

RISKING

By Neil Faba



ALL

2010 marked another good year for pension investments—but after two major economic crises in the first decade of the 21st century, many plan sponsors are questioning whether the risk is greater than the reward

After the economic turmoil that defined 2008 and decimated assets in many pension plans, few expected the turnaround in markets that occurred in 2009. In last year's *Top 100 Pension Funds Report*, 66 of the funds on the list posted double-digit increases in assets for 2009. Only eight ended the year with decreases. While many pension funds and industry stakeholders expressed surprise at the successes of 2009, sharp market rallies following periods of recession certainly aren't unprecedented. What was perhaps less expected was the continued strong performance in 2010. In this year's Top 100 report, just three plans had

decreases in pension assets (as of Dec. 31, 2010), and the number of funds with double-digit increases has remained relatively steady (62 on this year's list). This means that a whopping 97 reported increases in assets—a mere two years after 94 of Canada's Top 100 funds posted decreases.

According to a recent Mercer *Pension Health Index* report, a pension fund with a balanced portfolio and a passive index investing strategy earned an average of 9.2% in 2010. Canadian equities were the best-performing asset class, returning 17.6% for the year. And the strong Canadian dollar had a significant impact on foreign equities last year. While the S&P 500 Index returned 15.1% in 2010,

that rate was down to 9.1% after conversion to Canadian dollars. Similarly, the 5.3% return from international equities was adjusted to 2.6% in Canadian currency.

Janet Rabovsky, a senior investment consultant with Towers Watson, points to the strength of equity markets and the Canadian dollar as the biggest surprises of the past year. "We expected much more tepid returns, generally—maybe mid to high single digits. We didn't expect companies to be as profitable as they were."

Paul Malizia, a principal in Aon Hewitt's investment consulting practice, says he was caught off guard by the strength of Canadian markets in 2010—a performance that he notes was driven primarily by commodities, energy and financial equities. However, he's not convinced that equities, Canadian or otherwise, are going to be the key to a pension fund's long-term success. "In Canada, you really are dealing with a few sectors that are going to either drive or hinder your performance, so I think a lot of plans over time are still looking to reduce their Canadian equity allocations to recognize the need for more diversity."

TOP 100

PENSION FUNDS

TOTAL PENSION ASSETS (MILLIONS) ARE REPORTED AS OF DEC. 31, 2010, UNLESS OTHERWISE INDICATED
PA = PENSION ASSETS ↑↓ Indicates an increase or decrease in total pension assets from 2009

ONTARIO TEACHERS' PENSION PLAN 1 Rank 2009: 1 ↑12.0% 2010 PA: \$104,721.0 2009 PA: \$93,509.0	ALBERTA - LOCAL AUTHORITIES PENSION PLAN** 8 Rank 2009: 10 ↑14.9% 2010 PA: \$17,655.0 2009 PA: \$15,364.7	OPSEU PENSION TRUST 15 Rank 2009: 15 ↑10.4% 2010 PA: \$13,285.0 2009 PA: \$12,036.9	CANADIAN PACIFIC RAILWAY 22 Rank 2009: 21 ↑17.9% 2010 PA: \$8,270.0 2009 PA: \$7,014.0	RÉGIME DE RENTES DU MOUVEMENT DESJARDINS 29 Rank 2009: 29 ↑14.6% 2010 PA: \$5,516.9 2009 PA: \$4,813.2	RIO TINTO ALCAN 36 Rank 2009: 33 ↑10.5% 2010 PA: \$4,617.8 2009 PA: \$4,179.4	CANADIAN IMPERIAL BANK OF COMMERCE 43 Rank 2009: 44 ↑17.1% 2010 PA: \$3,959.0 2009 PA: \$3,380.0	IBM CANADA LTD. 50 Rank 2009: 48 ↑6.8% 2010 PA: \$3,354.0 2009 PA: \$3,141.0	CO-OPERATIVE SUPERANNUATION SOCIETY PENSION PLAN 57 Rank 2009: 55 ↑8.3% 2010 PA: \$3,088.0 2009 PA: \$2,851.0	SASKATCHEWAN TEACHERS' RETIREMENT PLAN 64 Rank 2009: 66 ↑17.0% 2010 PA: \$2,734.5 2009 PA: \$2,337.8
ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (OMERS) 2 Rank 2009: 2 ↑11.5% 2010 PA: \$53,349.0 2009 PA: \$47,832.0	ONTARIO PENSION BOARD 9 Rank 2009: 8 ↑9.2% 2010 PA: \$17,500.0 2009 PA: \$16,021.8	GENERAL MOTORS OF CANADA LTD.*** 16 Rank 2009: 16 ↑12.6% 2010 PA: \$12,130.4 2009 PA: \$10,773.0	ROYAL BANK OF CANADA 23 Rank 2009: 24 ↑16.3% 2010 PA: \$7,360.0 2009 PA: \$6,327.0	COLLEGES OF APPLIED ARTS & TECHNOLOGY PENSION PLAN 30 Rank 2009: 28 ↑12.5% 2010 PA: \$5,451.7 2009 PA: \$4,845.3	NEW BRUNSWICK PUBLIC SERVICE SUPERANNUATION* 37 Rank 2009: 37 ↑19.6% 2010 PA: \$4,592.5 2009 PA: \$3,839.3	CITY OF MONTREAL 44 Rank 2009: 42 ↑9.3% 2010 PA: \$3,813.0 2009 PA: \$3,489.0	TELECOMMUNICATION WORKERS PENSION PLAN 51 Rank 2009: 49 ↑7.2% 2010 PA: \$3,350.5 2009 PA: \$3,126.6	SHELL CANADA LTD. 58 Rank 2009: 51 ↑2.9% 2010 PA: \$3,018.0 2009 PA: \$2,932.0	B.C. COLLEGE PENSION FUND 65 Rank 2009: 63 ↑9.6% 2010 PA: \$2,652.9 2009 PA: \$2,419.8
QUEBEC GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN (RREGOP) 3 Rank 2009: 3 ↑11.2% 2010 PA: \$41,300.8 2009 PA: \$37,155.1	B.C. TEACHERS PENSION FUND 10 Rank 2009: 9 ↑6.4% 2010 PA: \$16,423.1 2009 PA: \$15,441.2	QUEBEC CONSTRUCTION INDUSTRY 17 Rank 2009: 18 ↑14.6% 2010 PA: \$12,102.0 2009 PA: \$10,556.3	RÉGIME DE RETRAITE DU PERSONNEL D'ENCADREMENT (RRPE, QUEBEC) MANAGEMENT 24 Rank 2009: 23 ↑6.3% 2010 PA: \$6,837.0 2009 PA: \$6,432.0	THE CIVIL SERVICE SUPERANNUATION BOARD 31 Rank 2009: 36 ↑22.7% 2010 PA: \$4,927.0 2009 PA: \$4,015.0	CANADIAN BROADCASTING CORP. PENSION PLAN 38 Rank 2009: 34 ↑9.1% 2010 PA: \$4,529.0 2009 PA: \$4,153.0	SCOTIABANK GROUP MASTER TRUST FUND 45 Rank 2009: 43 ↑9.1% 2010 PA: \$3,712.0 2009 PA: \$3,403.0	SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN 52 Rank 2009: 52 ↑14.5% 2010 PA: \$3,338.4 2009 PA: \$2,916.8	TORONTO DOMINION BANK 59 Rank 2009: 59 ↑13.6% 2010 PA: \$2,918.0 2009 PA: \$2,569.7	U.S. STEEL CANADA INC. 66 Rank 2009: n/a ↑1.8% 2010 PA: \$2,592.0 2009 PA: \$2,545.0
HEALTHCARE OF ONTARIO PENSION PLAN (HOOPP) 4 Rank 2009: 4 ↑14.8% 2010 PA: \$35,717.0 2009 PA: \$31,116.0	CANADA POST CORP. 11 Rank 2009: 12 ↑13.4% 2010 PA: \$15,274.6 2009 PA: \$13,466.4	AIR CANADA PENSION INVESTMENTS 18 Rank 2009: 17 ↑0.7% 2010 PA: \$10,827.0 2009 PA: \$10,751.0	TELUS CORP. PENSION PLAN¹ 25 Rank 2009: 38 ↑7.1% 2010 PA: \$6,765.0 2009 PA: \$6,316.0	ABITIBOWATER INC. 32 Rank 2009: 27 ↓6.5% 2010 PA: \$4,900.6 2009 PA: \$5,241.0	CHRYSLER CANADA INC. 39 Rank 2009: n/a ↑8.1% 2010 PA: \$4,450.0 2009 PA: \$4,117.0	NEW BRUNSWICK TEACHERS' PENSION PLAN* 46 Rank 2009: 47 ↑17.7% 2010 PA: \$3,710.0 2009 PA: \$3,153.4	ROYAL CANADIAN MOUNTED POLICE PENSION PLAN* 53 Rank 2009: 64 ↑35.3% 2010 PA: \$3,273.0 2009 PA: \$2,419.0	BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND** 60 Rank 2009: 61 ↑12.2% 2010 PA: \$2,888.8 2009 PA: \$2,574.2	NORTEL NETWORKS LTD. 67 Rank 2009: n/a ↓2.4% 2010 PA: \$2,573.0 2009 PA: \$2,636.8
PUBLIC SERVICE PENSION PLAN* 5 Rank 2009: 5 ↑37.4% 2010 PA: \$33,659.0 2009 PA: \$24,505.0	CANADIAN NATIONAL RAILWAYS 12 Rank 2009: 11 ↑5.4% 2010 PA: \$14,931.0 2009 PA: \$14,172.0	ONTARIO POWER GENERATION INC. 19 Rank 2009: 19 ↑11.5% 2010 PA: \$9,125.0 2009 PA: \$8,187.0	PROVINCE OF NEWFOUNDLAND & LABRADOR 26 Rank 2009: 25 ↑7.6% 2010 PA: \$6,450.0 2009 PA: \$5,992.0	THE PUBLIC EMPLOYEES' PENSION PLAN (SASKATCHEWAN) 33 Rank 2009: 31 ↑12.2% 2010 PA: \$4,788.0 2009 PA: \$4,268.0	IMPERIAL OIL LTD.*** 40 Rank 2009: 39 ↑14.5% 2010 PA: \$4,296.0 2009 PA: \$3,753.0	TORONTO TRANSIT COMMISSION 47 Rank 2009: 45 ↑10.5% 2010 PA: \$3,683.4 2009 PA: \$3,332.5	NAV CANADA 54 Rank 2009: 53 ↑12.1% 2010 PA: \$3,250.0 2009 PA: \$2,900.0	IWA - FOREST INDUSTRY PENSION PLAN 61 Rank 2009: 57 ↑3.7% 2010 PA: \$2,863.0 2009 PA: \$2,760.5	ALBERTA - MANAGEMENT EMPLOYEES PENSION PLAN** 68 Rank 2009: 67 ↑11.1% 2010 PA: \$2,566.3 2009 PA: \$2,309.1
B.C. MUNICIPAL PENSION FUND 6 Rank 2009: 6 ↑9.1% 2010 PA: \$26,676.1 2009 PA: \$24,447.5	BCE MASTER TRUST FUND 13 Rank 2009: 13 ↑13.5% 2010 PA: \$14,835.0 2009 PA: \$13,069.0	CANADIAN FORCES PENSION PLAN* 20 Rank 2009: 22 ↑34.8% 2010 PA: \$9,113.0 2009 PA: \$6,758.0	ALBERTA - PUBLIC SERVICE PENSION PLAN** 27 Rank 2009: 26 ↑12.3% 2010 PA: \$6,160.9 2009 PA: \$5,487.7	THE WINNIPEG CIVIC EMPLOYEES' BENEFITS PROGRAM AND THE WINNIPEG POLICE PENSION PLAN*** 34 Rank 2009: 32 ↑12.6% 2010 PA: \$4,786.9 2009 PA: \$4,251.2	BANK OF MONTREAL 41 Rank 2009: 41 ↑19.3% 2010 PA: \$4,211.5 2009 PA: \$3,528.7	ABRPVM - MONTREAL POLICE PENSION FUND 48 Rank 2009: 46 ↑7.7% 2010 PA: \$3,540.0 2009 PA: \$3,288.0	BOMBARDIER TRUST (CANADA) 55 Rank 2009: 56 ↑14.6% 2010 PA: \$3,166.4 2009 PA: \$2,763.4	PULP & PAPER INDUSTRY PENSION PLAN 62 Rank 2009: 60 ↑10.8% 2010 PA: \$2,830.2 2009 PA: \$2,553.8	UNIVERSITY OF MONTREAL 69 Rank 2009: 65 ↑6.9% 2010 PA: \$2,566.0 2009 PA: \$2,400.0
B.C. PUBLIC SERVICE PENSION PLAN 7 Rank 2009: 7 ↑7.2% 2010 PA: \$18,149.6 2009 PA: \$16,933.0	HYDRO-QUEBEC 14 Rank 2009: 14 ↑14.8% 2010 PA: \$14,226.0 2009 PA: \$12,390.0	NOVA SCOTIA PENSION AGENCY 21 Rank 2009: 20 ↑13.8% 2010 PA: \$8,436.2 2009 PA: \$7,412.6	ALBERTA TEACHERS' RETIREMENT FUND² 28 Rank 2009: 35 ↑49.7% 2010 PA: \$6,114.5 2009 PA: \$4,083.4	HYDRO ONE 35 Rank 2009: 30 ↑8.4% 2010 PA: \$4,699.0 2009 PA: \$4,336.0	HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA (HEPP) 42 Rank 2009: 40 ↑11.9% 2010 PA: \$3,997.0 2009 PA: \$3,572.0	NSAHO PENSION PLAN 49 Rank 2009: 54 ↑21.6% 2010 PA: \$3,506.0 2009 PA: \$2,884.0	MONTREAL TRANSIT CORP. 56 Rank 2009: 50 ↑6.1% 2010 PA: \$3,150.0 2009 PA: \$2,969.0	TEACHERS' RETIREMENT ALLOWANCES FUND BOARD (MANITOBA) 63 Rank 2009: 58 ↑6.8% 2010 PA: \$2,787.3 2009 PA: \$2,609.3	XSTRATA 70 Rank 2009: 62 ↑4.5% 2010 PA: \$2,556.7 2009 PA: \$2,447.2

TOP 100

PENSION FUNDS

ALBERTA - UNIVERSITIES ACADEMIC PENSION PLAN** 71

Rank 2009: **68** ↑10.6%
 2010 PA: \$2,522.6
 2009 PA: \$2,280.6

LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA 72

Rank 2009: **73** ↑18.3%
 2010 PA: \$2,500.1
 2009 PA: \$2,113.0

B.C. HYDRO & POWER AUTHORITY PENSION FUND 73

Rank 2009: **70** ↑11.4%
 2010 PA: \$2,419.2
 2009 PA: \$2,171.5

SUNCOR ENERGY INC. 74

Rank 2009: **69** ↑10.6%
 2010 PA: \$2,411.1
 2009 PA: \$2,179.8

UNIVERSITY OF QUEBEC 75

Rank 2009: **72** ↑12.1%
 2010 PA: \$2,399.5
 2009 PA: \$2,141.0

UNIVERSITY OF TORONTO C/O UNIVERSITY OF TORONTO ASSET MANAGEMENT 76

Rank 2009: **71** ↑8.1%
 2010 PA: \$2,336.0
 2009 PA: \$2,160.7

LAVAL UNIVERSITY 77

Rank 2009: **74** ↑7.6%
 2010 PA: \$2,103.0
 2009 PA: \$1,954.0

NATIONAL BANK OF CANADA 78

Rank 2009: **75** ↑10.1%
 2010 PA: \$2,100.6
 2009 PA: \$1,908.0

CANADIAN UTILITIES LTD. PENSION PLAN 79

Rank 2009: **80** ↑24.1%
 2010 PA: \$1,865.5
 2009 PA: \$1,503.0

ARCELORMITTAL DOFASCO 80

Rank 2009: **76** ↑7.2%
 2010 PA: \$1,864.4
 2009 PA: \$1,738.9

GEORGE WESTON LTD. 81

Rank 2009: **77** ↑11.1%
 2010 PA: \$1,863.2
 2009 PA: \$1,677.5

WORKPLACE SAFETY & INSURANCE BOARD EMPLOYEES PENSION PLAN 82

Rank 2009: **78** ↑11.7%
 2010 PA: \$1,818.0
 2009 PA: \$1,628.0

COMINCO PENSION FUND CO-ORDINATING SOCIETY (TECK COMINCO METALS LTD.) 83

Rank 2009: **81** ↑16.1%
 2010 PA: \$1,742.2
 2009 PA: \$1,500.0

PRATT & WHITNEY CANADA 84

Rank 2009: **86** ↑15.8%
 2010 PA: \$1,635.5
 2009 PA: \$1,412.7

VIA RAIL CANADA INC. 85

Rank 2009: **82** ↑7.4%
 2010 PA: \$1,577.0
 2009 PA: \$1,469.0

GESTION FERIQUE 86

Rank 2009: **84** ↑11.8%
 2010 PA: \$1,566.0
 2009 PA: \$1,401.0

MANULIFE FINANCIAL** 87

Rank 2009: **n/a** ↑14.5%
 2010 PA: \$1,505.1
 2009 PA: \$1,314.4

CANADA LIFE ASSURANCE CO.** 88

Rank 2009: **n/a** ↑4.7%
 2010 PA: \$1,492.0
 2009 PA: \$1,425.0

INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 IN ONTARIO 89

Rank 2009: **88** ↑11.9%
 2010 PA: \$1,491.0
 2009 PA: \$1,333.0

SYNCRUDE CANADA LTD. 90

Rank 2009: **n/a** ↑23.0%
 2010 PA: \$1,489.0
 2009 PA: \$1,211.0

SUN LIFE ASSURANCE CO. OF CANADA 91

Rank 2009: **83** ↑4.5%
 2010 PA: \$1,484.2
 2009 PA: \$1,420.6

ALBERTA - SPECIAL FORCES PENSION PLAN** 92

Rank 2009: **89** ↑10.2%
 2010 PA: \$1,460.3
 2009 PA: \$1,324.6

KRAFT CANADA MASTER TRUST FUND 93

Rank 2009: **90** ↑9.0%
 2010 PA: \$1,439.0
 2009 PA: \$1,319.6

SASKATCHEWAN MUNICIPAL EMPLOYEES PENSION PLAN 94

Rank 2009: **92** ↑9.3%
 2010 PA: \$1,402.0
 2009 PA: \$1,283.0

PROVINCE OF PRINCE EDWARD ISLAND 95

Rank 2009: **n/a** ↑14.2%
 2010 PA: \$1,400.0
 2009 PA: \$1,226.0

UNITED FOOD AND COMMERCIAL WORKERS UNION PENSION PLAN 96

Rank 2009: **97** ↑12.7%
 2010 PA: \$1,398.0
 2009 PA: \$1,240.0

DOMTAR INC. 97

Rank 2009: **99** ↑14.1%
 2010 PA: \$1,383.4
 2009 PA: \$1,212.7

UNIVERSITY OF BRITISH COLUMBIA FACULTY PENSION PLAN 98

Rank 2009: **96** ↑10.7%
 2010 PA: \$1,381.0
 2009 PA: \$1,248.0

QUEEN'S UNIVERSITY 99

Rank 2009: **93** ↑6.8%
 2010 PA: \$1,360.9
 2009 PA: \$1,273.8

ENBRIDGE INC. 100

Rank 2009: **85** ↓2.9%
 2010 PA: \$1,360.0
 2009 PA: \$1,400.0

2010 Top 100 Total: \$753,367.1

2009 Top 100 Total: \$669,043.9

% Difference: 12.6%

Notes: *As of March 31, 2010 **2009 value has been restated

*** Estimated 12.6% increase

1. Telus Corp. Pension Plan now includes Telus Edmonton, Telus Quebec and Pension Plan for Management and Professional Employees of Telus Corp.

2. Increase due to repayment of outstanding loan

Figures in this report are based on responses provided by the survey participants. Benefits Canada assumes no responsibility for the accuracy of the data provided. All totals are subject to a +/- variance due to rounding.

Many of the leading pension funds in Canada have already started looking at diversifying their investment portfolios to reduce exposure to equity volatility. According to Michael Nobrega, president and CEO of the Ontario Municipal Employees Retirement System (OMERS) (No. 2), that fund's journey toward portfolio diversification began in 2004, when OMERS held 82% of its investments in public markets. Since then, the team has worked toward implementing a 53/47 asset allocation between public and private markets, respectively. In the nearly eight years since adopting an investment policy with a strong private market weighting, Nobrega explains, the plan has seen annualized returns of 8.11%, which includes a 15.3% loss in 2008. In 2010, OMERS posted a 12% rate of return on its investments.

Nobrega sees a movement unfolding among pension funds from public to private markets. "I think that shift has already occurred and will probably continue. When we started this program in 2004, pension funds' investment focus in private markets was under 10%. Now, the average is probably closer to 20%, and higher in some cases."

In addition to focusing on an asset shift from public to private markets, the investment strategy that OMERS adopted in 2004 is built on three pillars: prudent leverage for investments; a goal for annual returns of between 7% and 11%; and direct management of its investment assets rather than management through funds.

Nobrega points to OMERS' 2008 acquisition of Teranet Income Fund—which holds a monopoly on the Ontario Electronic Land Registration System—as a key infrastructure investment. He also mentions its stake in the Hudson Yards development in Manhattan as an important recent real estate move. "They're large, and they represent what we're trying to do within our 7% to 11% [annual return] strategy," says Nobrega. "To make good real estate returns now, you have to get into new projects, because the yields are very low on matured real estate. On Teranet, we have sustainable cash flows over the long term, which match our liabilities."

Shifting Priorities

The Healthcare of Ontario Pension Plan (HOOPP) (No. 4) has also focused its

The Numbers

- At the end of 2010, total assets for this year's Top 100 pension plans were \$753.4 billion, compared with \$669.0 billion at the end of 2009. This is an increase of 12.6% over last year.

- Just three plans on this year's Top 100 reported decreases in total pension assets.

- There are seven newcomers to the Top 100 this year: Chrysler Canada Ltd. (No. 39), U.S. Steel Canada Inc. (No. 66), Nortel Networks Ltd. (No. 67), Manulife Financial (No. 87), Canada Life

Assurance Co. (No. 88), Syncrude Canada Ltd. (No. 90) and Province of Prince Edward Island (No. 95).

- The Top 10 remained similar to last year, except for Alberta - Local Authorities Pension Plan, which moved up to the No. 8 spot; Ontario Pension Board, which moved down to No. 9; and B.C. Teachers Pension Fund, which moved to No. 10.

- There was a slight dip in the number of pension plans that reported double-digit increases in assets: 62 this year, compared with 66 last year.

attention on shifting its asset mix away from equities. John Crocker, the plan's president and CEO, says his team has been on an "LDI journey" for about six years. He explains that the shift really began to take shape following the tech crash, in which HOOPP lost about 5% in 2001 and in 2002. "The plan, in those days, was priced on making about 7.75%. So instead of making 15% over those two years, we lost 10%, which is a spread of about 25%. That was a wake-up call that maybe we had a little too much risk in our asset mix."

Following extensive research into the risks inherent in different asset mixes and working with the HOOPP board to develop new policy, the fund changed its asset mix to 46% equities and 54% fixed income in 2007—a shift from the 60/40 split that Crocker says "the Canadian pension landscape lives in."

"[The shift] dampened down the volatility a little bit, but the first eight or nine months of 2008 were kind of boring—a little up, a little down. Then the wheels fell off everything, and that's when our change in asset mix really paid off for us," he explains, adding that in 2008, when average Canadian pension plan losses were around 18%, HOOPP lost 11.9% and was able to return 15.2% in 2009.

Both Rabovsky and Malizia agree that the strong performance from equity markets in 2009 and 2010, both in Canada and abroad, has likely slowed the pace at which pension funds address risk management. But avoiding reliance on heavily volatile markets is still the focus of the majority of funds in the post-2008 environment, and liability driven

investing (LDI) is one way they're looking to do this. "LDI is definitely the new buzzword," Malizia says.

A 2010 *Global Quick Poll* on LDI from global wealth management firm SEI found that 44% of the 115 pension executives polled in Canada, the U.S., the Netherlands and the U.K. employ an LDI strategy within their pension investments. While the figure was less than the 54% of executives who said the same in 2009, it was still a significant increase from the 20% who used LDI in 2007 and the 37% who used it in 2008. And the number of plans employing an LDI strategy is expected to increase: 10% of those not currently using one indicated that they expected to do so by the end of 2010, and 40% said they are considering such a strategy for 2011.

Jonathan Jacob, managing director with Forethought Risk (a risk management consulting firm), says LDI is here to stay, if only because it represents a more cost-effective way for pension funds to manage their assets relative to their liabilities. "The only way you can absolutely hedge a liability is by buying an annuity...and unfortunately, that's an extremely expensive undertaking. If you're not going to do that, there are lots of approximate ways of getting closer to managing your assets relative to your liabilities."

Jacob adds that it's important to remember that LDI is not a single strategy—rather, it encompasses several different possible scenarios that may or may not fit a particular plan's needs. For example, while one plan may use leverage to hedge interest rate risks in its

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equity and fixed income investments, he says, another may choose private market infrastructure investments to mitigate the risk of inflation.

Crocker, though, isn't entirely convinced that the shift is on toward LDI. "A lot of people talk about LDI, but my sense is that there's a lot of talk and not necessarily a lot of action. It has required a huge amount of effort on our part over many years, in terms of changing policies and procedures and setting the right benchmarks."

Jacob says that whether a fund chooses an LDI strategy or some other approach to look at its assets and liabilities, risk management is so important that it's bound to become a key factor in how funds measure performance. "I would define success as a metric not of historical returns but of returns relative to risk. Over time, we're going to start to change our definition of 'success' from actual returns to the quality of those returns."

Of DB and Demographics

Looking ahead, aging employee demographics are going to force many funds to shift their attention from growing pensions to actually paying them out. And since the funded status of many plans took a beating over the past decade, the focus on managing risk to meet benefit obligations will be more important than ever.

The Mercer *Pension Health Index* shows that a typical Canadian pension plan was 73% funded at the end of 2010—up from 68% at the end of September but slightly down from a year earlier (74%). The index noted that investment gains were offset by increasing benefit obligations.

While the first wave of the post-World War II baby boomer generation is just reaching the traditional retirement age of 65, the Ontario Teachers' Pension Plan (Teachers') (No. 1) has faced a significant demographic shift for more than two decades. According to Jim Leech, the plan's president and CEO, in 1990, the province's teachers worked and paid into the pension for an average of 29 years and spent 25 years drawing pension benefits. Today, they work for 26 years and spend 30 in retirement. The average retirement age of Teachers' members has dropped from 61 to 59 over that time frame, and the ratio of working teachers to retirees has gone from 4:1 to 1.5:1. Despite once again posting a double-digit increase in investment returns, Teachers' faces a funding deficit of \$17.2 billion.

"Clearly, the \$17.2-billion deficit is saying that, as we look forward, there have to be some changes in the plan to ensure its sustainability. This is not dissimilar to what every DB plan in the world is facing," says Leech. The plan and the Ontario Teachers' Federation reached a tentative agreement in June on a three-part plan to address the funding deficit, which includes a 1.1% increase in contribution rates over the next three years.

Indeed, many experts point to this very issue as the central argument for shifting from DB to DC plans. According to Towers Watson's 2010 *Global Pension Asset Study*, 42% of total pension assets in the seven largest pension markets globally have moved to DC, and that trend is expected to continue.

And the new pooled registered pension plan (PRPP) may lead the way. Robin Pond, senior investment and DC consultant with Buck Global Investment Advisors, says plan sponsor reaction to the introduction of the PRPP is largely speculative until final details are agreed upon by Canada's governments. But, he adds, the proposed design of the PRPP—a form of DC plan—may

"There's obviously a big debate going on in Canadian pensions because of aging populations and financial market crashes, et cetera. The DB plan seems to be the whipping boy."

— John Crocker, president and CEO, HOOPP

lead to an even stronger conversion push by DB plan sponsors looking to reduce their liability and cost burden.

"One of the reasons why DB pension plans tend to be converted to DC plans, rather than group RRSPs, is that conversion to DC within the same registered plan does not constitute a plan windup. A conversion to a group RRSP would be a plan windup, and any deficit in the DB plan would need to be immediately funded," said Pond. "If the DB pension plan could be converted into a PRPP—so that the plan sponsor's role becomes very limited in the future and much of the administration and the fiduciary role are shifted to a financial institution—the motivation to convert from DB might be greater than ever."

Michelle Loder, Canadian DC business leader with Towers Watson, agrees that PRPPs could become an attractive option for DB plan sponsors looking for more cost-effective alternatives. "We don't believe that the introduction of PRPPs will necessarily either decelerate or accelerate the transition from DB to DC-type arrangements. We do believe that DB plan sponsors that are considering a shift to a capital accumulation-type arrangement will add the PRPP to the list of alternative options for consideration. For companies that consider retirement arrangements to be a core element of their total rewards strategy for attraction and retention of their workforce, the PRPP may not have as much appeal as some of the other options available," she says, such as registered DC plans, group RRSPs, deferred profit sharing plans or tax-free savings accounts.

For many of those at the top of the *Top 100 Pension Funds Report*, it's not yet time to turn away from DB. "I'm encouraged by the seriousness of, and the responsibility shown by, the sponsors to come up with a solution that will ensure this DB plan is sustainable for the long term," says Leech of the situation facing Teachers'. "In many other cases, they're sitting back waiting for somebody to change the rules on them. Or, if you look south of the border, they've given up and they're going to DC plans."

Crocker is also confident in the future sustainability of his plan. "There's obviously a big debate going on in Canadian pensions because of aging populations and financial market crashes, et cetera. The DB plan seems to be the whipping boy. We take a different view. We think the DB plan—properly scaled, properly governed, properly transparent—is, in fact, the best approach to providing secure retirement income to Canadians. One of our missions is to get that message out." ■

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