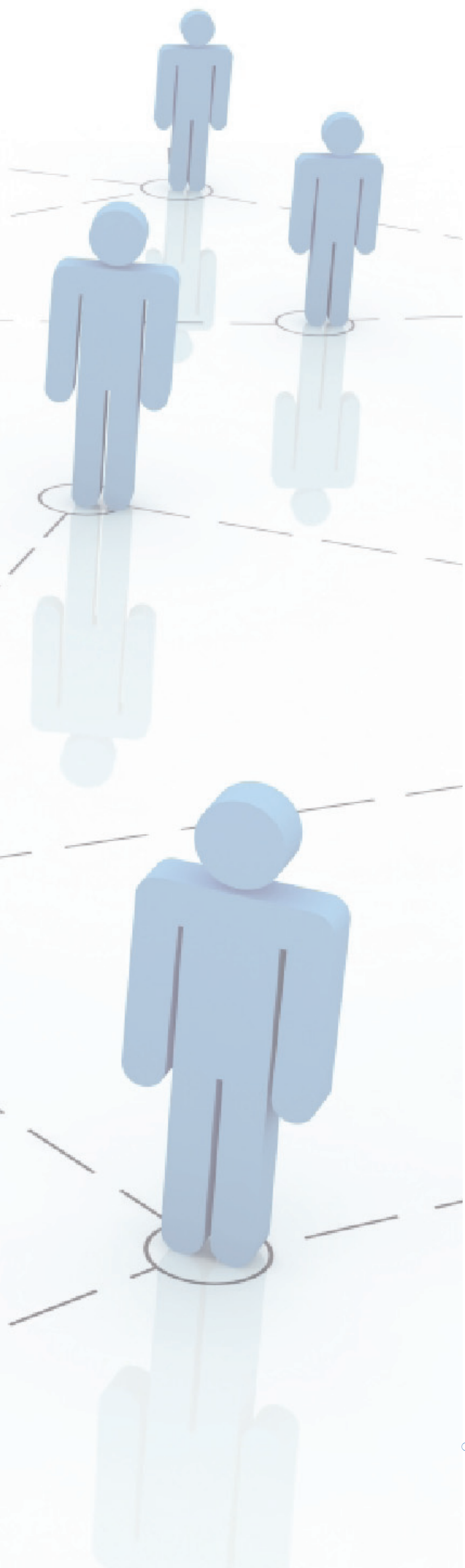


The size of the participating organizations by number of full-time employees was as follows:



The numbers of pension plans sponsored by the participating organizations was as follows:

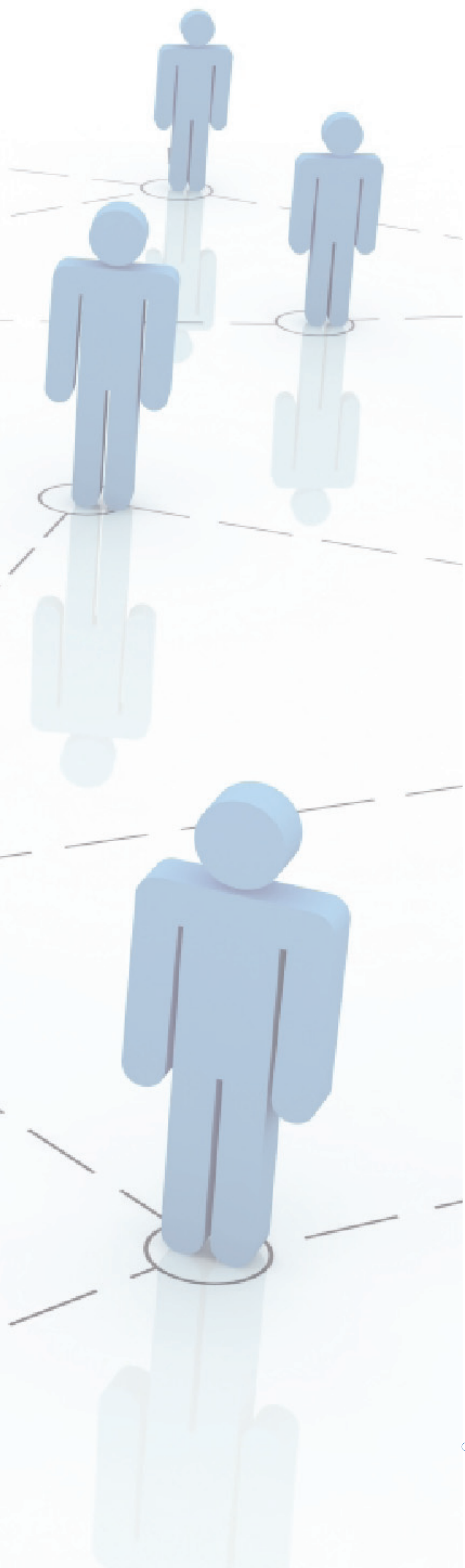
Defined benefit plans	63
Defined contribution plans	58



The jurisdiction of registration of the various pension plans was as follows:

Jurisdiction	DB Plan Distribution	DC Plan Distribution
Alberta	12.5%	17.3%
British Columbia	25.0%	13.8%
Federal PBSA	28.1%	10.3%
Manitoba	0.0%	3.4%
New Brunswick	0.0%	0.0%
Newfoundland & Labrador	0.0%	0.0%
Nova Scotia	0.0%	3.4%
Ontario	21.9%	48.4%
Prince Edward Island	0.0%	0.0%
Quebec	9.4%	0.0%
Saskatchewan	3.1%	3.4%
Total	**100.0%**	**100.0%**

The number of participating organizations with at least one collectively bargained group was 31 or 50.8%



Appendix B: Survey Sponsors

About Aon Consulting

Aon Consulting is Canada's leading integrated human capital consulting and outsourcing firm. More than 700 employees in 12 offices are shaping the workplace of the future through benefits, talent management and rewards strategies and solutions. We are dedicated to delivering distinctive value through our health & benefits, retirement, human capital and outsourcing services.

Aon Consulting is part of Aon Corporation (www.aon.com), the world's #1 choice for risk advice, insurance and reinsurance brokerage, and human capital management, delivering long-term value to clients through inspired, independent thinking and innovative, personalized business solutions that have tangible impact on the bottom line. The Aon team of 36,000 colleagues in more than 500 offices and 120 countries goes to work every day with the purpose of helping clients and helping colleagues help clients.

About FEI Canada

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,100 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of many Chief Financial Officers, Audit Committee Directors and Finance, Controller, Treasury and Tax Executives, represent a significant number of Canada's leading and most influential corporations. Further information can be found at www.feicanada.org.