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Surg ing household debt is now emerging as the greatest risk to Canada’s financial system, says the Bank of Canada in its bi-annual financial system review. It says the risk posed by household balance sheets has grown with the level of debt to income reaching record levels by the end of 2008. The ability of Canadians to repay their loans may replace frozen credit markets as the main fear among policy makers.

Household Debt
Canadian household debt right now is about 140 per cent of disposable income. This compares to 90 per cent as the 1990s started. So, we can’t deny that Canadians are getting deeper and deeper in the red. Here are some other facts:

- Canadians put almost $170 billion in purchases on VISA and MasterCard in 2004, up from $39 billion in 1990.
- Total consumer debt in Canada is about $90,000 per household.
- Numbers like that put saving for retirement and estate planning in a different light. Not only will it mean Canadians’ can’t afford to retire, their wills may end up portioning out which child pays which share of the estate’s debt.
- The other issue is the lack of household savings. For 2004, the savings rate for Canadians hit an all-time low of 0.4 per cent. Most households socked away only $1,000 that year, compared to 13 per cent or $7,500 in 1990. To be fair, it did soar back past the four per cent mark last year.

Now, we would contend that some Canadians are saving, but they are finding more efficient ways than bank savings accounts. These savings can be found in employer pension plans, RRSPs, mutual funds, TFSA, and other financial products.

Yet, for many Canadians these are out of reach. Their primary goal should be retiring debt, not increasing it.

So why does a debt crisis matter to pension funds?

Credit Is Easy
As long as interest rates are low and credit is easy, consumers can spend, spend, spend. This is good for the economy which depends on consumer spending for about 70 per cent of its action. It’s not so good for Defined Benefit pension plans which see low interest rates putting downward pressure on their solvency ratios.

If interest rates go up, which most underfunded pension plans long for, the ability of the consumer to reduce their indebtedness starts to decline.

Plus, they will reduce their spending. Scotia Capital estimates that a one-percentage-point increase in the average effective interest rate over five years would boost debt servicing costs as a share of after-tax income from the current 7.5 per cent to nine per cent – a level that in the past has led to drops in discretionary spending. Declines in discretionary spending are not good for the economy. These can have a negative impact on equities and hurt pension plan funding levels. There is a balance in there and the spectre of a credit card crisis makes it a more difficult balancing act.

After all, if the ability to repay loans is reduced, employees will start to eye their pension savings and start clamouring for unlocking of employer plans so they can get at the money they need to pay off their credit cards. And how will any plan sponsor expect members of Defined Contribution pension plans to increase their contribution rates to provide for adequate retirement savings when they are being hounded by bill collectors?

In any event, we can all take heart in the fact that this scenario may only play out for the 38 per cent of employees who have pension plans and only be a real crisis for the handful in private sector plans.
Challenges of Managing Asset Allocation in Illiquid Markets

Throughout 2008, global equity markets suffered greatly as the economy transitioned from boom to bust. In Canada, equity markets declined by 33 percent while US and international markets lost approximately 40 percent. Compare this to the DEX Universe Bond Index’s gain of 6.4 percent (as of December 31, 2008) and it becomes clear why investors had to sell bonds and buy equities to rebalance their portfolios in this highly illiquid environment. Chart 1 illustrates the deviations from the benchmark target allocation for a 30 percent S&P/TSX Composite, 15 percent S&P 500, 15 percent MSCI EAFE® and 40 percent DEX Universe Bond portfolio.

The flight to quality among markets during this period caused spreads between government and corporate bonds to widen to all-time highs, leaving corporate issues with practically no bid. Many fixed-income portfolio managers were unable to sell their corporate bonds. This complicated portfolio rebalancing for many plan sponsors and meant that when clients wanted to rebalance, they were either unable to do so or had to incur huge transaction costs.

At such times, clients with unpredictable cash flow requirements may prefer to build up higher cash balances to meet unexpected expenses, including pension benefit payments, upcoming fees and expenses and opportunistic capital calls from private equity managers. These cash balances can also serve to rebalance portfolios following severe dislocation between the asset classes that compose those portfolios.

Exposure Management Can Help

Exposure management solutions can potentially benefit clients who need to:

- Maintain strategic asset allocation
- Efficiently (and cost-effectively) obtain access to liquidity
- Facilitate implementation
- Ensure return by equitizing cash balances

To help meet these needs, some investors have turned to overlay strategies, using highly liquid index futures contracts to manage their portfolio allocations when liquidity is scarce and volatility is high.

Maintaining A Strategic Asset Allocation

A growing number of investors are using strategic overlay programs to rebalance their portfolios to minimize the portfolio drift from their policy benchmark. Portfolio rebalancing is particularly important during volatile markets when asset class returns may shift abruptly. A disciplined rebalancing policy may enable investors to potentially benefit from the mean reverting tendencies of most markets and asset class values, particularly when the dislocations are associated with liquidity and sentiment rather than fundamentals.

Efficiently (and Cost-effectively) Obtaining Access to Liquidity

An overlay manager is responsible for exposing a designated cash pool to global markets while facilitating periodic cash flows and maintaining asset mix targets. Most overlays are implemented through a combination of index-based futures and total return swaps overlay with investments in traditional passive cash funds for those markets where no liquid synthetic vehicle exists. These programs are designed to enable clients to build up cash positions efficiently and cost-effectively for contingency planning while avoiding any negative drag on total portfolio returns as a result of higher cash balances. Exposure management as part of an overall cash management plan can effectively help investors keep more cash on hand while maintaining policy targets with minimal capital commitment.

Facilitating Implementation

Other benefits of exposure management strategies include being able to more efficiently manage liquidity needs while maintaining target beta exposures and not disturbing underlying investments. They also provide additional flexibility to maintain exposure to markets when facilitating transitions or physical rebalancing among managers or asset classes. They ensure daily monitoring of the portfolio with efficient and timely rebalancing. Lastly, they remove the operational risk from the clients’ desks so that they can concentrate on finding the next sources of alpha for their overall portfolio.

By equitizing cash balances, investors are likely to minimize the risk of a potential “cash drag” on overall portfolio performance as markets recover. Cash drag, or unintended cash exposure, can cause performance to lag and volatility to increase vis-à-vis a strategic benchmark. By equitizing just 2 percent of additional cash and maintaining proportional portfolio weights, investors could potentially improve the tracking error versus the benchmark by 15-20 basis points annually. Hopefully 2009 will not deliver the same fate as 2007-2008 did, when it became clear that even the most liquid market segments can unexpectedly dry up overnight. Prudent plan sponsors will seek to reduce their exposure to illiquidity and start building up higher cash balances as a contingency for meeting unexpected expenses and rebalancing needs.

CHART 1 Allocation Drift from Target Benchmark Weights

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1 State Street Global Advisors Ltd., Canada.
2 “Solutions” in this context means products, methodologies, approaches, implementation programs as well as strategies that SSAI designs to help meet specific client investment needs. There is no guarantee that these solutions will provide financial gains or protect against losses.
3 Penalties & Investments 2007
4 State Street Global Advisors Ltd., Canada.
**EFG**

Paul Gillis is senior vice-president in charge of EFG Canada’s pension and investment consulting practice. He will have responsibility for leading the growth and service of Defined Contribution and institutional investment clients across Canada. Most recently, he spent 14 years in senior business development and client service roles at a leading Canadian pension carrier.

**Humber**

Sheryl Smolkin is product development and marketing consultant for the Centre for Employee Benefits at Humber College Institute of Technology & Advanced Learning. Most recently the editor of a benefits magazine, she spent 18 years as director of Watson Wyatt’s Canadian Research & Information Centre. She will help bring its existing programs to a broader cross-section of HR and benefits professionals across the country, as well as develop new offerings.

**CAAT**

Derek Dobson is chief executive officer and plan manager of Ontario’s Colleges of Applied Arts and Technology Pension Plan. For the past three years, he has served as executive administrator (CEO) of TEIBAS Ltd., the Toronto Electrical Industry Benefit Administrative Services. Prior to that, he spent six years in a senior capacity at HOOPP, the Hospitals of Ontario Pension Plan, in the actuarial services, pension policy, and risk management areas.

**Invesco**

Heather Hunter is head of Canadian equities for Invesco Ltd.’s institutional business in Canada. She will focus on building its Canadian equity capabilities in the Defined Benefit and Defined Contribution pension channels. Prior to joining Invesco Trimark in 1999, she was a vice-president at Ontario Teachers’ Pension Plan Board, where she was responsible for building the equity investment platform and transforming the investment portfolio to include equities.

**Aurion**

Gregory Plant is director, client service and marketing, and Christopher Wright is vice-president, business development, at Aurion Capital. Plant has more than 10 years’ experience in the investment industry. After an initial period at the Law Society of Upper Canada, he worked in marketing for a major investment distribution firm and a private capital company and then worked on assignment for a leading North American wealth management firm assisting in branding, marketing, and product positioning. Wright has 25 years’ experience in the investment industry with more than 18 years at one of Canada’s leading institutional fund managers followed by a leadership role at a major, privately-held multinational firm with a major presence in Canada.

**AGF**

Judy Goldring is executive vice-president and becomes chief operating officer at AGF Management Limited. She is responsible for a number of the investment management firm’s shared services including legal and compliance, human resources, operations, and information technology. Lina Bowden is senior vice-president in charge of product management and development, as well as product marketing. She was formerly with Highstreet Asset Management where she was responsible for client service to its institutional and foundation clients.

**Guardian**

Greg Chai is vice-president, client service, and will be part of the institutional client service team at Guardian Capital LP. His past 16 years in the investment management industry include client service roles at both Barclays Global Investors and Frank Russell Canada. Robert Broley is a senior vice-president with primary responsibilities for all institutional business development activities including coverage of Canadian and U.S. public and private pension plans, endowments, and foundations. He has spent the past several years in a similar role with JanusINTECH Institutional Asset Management.
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BMO Buys Integra GRS
Bank of Montreal is purchasing the recordkeeping business of Integra GRS, a wholly owned subsidiary of Integra Capital Management Corporation. The business provides recordkeeping and administrative services for capital accumulation plans. “This acquisition is an extension of our existing wealth management offering,” says Ed Legzdins, senior vice-president, retail investments, private client group; and managing director, international, BMO Capital Markets. “Complementing Integra’s full selection of funds with BMO’s retail investment products gives us the opportunity to develop a group retirement services platform and offer a suite of products through the institutional pension market.”

BlackRock Acquiring Barclays
Barclays will sell its global investors’ money management arm to BlackRock. The $13.2 billion purchase makes this the largest deal ever for a dedicated money management firm and makes BlackRock – with more than $2.7 trillion in assets under management – the world’s biggest money manager. Barclays will retain a 19.9 per cent stake in the new firm, which would be called BlackRock Global Investors. One issue to be resolved is its iShares exchange traded funds business. This was sold to CVC Capital Partners in April, but the deal included a 45-day period during which Barclays could entertain competing bids. CVC now has five business days to match BlackRock’s offer for all of BGI, not just the iShares business.

CI Launches Institutional Division
CI Investments Inc. has launched CI Institutional Asset Management, a division focused exclusively on the institutional investment marketplace. It unites CI’s existing institutional distribution business with KBSH Capital Management. “Complementing Integra’s full selection of funds with BMO’s retail investment products gives us the opportunity to develop a group retirement services platform and offer a suite of products through the institutional pension market.”

BMO Buys Integra GRS

BlackRock Acquiring Barclays

CI Launches Institutional Division

Economic Comment
Canada is the ‘No. 1 Theme’ for Richard C. Young. The July 2009 issue of his ‘Intelligence Report’ says: “Regarding Canada (my No. 1 five-year investment theme), Ontario has the most skilled workforce among G8 countries. Ontario bills itself as the most knowledgeable, with 59 per cent of the population having a post-secondary education – the highest rate of any industrialized nation. Canada will own a 12.5 per cent stake in a new and more competitive General Motors once the company emerges from bankruptcy. For the quarter ended January, when industry conditions were at their worst, all of Canada’s big banks turned a profit. Canada’s single regulatory authority imposes maximum leverage ratios and exercises diligent supervision. Interest on home loans is not deductible in Canada, thus Canadians do not tend to overborrow. Compared to U.S. banks, Canadian banks are, in short, stodgy.”

For more information, visit www.intelligencereport.com

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‘Perfect Storm’ Threatens Retirement

A ‘Perfect Storm’ of demographic, individual, and financial elements is poised to derail people’s retirement plans unless they prepare properly now, says a survey from HSBC Insurance. Its fifth annual ‘Future of Retirement study’ shows people’s short-term survival strategies in the midst of the recession are creating a serious long-term pensions ‘down-turn deficit’ and there is a continuing lack of pensions planning, even though people are aware that they are likely to live longer. This is being exacerbated by poor levels of financial understanding, education, and access to advice. As well, people are more concerned with protecting their possessions in the short-term rather than ensuring they can look forward to a financially secure retirement. The consequence of these combined factors is that many people will struggle to make ends meet when they come to retire, unless they urgently review their priorities and planning.

Workplace Can’t Handle Return To Work

Far too many supervisors and managers in Canadian workplaces are not equipped to deal with employee health, productivity, absenteeism, disability, and employees returning to work after an absence, says a Shepell-fgi survey. ‘The Missing Link: The Supervisor’s Role in Employee Health Management’ concludes that supervisors do not receive data on real-time employee absence and organizations do not have structured processes in place that supervisors can consistently use to address intermittent problems with employee absence or significant changes in employee productivity or behaviour. Organizations need to establish preventative measures to include proactive promotion of EAP-based employee needs, both at the broader organizational level and at the workgroup level.

Investors Must Understand Strategy

Sometimes, the best investment decision is the one not to make the investment, says Mark Purdy, of Arrow Hedge Partners. Speaking at the AIMA Canada session ‘Bullet-Proofing Your Business in the Post-Madoff World,’ he said one key to investing in hedge funds and other alternatives is to “make sure you understand what you are investing in” because evaluating a hedge fund manager is very different from evaluating other managers. Investors need to understand the strategy, the people involved in the fund, and the operational side of the business. Not only do they need to determine if the business is viable, but there needs to be confidence about the people running the business and its providers.

Dental Plans Behind Times

The way dental plans are set up can make the industry better, says Dr. Richard Beyers, a dental consultant. Speaking at ESI Canada’s ‘Outcomes Conference’ on ‘Dental Trends, Today and Tomorrow,’ he said, however, dental plans have not changed in 40 years and dentistry has become about business, not healthcare. As a result, dentists are able to get around the system. For example, he said 20 per cent of the population account for about 80 per cent of the tooth decay. Most of those without tooth decay are members of employer dental plans, yet claims for treatment of these conditions continues to go up.
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Amidst annual returns of around minus 18 per cent for most pension plans, there is one that’s managed to remain somewhat sheltered from the fallout of the volatile markets.

Despite recent turmoil, The United Church of Canada’s $1.02 billion public service pension fund obtained a return of minus 9.4 per cent in 2008 and announced it would deliver the planned 4.1 per cent cost of living adjustment this year to retirees. Linda Begley, manager, compensation, pension and benefits for the group, credits much of what they’ve accomplished to a more conservative approach and a well-defined governance structure.

Conservative Stance

Made up of about 2,000 individual churches across Canada, with roughly 4,000 active members and 4,000 pensioners (inactive/deferred annuitants), Begley says there’s never been a tolerance for high risk, high return policies so the board and the investment committee have adopted, and will continue to take, a conservative stance to ensure security.

Such a slant has served them well, as the markets have suffered during the past year or so. And in its moderate stance is understood and adhered to. Most essential, is a well-documented and well-defined set of guiding principles and statement of beliefs that clearly state the plan’s objectives and commitment to members.

Among the beliefs there is, for example, a focus on active management adding value over the long term, or that “investment processes should be cost-effective, prudent, and provide value-added return.” The statements have set the tone for how the plan is run, Begley says, and they’re followed thanks to an effective and active governance body.

Ensuring Stability

Another facet that’s helped it weather the market’s instability is its cost-shared contribution structure, with employees (usually a minister) contributing four per cent and employers (usually a congregation) contributing seven per cent.

In contrast, many other public service or quasi-public plans are generally indexed plans, “which is, of course, a huge cost that can translate into higher contribution rates … and the 2,000 churches don’t have much tolerance for swings in contribution rates to make up for deficits and other things,” Begley says. It can work, instead, on an ad hoc basis since it’s not contractually obliged to increase pensions.

So while many plans currently face huge funding shortfalls that are pushing pension contributions up, the United Church’s contribution structure has remained stable. That position has also kept the plan affordable for members, which is one of its most important guiding principles, she says.

Good Governance Real Driver

Begley also credits its strong governance framework to the plan’s relative success, because it ensures its moderate stance is understood and adhered to. Among the beliefs there is, for example, a focus on active management adding value over the long term, or that “investment processes should be cost-effective, prudent, and provide value-added return.”

The statements have set the tone for how the plan is run, Begley says, and they’re followed thanks to an effective and active governance body. The pension board delegates the management of the plan and its expert committees—investment committee, pension plan advisory committee, and implementation task group—assist the board.

All meet regularly throughout the year. “Our conservative investment approach is directly behind the return we achieved … but indirectly, good governance is the real driver behind the return,” Begley says.
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time loss is agonizing for both employees and employers, especially when it could have been prevented. While traumas or accidents may be the first reasons that come to mind for work-related injuries, the less severe, but more common, often have the greatest impact on claims and ability management.

Small, more gradual ailments frequently fall under the category of musculoskeletal disorders (MSDs), also known as repetitive strain injuries. They tend to develop from strain, overuse, or damage to muscles, nerves, tendons, ligaments, joints, cartilage, or spinal discs. Common MSDs include lower back pain, carpal tunnel syndrome, tendonitis, and bursitis.

Impact On The Workplace

Each year, approximately 2.3 million – one in 15 – Canadians are affected by some form of musculoskeletal disorders. According to the Workplace Safety and Insurance Board, MSDs account for 32 per cent of reported lost-time injuries and 28 per cent of the total costs paid by workplace insurance, which includes employee compensation and medical costs. Since these numbers potentially account for only a fraction of the actual number of MSDs, Canadian workplaces may bear the brunt of the cost in employee absenteeism, escalating workloads, and reduced productivity. One estimate from the Canadian Labour Congress pegged the annual cost at a shocking $26.6 billion, making it clear that MSDs are a growing issue facing Canadian employers.

MSD damage can occur in virtually any workplace – from a factory to an office building. Despite the vast differences between jobs and working environments, there are a few common issues that can cause injured tissues:

◆ Posture – Whether it’s slouching at a keyboard, overextending a limb, or standing in an unnatural position, posture is one of the biggest factors in the onset of MSDs. Incorrect body positions or movements increase muscle strain and tension.

◆ Force – Injury-inducing force on the body can be large (such as incorrectly lifting a heavy object) or small (such as pounding a keyboard or gripping a mouse too tightly). Excessive force increases muscle fatigue and requires more time for the body to recuperate, which may not always be available.

◆ Work environment – While a desk, chair shelf, or assembly line can’t cause an MSD on its own, a poorly designed work set-up can lead to some of the afore-mentioned factors such as bad work posture, excess force on tissues, or muscle strain/tension. Special attention should be paid to work spaces as they are not one size fits all.

◆ Repetition – Repetitive movements can amplify other risk factors such as poor posture, force placed on the body, and the effects of improper work techniques or environment. In addition to this, quick repetition of movements can tire muscles and prevent the body from recovering fully between strenuous tasks, both of which also contribute to risk of injury.

In general, it is often not a single issue that results in an MSD, but rather multiple contributing factors that combine over time to put more strain on an area of the body than it can handle. This can result in a condition such as lower back pain, carpal tunnel syndrome, painful muscles or tissues, or mobility problems.

Prevention Is Critical

With the clear impact of musculoskeletal disorders on employee health management and the workplace, as well as the tendency for injuries to progress if not properly addressed, preventative measures are an integral tool. There are two areas where early intervention can make a difference – employee ergonomics training and workplace adjustments. Employees should be encouraged to adopt the guidelines from the Canadian Physiotherapy Association including maintaining a stable and balanced posture by lifting the chest, relaxing the shoulders and keeping the chin tucked in and level, and using the proper lifting technique by keeping the feet shoulder-width apart, bending the hips and knees, and keeping the back as straight as possible.

Workplace Support

Lunch and learn sessions can be a valuable way for employers and managers to promote these practices with employees, as well as demonstrate correct techniques. During these sessions, employers can also hear employee concerns about their work environment and any specific areas they believe may be contributing to the onset of MSDs. Online education modules could also be made accessible.

Physical adjustments to make workstations more ergonomically correct need to be reviewed, particularly at shift changes or when personnel change positions. A good rule of thumb from the Canadian Centre for Occupational Health and Safety is to “fit the work station to the employee,” keeping in mind size, shape, and prior issues.

Safety First: Putting The Spotlight On MSDs

By: Caroline Tapp-McDougall

Caroline Tapp-McDougall is the publisher of Solutions: Canada’s Family Guide to Home Health Care and Wellness and the author of The Complete Canadian Eldercare Guide (solutions@bcsgroup.com).
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Robin Lacey, Managing Director, TD Asset Management Inc.
Contact Robin at 416-944-6313  robin.lacey@tdam.com

TD Asset Management Inc. (TDAM) is a wholly-owned subsidiary of The Toronto-Dominion Bank (TD Bank).
Do we have subprime mortgages in Canada? The answer is a resounding ‘Yes.’ How is that possible? Upon looking at the history of the Canadian mortgage insurance market, the answer becomes clearer.

When the Canada Mortgage and Housing Corporation (CMHC) was founded in 1954, it was the only mortgage insurer in Canada and it was guaranteed 100 per cent by the federal government. Moving to 1988, Toronto-based MICC was the only other mortgage insurer and it was private. Due to changes in international bank capital rules, MICC would have been shut down because it allowed banks to offer cheaper CMHC government guaranteed insurance. The federal government of the time did not want MICC to go bankrupt, so it offered to guarantee 90 per cent of its insurance policies.

When MICC took on too much risk with construction loans in 1995, Ottawa was reluctant to take its losses. It needed a company who could bail it out of its obligation, and it found one – General Electric. GE agreed to take on Ottawa’s liability if it was allowed to sell its own mortgage insurance. This company became Genworth Mortgage Insurance Co. and became the ‘number two’ mortgage insurer in Canada.

Money To Be Made
After this event, other U.S. insurers realized there was money to be made in Canada, so they began to lobby the federal government to open the market to other competitors. The reasoning was that competition was good for Canadian consumers. The federal government listened and, in May 2006, the Conservative government’s budget announced the opening of the Canadian market to private insurers. These included American International Group (AIG), PMI Group Inc., Triad Guarantee Inc., and Mortgage Guaranty Insurance Company. Mortgages having zero down payment and 40-year durations were available and they moved briskly. About $56 billion in new mortgages have been underwritten in Canada since May 2006 and 10 per cent of the new mortgages had zero money down.

Following the carnage that occurred in the U.S. early in 2008, the Conservative government decided in June 2008 to stop the issuance of the 40-year mortgage. The $56 billion men-

tioned earlier had occurred in a span of only a year and a half. The mortgage market in Canada totalled approximately $664 billion as of November 2008. The $56 billion in subprime mortgages outstanding, this represents just under 10 per cent of the mortgage market in Canada. In addition to this, the Conservative government also put up $200 billion in federal money to guarantee these mortgages.

The reason why most people are not aware of these facts is that the real estate market in Canada is relatively stable. However, if the price of homes in Canada begins to slide, bankruptcies and foreclosures may soon follow. Most foreclosures tend to occur among the highest risk group of mortgages because they are most sensitive to changes in business conditions. Since they have no down payment and long amortization terms, people who have them can least afford to make the payments when their financial situation changes.

Mortgage Market Risks
Given that 47 per cent of new mortgages and 60 per cent of mortgage renewals occurred at major Canadian banks, these big banks are carrying close to half of the mortgage market risks. Looking at the numbers, if even 10 per cent of these $56 billion worth of subprime mortgages are in default, that would be a loss of $5.6 billion dollars. If the major Canadian banks owned half of these losses, this would have translated into $2.8 billion dollars for them as a group.

If the Canadian financial industry as a whole writes down $5.6 billion in additional losses from their earnings, what effect would this have on the Canadian economy? What if these initial losses caused the real estate market to decline further, creating further loan losses? What if lending standards tightened further as a result of these losses, exacerbating the problem? It is possible that this scenario can happen.

There are subprime mortgages that exist in Canada and they constitute a large piece of the Canadian mortgage market. Do you still believe Canada is immune?
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Fraud and identity theft are on the rise. Given the global economic recession, experts predict that ‘cybercrimes,’ including identity theft and fraud, will continue to dramatically increase. With such a prediction on the horizon, many organizations are looking at ways they can provide cost-effective resources to strengthen relationships with their employees, customers, and business partners.

Last year, nearly 10 million American victims lost $48 billion as a result of some kind of identity fraud. This amounts to 22 per cent more victims in 2008 than there were in 2007 and an increase in losses to $48 billion in 2008 following three straight years of declines.

The trend is similar north of the American border. Last year, in Canada, an estimated 1.7 million Canadian adults were the victims of some kind of identity fraud. That amounts to almost 6.5 per cent of the adult Canadian population. It is also estimated that these victims spent approximately 20 million hours and a staggering $150 million plus to resolve problems associated with these frauds.

We have all heard about identity theft, but this can’t really happen, can it?

**Prison Record**

Take the incredible story of Michelle Brown, a victim of identity theft, who testified before a United States Senate Committee Hearing on Identity Theft: “…over a year and a half from January 1998 through July 1999, one individual impersonated me to procure over $50,000 in goods and services.

“Not only did she damage my credit, but she escalated her crimes to a level that I never truly expected – she engaged in drug trafficking. The crime resulted in my erroneous arrest record, a warrant out for my arrest, and, eventually, a prison record when she was booked under my name as an inmate in the Chicago federal prison.” she said.

A number of recent, local cases of identity theft have received media attention including a series of home theft/mortgage fraud cases. Thieves used the forged signature of Susan Lawrence, a Toronto widow, to fraudulently purchase her house from her, then put a new mortgage on the property for almost $300,000. They pocketed the money, defaulted on the mortgage, and disappeared, leaving Lawrence facing possible eviction.

Elizabeth Shepherd is another such victim. When she rented her furnished home to fraudsters, they created a phony ‘Elizabeth Shepherd’ who sold the home to an accomplice. The accomplice took out a $250,000 mortgage, defaulted, and disappeared.

Then there is 89-year-old Paul Reviczky who rented his Toronto home to a couple who forged his signature on a power of attorney and sold his home for $450,000. The innocent buyer took out a mortgage of $337,500 to buy the house and the couple disappeared leaving the thorny question of who legally owns the house – the 89-year-old whose identity was stolen or the innocent buyer who paid $450,000 for the property.

**Mail Stolen**

There is also the case of the 120 Ajax, ON, residents whose mail – including cheques issued by the Government of Canada, insurance companies, and other businesses – was stolen by their postal worker. The cheques were fraudulently cashed at numerous banks in the Toronto area for a total loss of over $477,000.

Unfortunately, there is no absolutely secure way to safeguard personal information against fraud. Although we can minimize the risk of identity theft by following simple tips, such as protecting passwords, shielding personal identification numbers, and shredding documents containing personal information, we need to bear in mind that identity thieves are becoming more sophisticated in their techniques every day and there are many situations outside our control that can put our personal information at risk. These are things such as corporate security breaches, inadequate protection of government lists, and employee theft.

Victims of identity theft are often left to take on the lengthy and time-consuming process of rectifying their identities. They must get in touch with a litany of contacts including their financial institutions, local police, credit reporting agencies, Canada Post (if mail is missing), government offices (for drivers’ licences, health cards, passports,
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birth certificates, and social insurance numbers), as well as all companies that opened fraudulent accounts in the victim’s name. The phone calls, follow-up calls, completion of forms, correspondence exchange, visits to these organizations (such as the bank and government offices), etc. may take a victim several hundred hours to several years to finish. And, of course, there are the out-of-pocket costs involved ranging from fees to replace identification, costs associated with having to take time off work, travel and parking costs, and, potentially, legal fees.

Some Assistance

Thankfully, there are some commercial services that can offer some assistance, many of which are available as value-added benefits through memberships, credit cards, and accounts with financial institutions, retailers, insurance companies, affinity groups, and employers.

Card and information registries require a member to register all credit, debit, and retail cards, as well as other important personal data (such as driver’s licence, health card, passport number, insurance policies, and serial numbers of valuables). In the event of a lost or stolen wallet or purse, the member only needs to advise the registry service provider who would then notify all registered card issuers on the member’s behalf to cancel and reissue the cards. Additionally, the registry is also a way to centralize the member’s information so that if the member becomes a victim of identity theft, their information is readily accessible giving them the ability to quickly contact all companies and government offices.

In the event that the member becomes a victim of identity theft, identity theft telephone assistance may offer advice on identity theft prevention, answer the member’s questions concerning identity theft, and provide assistance to help the member recover their identity.

Credit bureau alerts are provided to the member to warn of activity received by the credit bureau under the member’s name. For example, if someone takes out a credit card or loan in the member’s name, a credit alert would be issued when the individual applies for that credit card or loan. If the member, however, becomes a victim of identity theft, the member would still need to take action to resolve the problem.

Identity theft insurance coverage reimburses the member if they become a victim of identity theft and have incurred certain expenses such as out-of-pocket costs, lost wages, and legal costs to rectify the damage to the member. However, as a victim, the member still needs to resolve the damage on their own.

Fraud Notification

In the event that a member becomes a victim of identity theft, identity restoration provides them with trained experts to help restore their name and credit. Acting on the member’s behalf, the service provider will send fraud alert notifications to credit bureaus and, if necessary, work with law enforcement agencies, government departments, institutions, and creditors on the member’s behalf to restore their identity. In other words, these trained experts do the work for the member, saving time, money, and aggravation.

As a result of the lagging economy, many businesses are looking at ways to cut costs by paring down health benefits for employees, reviewing the value of relationships with business partners, and looking for ways to maintain customer loyalty. With a whole suite of value-added, yet cost-effective, commercial services available in today’s marketplace, organizations should continue to examine these new era products to set themselves above and apart from their competition.

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Tough economic times” is the media phrase of the day, but business failures and layoffs are the fallout of those tough times. For many clients of benefits and pension consultants, ‘best interest’ right now seems to mean surviving today to live for tomorrow.

**Preserving Cash**

Unfortunately, that means preserving cash and maintaining the financial solvency of employee benefit programs. While this path seems heavily tilted in favour of employers, it is also in the best interests of most employees who face unemployment as the alternative.

After years of consulting advice on benefit plans that are no longer affordable, clients need consultants to dig deeper into their tool box to find solutions that not only will get them through these tough times, but for new business.

At the same time, every facet of the financial arrangement with a carrier needs scrutiny, whether it’s a surplus in the sponsor’s deposit fund with the carrier (which could be put to better use) or a deficit (indicating the need for a financial management review to find and fix the problem).

This is the time to take stock of the benefit offerings and how plans are run. Rather than engaging in new projects, sponsors need to review existing contracts, processes, and policies to manage their benefits programs effectively. Consultants need to use their full tool kit – claims audits, beneficiary audits, eligibility audits – to help make certain that every dollar of the investment in the benefits program is being properly spent and to judge the plan’s readiness for changes in government budgets that will impact the company’s costs.

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**Best Advice: Consultants In The New Reality**

*be effective for their long term goals. Oddly enough, one of the constraints that the consultant needs to work through is that their client may be hamstrung by a temporary company decision to control costs including consulting fees.*

For group health benefits consultants, limiting exposure for their clients means negotiating with insurance carriers who have grown tougher, minimizing the risk involved in offering a benefit program, building up strong governance processes to manage plans effectively, and encouraging sponsors, employees, and employers to keep the organization, its people, and its programs healthy.

Insurance carriers, concerned with both claims exposure and investment risk, are not so keen to budge on their rates during renewal negotiations and sponsors need new strategies. Consultants now need to look harder, beyond the ‘Big Three’ insurers, and test the market for other providers. They’re out there and, paradoxically, they’re aggressively competing

**Influence And Facilitation**

Consultants and their clients are recognizing now that one of the best and most sustainable long-term cost controls for their healthcare programs is the successful identification of the organization’s health with that of each of its employees. At this holistic level, employees involved in managing their own health expect the employer to promote that involvement through its influence and facilitation, making certain that they have the tools and resources to succeed, and aligning workplace policies with the goal – whether it’s making information available on the H1N1 virus or hosting a stress clinic, improving the office environment or implementing an employee assistance program.

More than in the past, and to a wider audience, benefits consultants are expected to educate – to make sure that both employees and their employers know what they can do to help manage the costs that will save their benefits pro-

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By: Camille Coutu, Kevin Sorhaitz & Steven Laird

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grams. Employees need to understand drug compliance:

- Do you really need antibiotics for a cold?
- Do you really need to see a doctor?
- Do you really need to take the whole prescription?

Employees need to explore all avenues to achieve best delivery of benefits at best cost, taking a fresh look at the advantages of programs like flex benefits, administration outsourcing, and governance initiatives.

Organizations have always expected their consultants to advise on the cost, structure, and coverage of benefits plans. Now, they need advice on how to respond to the changing benefits arena.

Precarious Times

Clients of retirement benefit consultants are also going through precarious times. The huge equity market correction of 2008 has had many negative implications. It significantly increased the solvency funding requirements for Defined Benefit pension plans, deteriorated the pension plan’s funded position, and hurt the firm’s bottom line itself. When even mainstream media like the Toronto Star and CBC Radio are covering the troubles facing the pension world, you know something has gone very wrong. Auto makers, airlines, resource industries, telecom companies, and, of course, legislators are all making the news as they question their ability to afford what have now become known as the ‘legacy costs’ of retired workers.

For actuaries and pension consultants, it is imperative to get a firm understanding of what is really going on with the client. Their focus has to go beyond just the pension plan – they need to grasp the relationship of subsidiaries to their parent companies (who may be in worse straits than the subsidiary) and to ask what senior leadership is saying about the company as a whole. Keeping up-to-date on the organization’s stock price and how it is being covered in the media may provide further insights into the pressures that the client might be under. Without this context, any advice around the employee benefit plans is likely to be very much disconnected from the overall needs and direction the company has to take at this time.

In very general terms, most companies are trying to preserve the amount of cash that needs to go into the employee benefit plans today to help the company survive until tomorrow. They expect their consultant to be able to act quickly, take a hard look at a company’s retirement programs, and clearly educate them on the possibilities, and results of any course of action. Whatever solution the consultant recommends, their clients want concise explanations of the cost savings, the cost to implement the change, the regulatory considerations and demands associated with that change, and how to head off potentially negative employee reactions. Pension plan sponsors can always tinker with the program by making small changes here and there, but that isn’t really going to provide any meaningful relief in the short-term. They want straight talk – however tough the final decisions might be – and they expect the consultant’s best advice, not what will be least disruptive or most popular.

First Out Of The Gate

Employers also realize they are still competing in the marketplace for customers and for employees. They want solutions to their current problems while keeping an eye on their competitiveness – and they want to know how their competitors are handling similar problems. The more industry and market-specific information that consultants can bring to the table, the more comfortable their clients will be in making bold changes to their benefit programs. Very few companies want to be the first out of the gate, especially if the changes are adverse in nature.

The complications multiply in a collective bargaining setting and consultants have to know how to help their clients – some of whom are unions themselves – through the various stages of negotiation around the benefit plans. Now is the time to sit down and have serious discussions about the future. The challenges currently facing companies like Nortel and GM in connection with legacy costs around the DB pension plan and post-retirement healthcare plan are front page news. Once again, it is the organizations (with the help of the consultant) that are willing to tackle these types of situations head-on that will fare the best both in the short-term and long-term. There is always a solution and the consultant needs to be able to help the client work through it, no matter how painful or complicated it appears, to get where both sides need to be.

Change under any circumstances, whether good or bad, is often difficult for people to deal with. These days, news and rumours are constantly swirling, causing even more fear and uncertainty amongst employees. While some employers are hesitant to communicate bad news, a resounding number of employees would prefer to hear the truth than to be left in the dark. There is no time more important than now to keep the lines of communication open.

People are nervous these days, and may treat most announcements of cuts and curtailments with skepticism. Yet the organization needs their skills and still wants them to be engaged in the common goals of the enterprise. The messages, their tone, and how they are delivered are critical to success in working through difficult times. Instead of periodically sharing random pieces of information, a company should expect their consultant to develop both a short- and long-term sound communication strategy. Even companies with their own communications resources will often look to their benefits consultant to help plan and deliver this strategy effectively, overcoming employee skepticism and helping them through the changes instead of simply dropping the bomb and running for cover.

Long Memories

Employees and benefit plan members need to understand and buy into the decisions that have to be made. They have long memories and when the economy starts to swing back again, the best of them will either stay or jump ship for the opportunities opening up.

Preserving cash, maintaining the financial solvency of programs, streamlining administration and pursuing the most advantageous contractual arrangements with service providers, realigning coverage with the plan’s objectives and limitations, and keeping plan members, employees, bargaining units, regulators, and trustees all committed to both the organization and the benefits package is a tall order and companies expect their consultants to deliver their best advice.

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Benefits and Pensions Monitor – June 2009
In today’s economic climate, taking care of business is paramount. Preserving and maximizing employee health and well-being will separate organizations who thrive from those who just survive.

Cost-cutting, downsizing, and doing more with less is starting to take its toll on employees and corporations alike. Rising healthcare claims, absenteeism, stress, decreased morale, and productivity are just a few of the symptoms rearing their ugly heads.

Business Case

The business case for wellness in the workplace is compelling. We know, for example, that 70 per cent of healthcare costs are due to modifiable risk factors including smoking, poor nutrition, obesity, and physical activity. According to the World Health Organization, the U.S. is the world’s fattest nation with over half of adults overweight or obese. The statistics are not much different for Canada.

We also know that two out of three Canadians are not getting enough exercise to reap health benefits. Sedentary employees cost organizations, on average, $488 per year. A recent study on the economic burden of physical inactivity estimates that a 10 per cent increase in the number of Canadians who are physically active could save $150 million annually in healthcare costs due to coronary heart disease, stroke, type 2 diabetes, colon cancer, breast cancer, and osteoporosis. These are costs that will increase as Canadians age.

Today, cardiovascular disease is the largest contributor to healthcare costs. Regular physical exercise and eating a healthy diet are two lifestyle behaviours prescribed by the medical profession to enhance heart health.

Second Leading Driver

The World Health Organization projections suggest that mental illness is expected to become the second leading driver of healthcare costs after heart disease in the next five to 10 years. Stress related illnesses are increasing at an alarming rate. More than 60 per cent of Canadian workers say they experience high stress due to work/life balance conflict.

A healthy work culture and supportive fitness and wellness programs can help employees build resilience and manage stress.

Research has consistently shown that healthy employees are absent less, have higher morale, are more productive, and have lower healthcare costs. This results in improved organizational health. Employers who support the physical, mental, and emotional well-being of their employees see a direct impact on the bottom-line. Now, more than ever, it makes good business sense to make employee health a priority. Investing in the health and well-being of your employees is critical to long-term business success.

Our greatest long-term health promoting and cost saving opportunity is to keep low risk individuals from becoming high risk. With employees spending up to 50 per cent of their day at work and commuting, we can have a significant impact on their lifestyles. Our challenge as business leaders is to foster a workplace culture where wellness becomes a way of doing business.

A few Canadian employers’ commitment to workplace wellness has not waned in spite of the challenging economy.

Honeywell ASCa Inc., in Mississauga, ON, designs and manufactures electric power and environmental controls for the aircraft industry. They have been a strong supporter of workplace fitness and wellness for more than 10 years with injury prevention being the number one goal. In the business of light manufacturing, prevention of musculoskeletal injuries is a top priority. Its 1,000+ employees participate in a company-wide stretch break program supported by employee volunteer stretch break leaders. Employees also have access to a 2,500 square foot on-site fitness facility with support from a professional fitness and wellness consultant.

A variety of fitness and wellness programs are offered including group fitness classes. More than 40 per cent of employees are members of the gym.

Honeywell Aerospace Toronto’s fitness, health, and wellness programs are more important now than ever. As companies downsize and cut costs, employee workloads and uncertainty may increase and individual work/life balance may decline.

Strong Commitment

The leadership at Honeywell Aerospace Toronto has made a strong commitment to employees about maintaining a healthy work/life balance. Fitness and wellness programs are being maintained during these times of economic downturn and cost challenges, even as significant downsizing...
decisions are being made in other areas of the business. The leadership feels that these fitness and wellness events should be protected as part of the site’s injury/illness prevention programs.

Cara Operations Ltd. is the largest operator of food service restaurants in Canada. Its restaurants include Swiss Chalet, Milestones, Harvey’s, Montana’s, and Kelsey’s. It seized the opportunity last summer to build an on-site fitness facility in its new headquarters in Vaughan, ON, in spite of the looming recession. "Our on-site gym says to our associates that we care about their health and well-being. When our associates are fit, motivated, and positive, they are going to do a much better job in creating a positive experience for our guests," says Anna Filopoulos, senior vice-president of people and wellness. Cara’s commitment to its on-site fitness and wellness facility and related programs including group exercise classes and sport specific training. The health and well-being of its associates is important at Cara and is part of its approach to ensuring a positive associate experience. "Our on-site gym says to our associates that we care about their health and well-being. When our associates are fit, motivated, and positive, they are going to do a much better job in creating a positive experience for our guests," says Anna Filopoulos, senior vice-president of people and development.

Autoliv is another organization that supports the health and well-being of its employees. As a manufacturer of automotive safety and electronic products including airbags and seatbelts, its industry has been hit harder than most. An aging demographic has placed even greater challenges on employee health and ability to sustain a physically demanding work environment. Autoliv’s commitment to its on-site fitness and wellness facility and related programs has not waivered. With the dramatically reduced volumes in the automotive industry, the pressure to find ways to reduce costs is extremely intense. As it can be challenging to calculate a financial return on investment for a company wellness program, it would be very easy to allow the program to be cut.

“However, I believe this to be very short-term thinking. Our experience has been that our workplace wellness programs are a significant benefit to Autoliv as it dramatically increases our employee’s ability to integrate their wellness routines with their working routines. This results in improved attendance, reduced sick time, and improved employee morale,” says Steve Brohm, general manager.

Envious Work Environment

Husky Injection Molding Systems Ltd. has had a longstanding commitment to wellness. The 1,200 employees who work in its manufacturing plant in Bolton, ON, enjoy an enviable work environment which includes an on-site wellness and fitness centre, outdoor walking trails, intramural sports including outdoor volleyball and basketball, and an on-site daycare centre. Daily group fitness classes are led by a full-time fitness consultant and a group of employee volunteers.

Its holistic health team provides a wide range of on-site services including medical care, nutritional and lifestyle counseling, naturopathic supplementation, chiropractic care, physiotherapy, massage therapy, acupuncture, chiropody, and ergonomic assessments. Early intervention through onsite treatment results in significant reduction in lost time from injuries and illness. Prevention programs are aimed at lifestyle modification and disease prevention.

Husky’s food services policy is to offer healthy food choices that promote wellbeing and energy. The cafeteria serves up:

- Locally grown, organic fruits and vegetables
- High fiber and whole grains
- Vegetarian choices
- Cholesterol smart meals

Employees pay discounted prices for selecting healthy meals and herbal tea is free. As well, fresh fruit is available 24/7 along with seeds and dried fruit. Allergies are taken into consideration and the company uses environmentally friendly practices in its food selection.

Husky has seen some impressive results from its wellness initiatives. Its cost pressures – including WSIB claims, absenteeism rates, and drug costs – are significantly lower than the industry average.

With the global economic downturn, some will claim that wellness initiatives will have to take a back seat to more important and immediate issues. However, as all organizations are looking at every possible way to cut costs, we now have the perfect opportunity and responsibility to demonstrate that wellness programs can provide significant cost reductions.

The question is no longer ‘can you afford to do it,’ but ‘can you afford not to support the health and well-being of your employees.’ It makes sense that an ounce of prevention is worth a pound of cure. Investment up front in the prevention of disease will cost far less than treating illness down the road. In tough economic times, workplace health promotion programs make good business ‘cents,’ will buoy employees up, and galvanize your organization from the high cost of ill health.

Sue Pridham is president of Tri Fit Inc.

(sue@trifit.com)

Low Budget, Quick-win Wellness Strategies

Promote Healthy Eating...
- Offer ‘Fresh Fruit Fridays’
- Healthy snacks/meals for company meetings and gatherings
- Start a healthy recipe club
- 15-minute counseling sessions with a registered dietician

Promote Physical Activity...
- Develop a walking/pedometer challenge
- Provide stretch breaks for meetings longer than one hour in length
- Conduct a health fair featuring local and not-for-profit health organizations
- Set up a yoga class or another type of shower-less workout
- Set up a small meeting room with circuit training stations
- Co-ordinate a stair climbing challenge for high rise office buildings with accessible stairwells

Promote Team Building Through Wellness
- Conduct a ‘Build a Snowman’ department challenge and serve hot chocolate
- Run a ‘Warm Fuzzies Day’ where employees send special notes to co-workers showing appreciation and friendship
- Share stories of employees who are healthy and active and post them on your intranet site
- Develop departmental team building days with a wellness focus
- Co-ordinate a company team building event such as the Wacky Olympics followed by a barbecue

Promote Stress Relief/Relaxation
- Offer a massage day where a massage therapist provides 10-minute seated massages and pending interest, set up a regular inhouse massage day
- Establish a ‘no eMail’ policy during designated hours
Breathe new life into your benefits and retirement plans

When it comes to benefits, pension and savings plans, employee assistance and attendance management programs, making the best choice for your organization can be a challenge.

Yet now more than ever, your approach to plan design can make a critical difference in your employee health and productivity and in your bottom line.

Morneau Sobeco designs plans for your employees that are flexible and reliable, using leading-edge technology that provides on-line access to benefits and pension information.

With Morneau Sobeco’s innovative consulting and administrative solutions, your employee benefits come to life.

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Comprehensive solutions for pensions, benefits and workplace health and productivity.
During the last quarter of 2008, the world’s financial markets saw steep declines that have not been seen since the Great Depression. These circumstances sparked doubt in the minds of many Baby Boomers about whether they will be able to retire as early as they originally planned. Many individuals over 50 years of age are confronted with the uncomfortable reality that their future retirement plans will likely have to be altered.

Amongst the many human resources issues that employers, particularly mid-size or smaller companies, face in this environment, is to balance the need to adequately support employees as a retirement plan sponsor and the need to contain costs to ensure viability of the company for years to come. In this role, many employers strive to have employees, at any age, engaged in planning for their retirement so they can retire comfortably knowing that they don’t have to stay at work longer than they want to for fear that there won’t be enough income. While younger employees (those with greater than 10 years to retirement) have a longer horizon to recover from this downturn, those who are nearing retirement are not so fortunate.

‘Get Back On Track’

In recognition of the educational requirements within Canadian CAP Guidelines and the basics of retirement and investment planning for members of Defined Benefit and Defined Contribution plans, there are several initiatives employers may choose to help older employees ‘get back on track’ when preparing for retirement.

Although it is a constant challenge to encourage employees to review information pertaining to the company sponsored retirement plan, a simple and constant reminder to members to review the following information will be beneficial:

◆ Retirement plan booklet or summary of plan provisions
◆ Member statement that reports the value of the employee’s DC holdings or the DB pension earned to date
◆ Simple instructions about how to log onto the company and/or service provider websites; those sites contain helpful information about assessing personal risk profiles, investing, and related financial planning basics

Projecting future retirement income needs and available financial resources with a strong degree of accuracy is key to providing the older employee with some comfort as he or she looks forward at this point. Just stating the obvious: “the markets and my retirement savings have dropped” naturally leads the over age 50 employee to conclude that he or she cannot retire as originally planned.

‘Vision’ Of Retirement

Given the over age 50 target group will be more focused on their future income concerns than younger employees and they desire a more precise ‘vision’ of retirement, the employer may attempt to engage or promote those resources that can help define personal retirement objectives. The following points are key components to building retirement objectives with some precision:

◆ What is the employee’s expected standard of living after retirement? Is it the same as the current standard? What is the expected before-tax and after-tax income to reach this standard?
◆ Where will the retired employee (and spouse) live?
◆ What is the likelihood of part-time employment? Is phased retirement and/or community work a desired or acceptable alternative?
◆ What extraordinary expenditures – such as personal travel, weddings, or post-secondary support for children – are planned?
◆ What substantial cash infusion, such as sale of a home or cottage, is planned and when?
◆ What is the extent of government sponsored retirement income benefits and how can they best be structured?

In short, what would a personal financial model look like for the retired employee?

It is important to reinforce the message that the success of a sound retirement plan stems from sound financial planning using tools available from service providers and advice from the expanding financial planning expertise in the marketplace.

General Support

Within the confines of a company sponsored retirement savings program, the employer may offer some general support through plan service providers and educational consultants. These trained resources can easily be engaged to provide education and support to the group as a whole and cover such primary topics as:

◆ The Current Pension and/or
Continued on page 44
On March 24, 2009, the Legislative Assembly of British Columbia introduced Bill 11 to pave the way for a provincial Defined Contribution multi-employer pension plan.

In Ontario, the final report of the Expert Commission on Pensions authored by Professor Harry Arthurs suggested:

“In concluding this chapter on innovation in plan design, I feel obliged to report that a significant number of submissions raised the possibility that an expanded or two-tier CPP, or a new provincial counterpart plan, might offer many of the advantages that I seek to capture in Recommendation 9-3 for a new strategy to promote large-scale Target Benefit plans. I was particularly struck by the fact that this idea was raised in different ways in briefs from stakeholders as disparate as the Canadian Federation of Independent Business and the Canadian Labour Congress.”

Similar recommendations are found in the Alberta/British Columbia Joint Expert Panel on Pension Standards and in the final report of the Nova Scotia Pension Review Panel. Even the recent federal consultation paper contemplates that possibility.

At least in policy development spheres, there appears to be an awareness for an expanded Canada Pension Plan (CPP) concept designed to expand pension coverage nationwide, while reducing administration costs.

A brief historical review is in order to place this discussion in context. The CPP was established in 1966 as a pay-as-you-go Defined Benefit plan financed exclusively by employer and employee contributions. All of the provinces, except Quebec, opted to join the plan. Contributions are collected by the Minister of Revenue through payroll tax withholdings. Until the CPP reforms of 1997, monies collected by active employees were directed to pay out benefits to retirees. With the creation of the Canada Pension Plan Investment Board (CPPIB) in 1997 and a sharp rise in contribution rates, the CPP is now partially pre-funded.

Shortly after the National Pension Conference hosted by the federal government in 1981, the Canadian Labour Congress (CLC) submitted a ‘CLC Proposal For Pension Reform’ in which a doubling of CPP benefits was advocated. That proposal assumed that the CPP would continue to be funded strictly on a pay-as-you-go DB basis and that the existing benefit would be funded by an increase in mandatory contributions from employers and employees. The proposal, authored by pension expert Bob Baldwin, was a less provocative suggestion than an earlier CLC suggestion that CPP benefit levels be tripled. However, the deep recession experienced by Canada in 1982 shifted political attention away from retirement income security to deficit-fighting and decision-makers eventually decided to introduce pension reform in the late 1980s focused on reducing vesting periods, enhancing pre-retirement death benefits, and generally strengthening pension standards applicable to private sector pension plans.

**Supplemental CPP: An Idea Whose Time Has Come**

While Canadians waited to assess the CPPIB’s record as trustee of a portion of the CPP’s assets, there were no widespread calls for reform until 2003/04. Hugh O’Reilly, who heads the pensions and benefits practice group at Cavalluzzo Hayes Shilton McIntyre & Cornish, advocated, in a February 2003 article ‘The Law: Conflict of Coverage,’ for the creation of an Ontario-wide contributory DB plan for smaller employers, but did not envisage a CPP-wide reform.

That task fell to Reena Goyal and I in the October 2004 issue of Benefits and Pensions Monitor. There, we made the case for an expansion of the CPP that envisaged a voluntary system whereby employers and individuals would make supplemental contributions in excess of the existing CPP.
required contributions, with these additional monies invested by the CPP in the Canadian economy. The key benefits of the 2004 concept were an increased pension at retirement, delivered at a fraction of what the private sector could provide in registered retirement savings plans, and utilizing the existing administrative machinery of the CPP and the payroll procedures of the Canada Revenue Agency.

While neither O’Reilly’s 2003 article nor the BPM article resulted in an open debate within the industry about the merits of revisiting the role of the CPP, additional pension stakeholders began to evoke the merits of such a reform soon after.

Stéphane Dion, in his race for the leadership of the Liberal Party of Canada, published, in November 2006, a policy paper entitled ‘A Better Pension System for Canadians and Our Economy, the Stéphane Dion Plan.’ In it, he advocated for the introduction of a Supplemental CPP account. The 2006 version of the concept opted for a Defined Contribution account and left open the possibility that a body other than the CPPIB would be charged with the task of investing the new pension monies contributed to the supplemental account. It also offered a departure from the previous concept in that self-employed individuals who were not actively employed (homemakers for example) could contribute up to a certain amount into the Supplemental CPP Account on a tax-deferred basis.

On January 23, 2007, Ken Georgetti, president of the CLC, publicly advocated for the creation of a Supplemental CPP account in response to a policy paper issued by the Canadian Federation of Independent Business. The CFIB piece had brought into sharp focus the disparity between unionized and government or DB plans and the pension coverage in the private sector where no plans or often less generous DC plans are the norm.

Bank of Canada Governor David Dodge (who incidentally had been an architect of the 1997 CPP reform leading to the creation of the CPPIB) in a Question and Answer period following a speech given on May 10, 2007, expressed the view that a supplemental CPP component should be entertained given his preference for DB plans.

The creation of the Ontario Expert Commission on Pensions in November 2006 provided an avenue for a large number of public submissions, mainly aimed at finding ways to shore up the DB plan system. Surprisingly, a group of union-sponsored submissions advocated the creation of a supplemental CPP, albeit under different bases.

C.D. Howe Paper
More recently, pension consultant Keith Ambachtsheer published a policy paper for the C.D. Howe Institute entitled the ‘Canada Supplemental Pension Plan’ in which he joined the growing ranks of advocates for this idea. Due to the prestigious status of the C.D. Howe Institute, this variant of the reform concept has received extensive media attention and was brought to the attention of the provincial expert commission panels. The C.D. Howe Paper advocates mandatory enrolment of all employees above a certain income threshold with a right of opt-out.

Finally, Susan Eng, of the 330,000 strong Canadian Association for the 50 plus (CARP), argued in April of this year for the creation of a mandatory, vertical expansion of the CPP to be called the Universal Pension Plan. CARP’s position is that a mandatory expansion is required in order to achieve the economies of scale required to make the plan viable.

The relatively rapid development of the reform concept has not yet entered the political arena and, unlike the changes brought about by then Finance Minister Paul Martin Jr. in 1997, the Supplemental CPP has the potential to create a vigorous debate within the pension community and even reach the general public. A large number of implementation issues still remain unresolved:

◆ Who will take the leadership role in implementing the reform?
◆ How independent from government will the organization be?
◆ How will it interact with any province-wide plans such as the Alberta/B.C./Saskatchewan initiative?

Other issues such as how to avoid the over-concentration of economic pension power in the hands of a few ill-advised managers or the dislocation that a sovereign pension fund would allow for considerable reduction in management fees (as a percentage basis, not in absolute terms). This continued involvement of the best that the private sector has to offer, under what terms, and with what safeguards in place to avoid undue risk. The role of the Supplemental CPP fiduciaries would be to perform the necessary due diligence (with the assistance of expert, independent consultants), monitor performance, and report back to the membership. The economies of scale generated by the size of the fund would allow for considerable reduction in management fees (as a percentage basis, but not in absolute terms). This continued involvement of the best that the private sector has to offer, in terms of wealth management expertise should prevent the over-concentration of economic clout in the hands of a few quasi-governmental investment managers.

Convert DB Entitlements
For example, the recent solvency underfunding crisis brought about by the serious stock market correction and lower interest rates has given the Supplemental CPP another useful application that commentators have not yet explored — could it be used as a stranded pension entity capable of accepting DB assets of distressed companies?

With the informed consent of plan members and pension regulators, members could, for example, convert their DB entitlements into a commuted value that would be transferred into an individualized DC account at the Supplemental CPP. The unfunded pension liabilities would thus be compromised and fall off the plan sponsor’s books, allowing it to preserve much-needed cash and, presumably, maintain jobs and tax revenues. For these employees, while the commuted value cash amount may pale in comparison to the defined benefits promised under their company plan, it would prevent a further deterioration of the funded status and, depending on the time horizon and market conditions, might mitigate some, or potentially all, of the loss initially suffered on paper.

Another critical element of the Supplemental CPP reform that requires further thought is how best to invest the large pools of capital that Canadians would entrust to its fiduciaries. The proposals put forth by unions are silent on this key issue and the C.D. Howe Paper offers little guidance except to propose a risk-optimizing portfolio, along with a hedging portfolio for more risk-averse participants, with a progressive annuitization strategy.

One way to address this thorny issue would be for the fiduciaries of the Supplemental CPP to fully utilize the best that the private sector has to offer. Specific blocs of Supplemental CPP contributions could be entrusted to sophisticated private sector wealth managers based on a fully transparent and open competitive bidding process. For example, an age-appropriate life cycle fund with a target retirement date of 2020 might lead to a request for proposals as to how the money will be invested, under what terms, and with what safeguards in place to avoid undue risk. The role of the Supplemental CPP fiduciaries would be to perform the necessary due diligence (with the assistance of expert, independent consultants), monitor performance, and report back to the membership. The economies of scale generated by the size of the fund would allow for considerable reduction in management fees (as a percentage basis, but not in absolute terms). This continued involvement of the best that the private sector has to offer, in terms of wealth management expertise should prevent the over-concentration of economic clout in the hands of a few quasi-governmental investment managers.

Maximum Efficiency
The Supplemental CPP would become the ultimate public/private partnership, deriving maximum efficiency from public infrastructure (tax collection and benefit administration machineries), yet capitalizing on the discipline of market forces and innovation.

For some, it is an idea whose time has come. However, while the concept can no longer be dismissed out of hand, much of its finer details will need to be finalized before it can move Canada to the forefront of 21st century pension innovation.
Broadly, what we mean by volatility is a measure of the variability in the price of a financial instrument or in the value of a portfolio or an index benchmark. It is commonly used by pension fund investment managers and advisers to measure both historic risk (referred to as ‘ex-post’) and anticipated risk (‘ex-ante’).

Pension fund managers are most likely to be familiar with such terminology from their investment managers’ performance reviews and where a ‘risk budgeting’ approach has been adopted at an overall scheme level.

**Strong Tendency**

Volatility of equities typically rises before and during periods of uncertainty and falling equity prices, and vice versa. Over time, equity volatility shows a strong tendency towards mean reversion as well as a negative correlation with corporate bond prices. Taken together, these characteristics present investors with interesting investment opportunities.

The VIX is probably the best known measure of volatility, reflecting the one-month implied volatility of the S&P500 index of U.S. stocks. It is nicknamed the ‘Fear Index’ for a good reason – when the VIX rises, stock prices fall.

During the 2008 financial crisis, volatility spiked to unprecedented levels, as exhibited in Figure 1, comparing the VIX to the S&P 500. It will be painfully clear to all pension funds that the sharp increase in volatility has been accompanied by large falls in equity and credit markets. Contrast this with the much calmer times from 2005 to mid-2007 when volatility was subdued and equity prices were rising steadily and more predictably.

How could we take advantage of these movements and invest in volatility? Daily volatility itself is very volatile and attempting to trade its movements is best left to speculative short-term traders. However, for longer-term investors, it is possible to invest in a better measure of medium term structural volatility, namely one-year implied volatility.

Implied volatility reflects investors’ expectation of the level of volatility in a year’s time. It is, therefore, an anticipatory or ex-ante measure. As can be seen from Figure 2, at the end of March 2009, the level of the VIX was just below 80 per cent and the one-year implied volatility of the S&P500 stood at 37 per cent, with the latter being clearly less volatile. Investors can buy (go ‘long’) or sell (go ‘short’) one-year implied volatility on a number of major market indices through exchange-traded futures and options as well as via variance swaps, the latter being traded ‘over-the-counter’ and, therefore, carrying some counter-party risk.

For example, if you think volatility is too high and you expect it to fall, you would go short by selling put options and hedge the equity risk by selling futures. If you were right, the price of the options would decrease and you would make money whatever the market level.

**Relatively Inexpensive**

The exchange-traded instruments used on the main indices such as the S&P 500 are liquid and relatively inexpensive to trade. A qualified manager can access this interesting new asset class easily and with high liquidity, notably by investing in the volatility of a global basket composed, for example, of the S&P500, DJ Eurostoxx50, and Nikkei 225. The manager would have to decide on three ‘engines’ or strategies:

- a mean reversion strategy, or when to go long or short on volatility
- on shorter-term trading opportunities presented by changes in volatility such as the ‘volatility of volatility’
- on arbitrage strategies between equity volatility in the U.S., European, and Asian markets

The advantage of playing on three different engines of performance is that you diversify your sources of alpha. For instance, during last fall’s cri-
sis, the first engine of performance, mean reversion, would not have performed well since volatility continued to stand well above its long-term average, calling for a short volatility strategy, and volatility did not subsequently revert to the mean. However, the second engine, volatility of volatility, would have been a good source of performance. This is because volatility itself was volatile in 2008 and its movements could have been captured on several occasions.

For example, in March 2008 the Bear Sterns debacle caused great uncertainty in the market and a corresponding spike in volatility to 29 per cent. Consequently, the anxiety in the market and the corresponding volatility level temporally receded. But, in fact, by the summer of 2008, volatility was back to 30 per cent. This illustrates that in order to benefit from short-term changes in volatility, you need a non-constant exposure to it as managed in the portfolio.

**Opportunities That Arise**

Finally, in a global portfolio, the third engine, which is the tactical geographical allocation of the volatility exposure, also contributes to the performance due to the opportunities that arise during a crisis.

Looking forward, with one-year implied volatility standing at around 45 per cent, it means that the market anticipates that a stock index like the S&P500 will fluctuate by three per cent every single trading session for one year in a row! Although this is possible over the short term, this level seems too highly elevated, with daily fluctuations that are too wide to be sustainable over the medium term.

If you are considering volatility as an alternative asset class, its role will be to provide absolute returns, diversification, and, over the long term, de-correlation with equities and credit. Figure 3 shows the long-term negative correlation with Euro equities between -0.7 and -0.8.

One can invest in the volatility space being long on volatility only. However, in this case, the investor has to decide when to invest in volatility, and when to get out of it. Therefore, this kind of investment activity requires experience, but playing on the different levels of volatility offers an opportunity to capture an attractive risk premium in an exciting new asset class.

*Delphine Pelloile is relationship manager and Stéphane Mauppin is head of the product specialists team (equity and balanced portfolios) at Crédit Agricole Asset Management.*
The continuing turmoil in the financial markets has challenged institutional investors to seek new directions in making investment decisions. Although many pension funds, sovereign wealth funds, and endowments have suffered severe declines, many of them have adopted new approaches to position themselves for a revival once the global financial markets rebound.

Like all investors, major institutions have struggled with rampant volatility, paralyzed debt markets, and a slower pace of distributions in private markets. This extraordinary environment has imposed severe strains on new institutional investment strategies.

Broader Range

Yet, by gradually becoming more active as investors, many institutions have adopted sophisticated methods of pursuing attractive risk-adjusted returns across a broader range of asset classes.

Those are some of the conclusions of a comprehensive study by a research team at McKinsey & Company. Working with 25 global institutional investors, which collectively have more than $4 trillion in assets under management, the team interviewed more than 100 senior executives in 10 countries.

The study clarified the set of best practices that now guide institutions on such priorities as sticking to their investment philosophy, overseeing risk management, and aligning the roles and responsibilities of their board and management. Moreover, the research provided a glimpse of how major institutions are developing the ideas that will become the best practices of the future. The findings can help guide sell-side leaders of sales and trading businesses as they try to meet the needs of their institutional clients.

From Best Practice To Next Practice

The study clarified the set of best practices that now guide institutions on such priorities as sticking to their investment philosophy, overseeing risk management, and aligning the roles and responsibilities of their board and management. Moreover, the research provided a glimpse of how major institutions are developing the ideas that will become the best practices of the future. The findings can help guide sell-side leaders of sales and trading businesses as they try to meet the needs of their institutional clients.

‘Best Practices’

The following best practices were identified as today’s benchmarks for sound management. Although many organizations have adopted some of these practices, none of the institutions had adopted them all.

◆ Adhere to an explicit investment philosophy

Leading institutions, seeking clarity and coherence, have a codified investment philosophy to guide their decisions. Their beliefs are widely communicated throughout their organizations, weaving their investment philosophy into the fabric of the institution. This co-ordination helps the institution stay the course amid market turbulence.

◆ Construct portfolios from specific beta and alpha building blocks

Different forms of the ‘core-satellite’ investment strategy have been adopted, with many investors clearly separating alpha and beta investment functions, most of the time at the asset class level. Leading institutions are taking this approach one step further by carving out portfolios and mandates at the next level of detail. They systematically isolate indexed, enhanced-index, active, and absolute returns mandates or portfolios in each sub-asset class.

These smaller sub-portfolios with specific targets for risk-adjusted returns, which we call ‘building blocks,’ enable these institutions to better manage their overall portfolios in three ways:

◆ They can more easily allocate active risk to specific portfolios – combining forward-looking market views with historical performance ratios to calculate an optimal risk budget for each portfolio.

◆ They allow for a more accurate targeting of the type of talent needed to run the different mandates.

◆ They can ensure better performance management by assessing their teams against more specific risk-adjusted targets.

While they seek more defined building blocks, leading institutions should also maintain enough flexibility to react to more opportunistic investment ideas.

◆ Adjust asset allocation to incorporate new sources of beta

Leading institutions have started to adjust their strategic asset allocation, adopting a more active approach. Many are reviewing allocations more frequently or using tactical asset-allocation adjustments to benefit from specific opportunities. Others are using overlay portfolios to rebalance more systematically, both between and within asset classes, to stay in line with their target allocation.
To adjust allocations, leading institutions dedicate extra resources to research and draw on a wide network of external experts – both to challenge the received wisdom on traditional asset classes and to assess opportunities in emerging asset classes. In addition, these institutions enrich the formulation of the target allocation by adopting different ‘lenses’ to understand the drivers of risk-adjusted returns. For example, many of those surveyed now use a macroeconomic ‘lens’ and incorporate expected growth rates of GDP in their allocation formula. This is a big change that de-emphasizes the importance of market capitalization.

- **Internalize mandates selectively**

Institutional investors have long wrestled with the questions of whether (and how much of) their assets should be handled by internal managers, or whether investment management should be outsourced. Over the years, many institutions alternated between the flexibility and potential cost-effectiveness of internal management and the breadth of options and expertise offered by external managers.

**External Managers**

About 75 per cent of the institutions examined already manage a portion of their assets internally, and the vast majority are planning to self-manage a greater proportion over the next three to five years. To do so, these institutions have developed detailed multiyear plans to attract talent, develop processes, and build the required internal management systems. More surprisingly, their plans cover not only the public market asset classes, but also alternatives such as private equity, real estate, and infrastructure where more specific expertise is required. For some institutions, the rationale for using external managers will increasingly focus on gaining access to specific investment styles, alpha generation capabilities, and cyclical strategies (for example, distressed debt).

- **Manage external managers carefully**

Leading institutions have recently been increasing the sophistication they bring to selecting and monitoring their external managers. Those relationships are evolving from the purely transactional into various forms of integrated partnerships. Seventy-one per cent of those surveyed believe they have already established what they call ‘strategic relationships with selected fund managers. More than 87 per cent consider this to be a key performance factor over the next five years.

As a result, many institutions are making significant changes in their fee structures, opting for performance-based fees. Others are eager to disaggregate the sources of performance to understand how alpha is generated – making sure that they are truly paying for talent and not for luck or have started to develop, jointly with their external managers, investment strategies that run through separately managed accounts.

Some leading institutions are going a step further by injecting capital into the external manager and dedicating staff to seed a captive fund to execute the strategy. Others are lifting out entire teams from managers and creating new funds in which they will be anchor investors.

- **Institute comprehensive risk management practices**

Most of the institutions recognize that their risk management practices are lagging behind the sophistication of their investment strategies due to underinvestment. They universally expect an increased emphasis on risk management over the next five years.

However, a small group has already transformed risk management into a value-adding function. For them, comprehensive risk management is based on four pillars:

- a clearly articulated risk strategy, in which board and senior management provide guidance on the institution’s overall risk tolerance – and, more specifically, about the level of risk they should be taking at the asset-class level
- full transparency about risk exposure – complementing daily Value At Risk measurements with robust stress testing and sensitivity analyses customized for each risk factor
- stand-alone risk organizations, independent from any investment function, considered peers of the investment groups, with high expectations for performance and talent attraction – and with compensation comparable to that of the investment function
- a risk partnership culture, in which investment professionals represent the first line of defense; risk and returns are equally considered in any investment discussions; and the risk management group is considered a partner of the investment professionals – even as it maintains its independence and control function

- **Develop IT and operations in lock-step with the investment strategy**

Some institutions force IT and operations to play a constant game of catch-up to support new investment products and strategies, thus adding operational risk in the middle and back offices. The cost of IT and operations projects has grown along with complexity and customization, making those costs the second-biggest line item (after compensation) in most institutions’ budgets.

Some institutions have recommitted to IT and operations by launching multi-year programs that – significantly – are managed centrally, as a portfolio of initiatives. That means they embrace an end-to-end view of IT and operations, starting with the needs of users. They apply best practices to ensure cost-effectiveness such as adopting ideas from lean manufacturing and outsourcing non-core and low-value-added activities. They make more deliberate use of outsourcing such activities as fund accounting, global custody, monthly valuations of illiquid instruments, and some elements of research and they place as much focus on hiring top talent for IT and operations as for their investment staff.

- **Extend the global reach**

Leading institutions have started to more fully leverage their financial clout to extend their reach into international financial and political spheres. Some are starting to develop partnerships with peers, financial services firms, and other large corporations under terms and conditions that assure a complete alignment of interests. Others are opening offices abroad, going beyond the large financial centers to emerging market countries where they plan to deploy a significant portion of their assets. Many believe that becoming part of the local community demonstrates a commitment that governments often reward with investment opportunities denied to others.

- **Anchor decision-making in a robust governance framework**

Few institutions have a sound governance framework that creates clear checks and balances between management and the board. These frameworks share three principles. They have a well-defined mission specifying the institution’s purpose and objectives and providing guidance on how it should balance its appetite for risk against expected returns. They have boards with strong professional representation, emphasizing expertise in investment, finance, and economics. And they have a clear separation of roles and responsibilities between management and the board.

**’Next Practices’**

The institutional investment landscape seems likely to continue to change rapidly over the next five years, and many institutions are rethinking their approach. Looking ahead, this research has given us glimpses of some developments we might soon see.

- **Re-anchoring the investment strategy**

Institutional investors benefit from a series of competitive advantages over other investors. Most institutions have a long-term investment horizon that helps them persevere through volatility; boast the scale to underwrite large transactions swiftly; and enjoy permanent capital. With these advantages, many institutions are re-anchoring
their investment strategies. Many are trying to exploit their long-term horizon by seeking the ‘illiquidity premium’ offered by investments in private markets and long-term ‘buy and hold’ strategies. Despite the recent liquidity crunch, most of the large institutions we worked with during our research have decided to maintain their allocations to private markets and some have even increased their exposure.

Other institutions, making the most of their heft, have started to make larger investments in single corporations. This allows them to maximize the impact of their proprietary insights while providing them with increased leverage over company boards and management teams to push for performance improvements.

Others are achieving stronger risk/return profiles by extending their investments across capital structures of target companies – complementing equity investments with mezzanine and senior debt financing.

► Making risk management more ‘long-tail-sensitive’

A few institutions are improving risk management by establishing a distinctive risk culture. To achieve this, they review the risk governance framework of their organization to give more weight to the risk management group. They create additional forums where risk managers and investment professionals can discuss risk/return tradeoffs and they launch major risk training programs throughout the organization, from the board to the back office. On the other hand, the risk function is being encouraged to change its mindset and to become a thought partner with the investment side of the house.

Moreover, some firms have decided to limit the potential impact of ‘tail’ events by adopting portfolio insurance programs. Other institutions have focused on the potential for a domino effect of tail events in which one event – thought to be exceptionally rare – begets a series of disasters. To think through these threats, many are broadening the profile of their risk management teams by developing their human capital. One CRO quipped that the ideal team would include “20 quant PhDs, 20 behavioural psychologists, and 20 sets of gray hair.”

► Bolstering proprietary research

Only a few institutions have the research capability to develop distinctive views on such factors as asset classes, macroeconomic drivers, and sector characteristics. Several plan to move away from primary/sell-side research and build more structured proprietary research capabilities, requiring the development of dedicated research teams and comprehensive research agendas.

Tapping external sources, some are developing privileged partnerships within their networks – including peers, asset managers, banks, think tanks, consultancies, and academic institutions – to help avoid the commodification of their research and to develop proprietary perspectives. Some are also adopting advanced knowledge management practices.

► Globalizing the talent pool

As the CEO of a Canadian pension fund said, “We expect our staff to look like the UN. At one leading sovereign wealth fund, about 40 per cent of the staff are not nationals of that country – and the fund’s goal is to soon reach 60 per cent. This aims to ensure that the institution’s workforce reflects the diversity of its investment portfolios and knowledge requirements.

It is clear that institutional investors are enduring momentous change. Their agility has certainly been put to the test over the past 18 months. Yet when the markets revive, institutions that have used the crisis to re-anchor their strategies in their true competitive advantages and to upgrade their organizations will be best positioned to prosper.

Bruno Roy is a principal in the Beijing office and Jona-than Tétrault is an associate principal in the Montreal office of McKinsey & Company.

Are We There Yet? ... The Retirement Income Dilemma

Continued from page 37

Retirement Savings Plan: What are the rules and how does the program work?

► Investing Fundamentals: Asset classes; risk and reward; personal risk profile; short-term investing versus longer term investing

► Registered Annuity and Life Income Vehicles: What is an annuity? How do related income options, Life Income Funds, RRIFs, operate?

► Canada/Quebec Pension Plan and Old Age Security: What are the rules and how does one apply for these benefits?

To assuage an over age 50 employee’s current (and on-going) anxiety about retiring at a future planned date, a personalized plan must be constructed based on defined financial objectives, the education supplied within an employer’s sponsored program and, most importantly, a personal plan that is monitored and adjusted as the actual retirement date approaches.

Increasingly Popular

Some employers make financial planning advisors directly available to these employees so such personalized plans can be developed and monitored as they approach retirement age. This arrangement has become increasingly popular over the past several years. The ‘2008 CAP Benchmarking Report’ sponsored by Great West Life, found that of the RPP and RRSP plan sponsors with fewer than 200 employees that were surveyed, about 60 per cent offer advisory services to their employees.

Such an arrangement requires tight governance to ensure the quality of financial advisor services and related fees are competitive, which may have some companies questioning whether they want to offer this service to employees. However, these arrangements offer a practical approach to connecting the over age 50 employee group to a customized plan that maps future action with a projected financial outcome. It is possible that the actual retirement date will be delayed, or more contributions or savings may be required to reach the target retirement date and lifestyle. At the very least, various factors such as investment return, contributions, personal earnings, cost of living increases, lifestyle factors, and target income replacement can be tracked each year as the employee gets closer to retirement. And, at the same time, the employee gains valuable knowledge and insights about the mechanics of retirement income planning.

This type of specialized programming can be delivered to over age 50 employees within the employer’s retirement program. Or, at the very least, it can be strongly promoted by the employer as a necessity outside of the workplace. Whichever approach is taken, its intent is to develop better behaviour and preparedness for retirement. No one likes undesirable surprises and no one likes this uncomfortable dilemma we currently face in the markets and economy.

Good retirement and financial planning with diligent execution will produce successful results.

Cam MacNeish is vice-president, group pension and retirement savings, at Corporate Benefit Analysts, Inc.
Natalie Dempster, head of investment research for North America at the World Gold Council, will be one of the featured speakers at the ‘World Alternative Investment Summit Canada 2009.’ She believes gold’s investment characteristics, especially its role as a portfolio diversifier, make it an invaluable investment. The summit takes place September 14 to 16 in Niagara Falls, ON. Visit: www.waisc.com

‘Changing Currents’ of the retirement income system will be the theme of the ‘2009 ACPM National Conference.’ Plenary sessions will examine topics such as the various pension reports published in the last few months and what they all mean to the pension industry while its workshops will address alternative investment strategies, plan governance, plan member education, pension plans in a corporate finance framework, the legal issues involved in determining what plan members should or should not know, and whether the proposed JEPPS ‘ABC Superfund’ is viable. It takes place September 15 to 18 in Montreal, QC. Visit: http://www.acpm.com

‘Hard Times Creative Measures’ is the theme of the 2009 Atlantic Regional CPBI Conference. It takes place September 16 to 18 in St Andrews, NB. For more information, visit http://www.cpbi-icra.ca

‘Taking Care of Business’ will be the focus of a keynote address by Ian Percy, an organizational psychologist and author, at the ‘13th Annual Health Work & Wellness Conference 2009.’ He will discuss how to break out of restraints and learn to claim the unlimited power available to businesses. It takes place in Gatineau, QC, September 30 to October 3. Visit: http://conferences.healthworkandwellness.com

‘Conquering Performance Anxiety’ is the theme of the Fall 2009 CPBI Western Region Conference. It takes place October 7 to 9 in Whistler, BC. For more information, visit http://www.cpbi-icra.ca

ADDENDA

The listing for Mawer Investment Management was not available for the Managers of Fixed Income Assets for Canadian Pension Fund Clients published in the April issue of Benefits and Pensions Monitor:

MAWER INVESTMENT MANAGEMENT LTD. Jamie Hyndman, Director, Vice-president of Institutional Sales; 900, 603 – 7th Avenue SW, Calgary, AB T2P 2T5 PH: 403-267-1974 (Toll free) 800-889-6248 Fax: 403-262-4099 eMail: jhyndman@mawer.com Web: www.mawer.com Manager Style: Credit

The listing for Montrusco Bolton was not available for the Managers of Alternative Investment Assets for Canadian Pension Fund Clients published in the May issue.

A s the Bernie Madoff scandal continues to drag on minor details continuing to emerge and as little has come to light about the alleged Ponzi scheme of Allen Stanford, my recent thoughts have turned to financial fraud. Not committing it, but looking at what I think is misplaced emphasis on how these alleged crimes occurred and, what I believe is the more interesting question, why investors willingly handed over their funds in these schemes.

**Fully Uncovered**

Since both of these stories are still emerging, and since neither of these frauds seem to have come up with brand new ways of separating people from their money, you might want to read about the instances where financial scams have been fully uncovered. My reading list includes:

- ‘The Hit Charade,’ the story of Lou Pearlman, the creator of boy bands NSYNC and the Backstreet Boys, who, along the way, also stole $500 million from investors
- ‘The Pretender,’ the story of Martin Frankel who stole from insurance companies to fund a Greenwich hedge fund that didn’t, in fact, exist

**Visible Philanthropy**

The first factor Greenspan calls ‘situation,’ referring to the social and context feedback pressures that will influence an individual. In the Madoff case, situational factors giving legitimacy to the scam included Madoff’s visible philanthropy, as well as the 15 ‘feeder’ hedge funds that attracted investors who, in effect, turned over their own assets to Madoff’s fund. This gave the strong impression that the risks were minimal and that background research had been performed.

The second factor is called ‘cognition’ (rather than intelligence, since one can have a high IQ and still be gullible). Rather then perform due diligence themselves, investors trusted advisors and their recommendations. Other examples of what he calls ‘non-reflective cognitive styles’ include intuitive and impulsive decisions. This goes along the lines of ‘this fund has made steady money in the past, therefore I should invest quickly while the opportunity still presents itself.’

Personality and the traits that make a person vulnerable to scams is the third factor. Many articles about the Madoff scandal chided investors for not doing their due diligence, forgetting that if all of us, in every one of our everyday interactions with people, stopped to perform a full due diligence, then no work would ever be performed by anyone. Greenspan notes that the key personality trait is to know when to be trusting of other individuals and when not to be (which is easier said than done).

**Ideas Of Greed**

Emotion is the final factor and includes the ideas of greed, but also the lesser emotions of fear of losing and need for security (Madoff stressed the safety of the fund as much as the large potential returns that would come from investing with him).

Individuals differ in the weights affecting any gullible act, meaning that emotion may play a larger part for some, while the situation may be a prime factor for others. But this framework reminds us that fraud will always be with us and that endless due diligence isn’t really practical. You can’t have a credit default swap for every party you have a financial dealing with. Rather than looking towards others (more government regulations) for help, investors would be better off looking within their own selves to determine how gullible they could be.
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