A funny thing happened this year to the landscape of chief financial officers (CFOs) and senior human resources (HR) executives. It seems their outlook on the pension situation, while not stellar, is improving.

According to a survey from the Conference Board of Canada and Watson Wyatt Worldwide, the percentage of people who feel the crisis will be long-lasting has declined from 61% last year to 48% this year in the case of CFOs, and from 67% in 2006 to 40% in the case of senior HR executives.

“We got rid of the fever but still have the flu,” said Gilles Rheaume, vice-president of public policy with the Conference Board in Ottawa. He noted that there was a continuous rise from 2004 to 2006 regarding the crisis, but there is a marked turnaround.

The survey, which looked at 147 responses from 141 organizations, showed another relatively positive note. Two thirds of CFOs believe there is a pension crisis in Canada. While on the surface that sounds alarming, it is down from the 80% that believed it a year ago. Again, HR executives who believed there is a crisis also dropped from 78% to 59% this year.

Despite the numbers of people thinking the crisis is abating, there are still serious concerns felt by the pension community in terms of threats to defined benefit (DB) plans. According to Ian Markham, director, pension innovation, with Watson Wyatt Worldwide in Toronto, pension executives (from publicly traded firms) are still concerned with the volatility of expense, and those from the not-for profit environment are concerned with actual expense. In order to deal with some of the volatility, Markham noted, material changes are being made to investment policies, such as an increased exposure to alternative investments and a greater emphasis on liability-driven investing (LDI). In fact, 50% of those surveyed said they are using LDI to stabilize costs. Separately, Markham stated that plan sponsors have relatively mixed feelings when it comes to the question of using a DB plan versus a defined contribution- (DC) style pension plan. While DC plans are good at attracting employees, it seems that DB plans are better at actually retaining them and, not too surprisingly, DB is considered the best for both.

One theme became clear in this year’s survey: HR is starting to take action to address an ageing workforce. One third of the respondents said they are taking steps to implement a phased-in retirement plan, and another third have implemented or plan to implement a specific older-worker attraction/retention plan.

The drive for highly skilled workers is continuing, noted both Markham and Rheaume, and, at least for now, those in the markets are starting to believe their pensions will be there when they are needed.

Joel Kranc
**FULL DISCLOSURE**

Publicly traded firms will soon have to provide more information on executive compensation as a result of proposed regulation changes by the Canadian Securities Administrators.

“One of the stated purposes of the change was really to improve quality and transparency in executive compensation disclosure,” explains Phil Yores, a senior executive compensation consultant with Hewitt Associates in Toronto.

The most significant changes are a summary compensation table that includes a column showing the total compensation provided to each named executive officer (NEO) and a new compensation discussion and analysis section (CD&A) to explain the rationale for specific compensation programs for executives. Also, all equity compensation in the summary compensation table is disclosed on the basis of the compensation cost of these awards over the requisite service period, as reflected in a company’s financial statements plus more specific disclosure of potential payments to NEOs upon termination of their position at the company, including more detail on retirement benefits; and an executive compensation form that will require expanded disclosure of director compensation, including a summary table and equity disclosure similar to what is required for NEOs.

Also, the disclosure of defined benefit (DB) and defined contribution (DC) plans will be separated, which may make it more confusing for the average reader. A reflection of the incremental value of DB benefits will also need to be included, taking a more prominent role in the assessment of total compensation. But negative numbers, in which the value of the pension decreased, will not be included.

The proposed changes will take effect Dec. 31, 2007. Yores says firms should review the draft rules now in order to be prepared for the changes. “It is a more substantial effort than the former proxy disclosure, and you have to make decisions on who’s going to be responsible and how the process is going to work for each company.”

— CRAIG SEBASTIANO

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**Slow, But Not Stopping**

Drug spending continues to increase in Canada with an estimated $21.1 billion in 2006. But according to a report from the Canadian Institute for Health Information (CIHI) in Ottawa, the rate of increase is not as big as it has been in the past 10 years. The forecast growth rate for prescribed drugs in 2006 was almost 7%. That’s a relatively mild growth rate compared to the average of just over 11% for prescribed drugs from 1997 to 2004.

This slowing growth rate is attributed to a number of factors including age, numerous Health Canada alerts and increased public awareness and safety. Even technology plays a role. “New drugs or lack of blockbuster or brand new innovative drugs that impact a large population: all of that can impact the growth whether it be an increased growth or a decreased growth,” says Michele Arthur, a pharmacist with CIHI.

Just how much of an impact each factor contributes, though, is impossible to tell. “One of the things we don’t know is how much each of the factors plays from a weighting perspective as to the cause,” says Arthur.

As for the split between the private and public sectors, prescription drug financing is 46% on the public and 54% on the private, nationally. Provincially, there’s quite a variation. In the public sector, for example, Ontario has seen a -0.4% growth in prescription drugs, whereas Nova Scotia has seen an almost 14% growth. Similar variation infests the private sector, too. In British Columbia, prescription drug expenditure in the private sector is an almost 17% growth, compared to only about 2% in Newfoundland.

Regionally, there are differences, too. “In Atlantic Canada we see a higher proportion of the private sector covering drug costs than we do in our Western provinces,” Arthur says. And Quebec stands out with an almost fifty-fifty split [of private/public] because of its legislation, she says. “Different models in each of the provinces will have an impact on employers as well,” she says. “If you’re a national employer, you’ll have a different impact in Atlantic Canada than you would in Western Canada.”

— BROOKE SMITH

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**Hold the Phone**

It’s shaping up to be the biggest deal of its kind in this country’s history. Canada’s largest public sector pension funds are partnering with private equity firms to vie for ownership of Bell Canada Enterprises Inc. (BCE). A bidding war might even be in the cards. Not everyone thinks that such ownership of a big company such as BCE is good for Canada or the pension industry. Some say it’s a downright tax policy nightmare in the making. Others see even more potential backlash against the Feds’ death sentence for income trusts. Many in the pension industry are watching and waiting to see what this will mean for the future.


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**LETTER**

**RE: “OUT OF REACH,” MAY 2007**

In reference to your very good article “Out of Reach” in the May 2007 issue of **BENEFITS CANADA**, I thought I should bring to your attention, in passing, the possible wrong interpretation that many readers may have of the funding status of the CPP [Canada Pension Plan] when told that it is a prefunded plan. Even if the CPP is only partially funded at a level of about 20% and is expected to so remain for the rest of the 21st century, I often hear people being convinced that the CPP is fully (100%) funded, especially after hearing that the size of its fund now exceeds $100 billion. I’m afraid that your qualifying of the CPP status as being a prefunded plan will only generate further misconception.

— BERNARD DUSSAULT, SENIOR RESEARCH AND COMMUNICATIONS OFFICER, FSNA NATIONAL OFFICE
TRADING PLACES

Institutional investors will soon have a new platform to make equity trades. The investment dealers of Canada’s six largest banks—BMO Capital Markets, CIBC World Markets, National Bank Financial, RBC Capital Markets, Scotia Capital and TD Securities—along with Canaccord Capital, have joined forces to establish an Alternative Trading System (ATS).

The project, named Alpha, will be designed so that trades are made on the best market available, taking into account the current exchanges, such as the Toronto Stock Exchange (TSX), and other ATSs being launched in Canada.

“The future strength of Canadian capital markets depends on our ability to achieve the same kind of efficiencies already being realized around the world by leveraging today’s technology,” says Jos Schmitt, chief executive of the new initiative. “This new Canadian-driven platform is being designed to find those efficiencies, increasing both the competitiveness and liquidity.”

The new ATS will be introduced under rules established by securities regulators for the competitive operation of Canadian marketplaces.

The concept of ATSs is nothing new south of the border, where they are known as electronic communication networks (ECNs). They came into existence nearly a decade ago and have taken market share away from established exchanges. To get back some of that lost market share, both the New York Stock Exchange and the NASDAQ have bought ECNs in recent years, acquiring Archipelago and INET, respectively.

Alpha is expected to launch sometime next year, subject to receiving required regulatory approvals. Steve Kee, the TSX Group’s director, media and marketing, says it is difficult to say whether the launch of the ATS will hurt the Exchange financially. “It’s like trying to go against something that doesn’t exist at this particular moment. I just know that we spend about $50 million a year on technology and have done so for the last three years to provide a platform that is meeting the needs of those dealers who use our marketplace.” — CRAIG SEBATIANO

DATES TO REMEMBER

June 12-13: Toronto, Canada Cup of Investment Management
June 13: Winnipeg, CPBI 2007 National Conference
June 14: Toronto, LOMA Canada Annual Conference
June 14: Toronto, Securities Class Actions & Trustees Fiduciary Duties
June 19-20: Montreal, Mercer M&A Ready Workshop

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