Front LINES

NEWS
INSIGHTS
TRENDS

MATT DALEY

SWITCHING GEARS

Can employers shift responsibility when it comes to their employees' retiree healthcare benefits? It appears so. General Motors (GM) has made headlines by agreeing to create a VEBA (Voluntary Employees' Beneficiary Association), a tax-exempt trust that is used to prefund employee health and welfare benefits. Last month, the automotive giant agreed to pay $26.5 billion into a VEBA controlled by the United Auto Workers (UAW) to shed its healthcare liabilities.

Although VEBAs have been in circulation since the 1920s, this latest incarnation is new. "This concept in which you fully fund or you try to fully fund or make a one-time payment for retiree healthcare then you're done with it—that's only been something we've heard about in the last year," says Bob Leone, a principal with Hewitt Associates in Minneapolis.

There is currently no equivalent to the VEBA in Canada. However, trends know no borders and VEBAs do hold some allure for employers. Employers get more than simply a tax break—with this VEBA, a company's healthcare liabilities (in GM's case, $45 billion) are removed from its books and transferred to a union.

GM's VEBA, in particular, does two things. First, it creates distance between the VEBA and GM (GM does not own or operate the VEBA in any way) and secondly, it is already set up in case Chrysler and Ford want to follow suit, Leone says.

"What has to be in [the union's] mind is that this VEBA is separate from GM and not subject to GM creditors in the case that GM ever goes bankrupt," says Leone. In other words, the trust money may not cover all of the liabilities, but the union has control of that money should any catastrophe occur.

Whether other U.S. companies will join the VEBA carpool—or whether a VEBA variation will head north of the 49th—is uncertain. Leone does say that VEBAs will certainly get a lot of attention. "It's very attractive for organizations with large union populations with retiree healthcare benefits," he says. "The interesting thing is it's potentially a more viable and more acceptable situation for companies that are having financial difficulties."

Whatever the amount of assets, whatever the company's bottom line, retiree benefits will reside in the hands of the union—*not* the employer. The question is, if the VEBA runs out of money, will the union try to negotiate more? — **BROOKE SMITH**

THE ABCs OF VEBAs

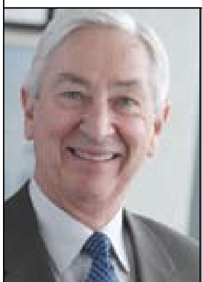
• A VEBA (Voluntary Employees' Beneficiary Association) is a tax-exempt trust used to prefund retiree health benefits. It can also be used for any number of welfare benefits, including life, dental, car and accident insurance.

• A company can fund a VEBA using cash or a combination of cash and its stock. In July 2007, Dana Corporation, a Toledo, Ohio-based auto-supply company, agreed to fund $700 million in cash and $80 million in stock to the United Auto Workers and the United Steel Workers.

• VEBAs are of two types: single-employer (one company sets up a VEBA for its employees) and multi-employer (a trust is set up and governed by a board of trustees, and more than one employer can participate in it).

• According to the Internal Revenue Service, there were 12,000 VEBAs across the United States in 2006.

• In a 2004 survey from TIAA-CREF, a financial services company in the U.S., 28% of respondents showed interest in a VEBA as a prefunding vehicle, but just as many (29%) were unfamiliar with its viability. And 14% said they weren't interested in prefunding their liabilities or were eliminating or reducing them (11%).



"You have a tremendous opportunity here to create a vision for Canada's retirement income system."

— **Keith Ambachtsheer,** president and founder of KPA Advisory Services, speaking to the Ontario Expert Commission on Pensions

CRUNCH TIME

According to the latest *60 Second Survey* by Morneau Sobeco, 20% of pension funds in Canada don't know whether their assets are exposed to Asset-Backed Commercial Paper (ABCP) or high-risk Canadian subprime mortgages, which brought about a liquidity crunch on the non-bank ABCP market. Almost as many pension funds believe that they are exposed to at least one of these assets.

The ABCP market represents more than $100 billion in Canada—a third of which is managed by the five non-bank institutions hardest hit by the crisis. Their commercial paper can be found in the portfolios of pension funds and other group savings plans.

The survey revealed that barely 4% of the 80 pension funds surveyed across Canada directly hold ABCP, while 15% are exposed to them through mutual funds.

> "The survey confirmed that the liquidity crunch affects a minority of pension funds with only a fraction of the assets being invested in these instruments. But it could be a major problem for those that need liquidity to buy pension benefits."

According to Jean Bergeron, a principal with Morneau Sobeco's asset management consulting practice in Montreal, "the survey results confirmed that the liquidity crunch affects a minority of pension funds with only a fraction of the assets being invested in these instruments. At the same time, it could be a major problem for those that need liquidity to buy pension benefits."

On June 30, 2007, the portion of pension fund assets invested in the money market was, on average, just over 4.2% of the $40 billion in assets managed by

CONT'D ON PAGE 11

Highlights From the Ontario Expert Commission on Pensions (OECP)

From the Association of Canadian Pension Management...

The Association of Canadian Pension Management (ACPM) stressed the need to encourage pension plan coverage, resolve funding issues and clarify several regulatory matters. The ACPM advocated for increased coverage levels, plan design and funding flexibility, and a balanced regulatory environment and leadership from Ontario in harmonizing pension regulation across Canada.

From the Pension Investment Association of Canada...

The Pension Investment Association of Canada made eight recommendations:

- address risk asymmetry in the rules regarding surplus entitlement;
- ease solvency funding requirements;
- allow plan sponsors to enhance the funded positions of plans;
- hold pension investments to the "prudent person" standard;
- clarify the rules in the case of a merger, split, restructuring or partial wind-up;
- harmonize pension law across Canada;
- create one regulatory pension system; and
- disband the Pension Benefits Guarantee Fund.

From the Canadian Auto Workers...

The Canadian Auto Workers (CAW) urged the OECP to recommend that the Ontario government actively pursue talks with the federal and other provincial governments on expanding and improving the Canada Pension Plan and the Quebec Pension Plan. The CAW also said it was important to improve protection of retirement income, including upgrading Ontario's Pension Benefits Guarantee Fund.

From Keith Ambachtsheer, president and founder, KPA Advisory Services...

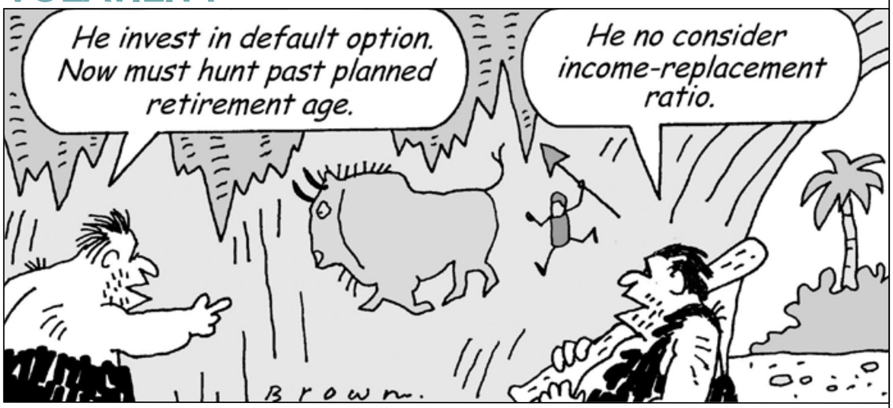
Keith Ambachtsheer urged the OECP to look beyond simply trying to fix Canada's current defined benefit and defined contribution pension systems. Ambachtsheer argued for a national, provincial or regional arrangement that would cover workers who are not part of a registered retirement pension.

From the Ontario Teachers' Pension Plan...

The Ontario Teachers' Pension Plan argued against a "one-size-fits-all" approach to pension legislation, noting that solvency funding should apply to private sector but not public sector plans. It also advocated for a more flexible approach to investment regulations, supporting the "prudent investor" rule without the current limits.

For further coverage, please visit www.benefitscanada.com

VOLATILITY



Early pension plan member communications

CONT'D FROM PAGE 8

43 Canadian managers evaluated quarterly by Morneau Sobeco. "It is not possible at this time to measure precisely the value of the money market mutual funds that hold ABCP," adds Bergeron. "This is the contamination effect." The issue here is who manages the liquid portion of a pension fund's assets. According to the survey results, a third of managers are chosen by pension funds primarily for their money market expertise, 28% for the quality of their fiduciary practices in risk management, and 10% for the quality of their research processes.

The survey also revealed that 20% of managers are chosen because they already manage the pension fund's bond portfolio, and there are economies of scale to be realized in adding the money market portion. Finally, 10% of pension funds count on the institutional backing of managers if potential recourses turn out to be necessary. Following the liquidity crisis, about 20% of the pension funds surveyed stated that they would review their managers' fiduciary practices.

On the other hand, the survey found that 46% of the pension funds are optimistic and believe that a solution will be found allowing them to recover or prevent losses. Surprisingly, plans that are direct holders of contaminated instruments, or that are unaware of whether or not they hold these instruments, are the most optimistic.

At the other extreme, pension funds that do not hold any of these instruments, or are not aware if they do, make up the largest portion of those that are pessimistic. But none of the plans holding contaminated instruments seem ready at this time to institute legal actions against their managers.

Whatever the outcome of this crisis, 26% of the pension funds surveyed state that they are currently reviewing their asset managers' practices concerning money market risk monitoring—or are considering the possibility of implementing a policy that would enable a fund manager to quickly segregate pure high-grade instruments from synthetic instruments—to mitigate future risk of contamination from illiquidity.

"Many managers have already begun an auto-evaluation of their practices to make sure they won't get caught another time in this kind of situation," says Bergeron.

— ALEXANDRE DAUDELIN

Going Green

Organizations are starting to "walk the talk" when it come to carbon emissions and disclosure. The results of the Canadian *Carbon Disclosure Project Report 2007* show that 64% of respondents have a formal greenhouse gas emissions management system, and 70% of respondents provide annual emissions data. David McCann, vice-president, head of relationship investments of the Canada Pension Plan Investment Board, notes that the Board analyzes climate change risk as part of its due diligence and adds that environmental, social and governance factors can have a positive influence on shareholder value over the long term. **— ALYSSA HODDER**

Come Together

The Alberta and British Columbia governments have decided to appoint a joint panel to review Alberta's *Employment Pension Plans Act* and British Columbia's *Pension Benefits Standards Act.* The six-member panel will consult with stakeholders and present its findings and recommendations to the provinces' finance ministers by Sept. 30, 2008. The panel's focus will include encouraging the creation and maintenance of employee pension plans, removing barriers to the creation of those plans, and balancing risks and rewards. — **BROOKE SMITH**

COACH'S CORNER

Athletes can benefit from a coach. But the cubicle- or assembly line-bound can benefit, too—from a "health" coach.

Health coaching is a recent initiative offered by some employers as part of their wellness programs. "Health coaches are typically not clinical health professionals," says Barry Hall, a principal with Buck Consultants in Boston. Rather, their expertise is in counselling, and they often have a nutrition or exercise background. "Their primary skill set is helping facilitate people going through a process of goal setting and achieving that goal." Goals such as losing weight, lowering stress levels or quitting smoking.

According to Buck Consultants' 2007 *Working Well* survey, 42% of U.S. employers and 31% of Canadian employers offer health coaching as part of their wellness programs.

Why? Hall suggests that—at least in the U.S.—it has to do with the high cost of healthcare. "Wellness is one of the areas that does show a lot of promise for helping to control the [high-cost] trend." (According to the survey, 33% of U.S. employers attribute a reduction in the trend rate to their wellness programs.) "At some organizations, there is almost a sense of desperation: what can we do to curb this rising cost? Health coaching is one of the ways employers deal with this."

But resolving this desperation comes at a price. "You're having professional one-on-one counselling," says Hall. "It's more expensive than offering a class that people can attend or printed [brochures] that are more generic, less personalized." And, perhaps, not always as effective as one-on-one coaching.

The survey indicates that the well-established EAP is the most popular wellness initiative offered by employers (93% of American employers and 85% of Canadian employers). Despite its popularity and its reputation as a trusted, confidential source, it's built on a different model than health coaching. "EAPs have been historically around providing resources, helping facilitate and getting people to third-party or community resources," he says. "Health coaching is establishing an ongoing relationship around a specific goal." — **BROOKE SMITH**