



Celebrate GOOD TIMES

Enjoying recent gains, pension funds are turning their attention to a new challenge: keeping them

By Yaldaz Sadakova

Put on your dancing shoes, kick up your heels and turn up the music...Canada's DB pension funds had a terrific year in 2013. Building on gains in 2012, the Top 100 pension funds continued to see funding improvements last year due to generous equity returns. As a result, many pension funds are now focusing more clearly on how to manage their risk so they can be better prepared for the inevitable: when the party's over.

According to data from the Canadian Institutional Investment Network, in 2013, the total assets of the Top 100 pension funds reached \$975 billion—a year-over-year increase of 11.4%. Not bad, considering the carnage of 2008.

"The majority of plans are pretty close to fully funded on a solvency basis," says

Terry Kirby, senior vice-president, institutional investment services, with Franklin Templeton Institutional. But this funding improvement is not uniform, with pension plan design being a major reason for the variations. "Where we had DB plans with cost-of-living adjustments, the improvements may not have been quite as great as was hoped," explains Tom Lappalainen, director of strategic advice with Russell Investments.

The Morning After

Now that they are in a better position to do so, pension funds are focusing on how to better manage their risk at a time when the 2008 global financial crisis still casts a shadow.

Some are doing it by keeping their eye on the long term and using liability-

driven investing (LDI), which involves reducing exposure to equities and acquiring more fixed income assets whose duration matches the duration of the plan's liabilities.

"Equities don't move in the same direction as the plan's liabilities, so if you have equities in your pension plan, you have this chunk of assets that can give you really good news or really bad news," says Brent Simmons, senior managing director of DB solutions with Sun Life Financial. "Most of the challenges over the last 15 years with pension plans have been the result of them taking a lot of equity risk and not having matched their bond portfolios to their liabilities, thereby exposing themselves to interest rate risk and credit risk as well."

The Healthcare of Ontario Pension Plan (HOOPP) (No. 4 on the *Top 100 Pension Funds* list) credits mainly LDI for its 2013 going-concern funding ratio of 114%. This strategy—which the pension plan has actually been employing for the last decade—is the best hedge against inflation, equity and interest rate risks,

TOP 100

PENSION FUNDS

TOTAL PENSION ASSETS (MILLIONS) ARE REPORTED AS OF DEC. 31, 2013, UNLESS OTHERWISE INDICATED
PA = PENSION ASSETS ↑↓ Indicates an increase or decrease in total pension assets from 2012

ONTARIO TEACHERS' PENSION PLAN 1 Rank 2012: 1 ↑ 9.1% 2013 PA: \$138,903.0 2012 PA: \$127,263.0	B.C. PUBLIC SERVICE PENSION PLAN 8 Rank 2012: 8 ↑ 13.1% 2013 PA: \$22,853.2 2012 PA: \$20,213.8	OPSEU PENSION TRUST 15 Rank 2012: 15 ↑ 8.7% 2013 PA: \$15,957.0 2012 PA: \$14,686.0	ROYAL BANK OF CANADA 22 Rank 2012: 22 ↑ 13.1% 2013 PA: \$10,051.0 2012 PA: \$8,886.0	COLLEGES OF APPLIED ARTS & TECHNOLOGY PENSION PLAN 29 Rank 2012: 30 ↑ 13.8% 2013 PA: \$7,127.0 2012 PA: \$6,260.0	THE WINNIPEG CIVIC EMPLOYEES' BENEFITS PROGRAM & THE WINNIPEG POLICE PENSION PLAN 36 Rank 2012: 40 ↑ 19.2% 2013 PA: \$5,495.4 2012 PA: \$4,611.5	SCOTIABANK GROUP MASTER TRUST FUND 43 Rank 2012: 51 ↑ 22.5% 2013 PA: \$4,927.0 2012 PA: \$4,021.0	NOVA SCOTIA TEACHERS' PENSION PLAN ¹ 50 Rank 2012: 23 ↑ 7.7% 2013 PA: \$4,556.4 2012 PA: \$4,231.7	TD BANK GROUP - PENSION FUND SOCIETY * ³ 57 Rank 2012: 56 ↑ 10.6% 2013 PA: \$3,821.0 2012 PA: \$3,456.0	B.C. COLLEGE PENSION FUND 64 Rank 2012: 63 ↑ 13.3% 2013 PA: \$3,488.9 2012 PA: \$3,079.1
ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (OMERS) 2 Rank 2012: 2 ↑ 7.1% 2013 PA: \$65,100.0 2012 PA: \$60,767.0	ONTARIO PENSION BOARD * 9 Rank 2012: 9 ↑ 10.1% 2013 PA: \$20,915.1 2012 PA: \$18,991.0	QUEBEC CONSTRUCTION INDUSTRY 16 Rank 2012: 16 ↑ 10.0% 2013 PA: \$15,920.4 2012 PA: \$14,469.2	ALBERTA TEACHERS' RETIREMENT FUND 23 Rank 2012: 25 ↑ 23.5% 2013 PA: \$9,441.7 2012 PA: \$7,645.7	THE PUBLIC EMPLOYEES PENSION PLAN (SASKATCHEWAN) 30 Rank 2012: 32 ↑ 16.6% 2013 PA: \$6,195.4 2012 PA: \$5,312.9	HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA (HEPP) 37 Rank 2012: 41 ↑ 20.3% 2013 PA: \$5,490.9 2012 PA: \$4,563.6	CITY OF MONTREAL 44 Rank 2012: 48 ↑ 19.3% 2013 PA: \$4,905.0 2012 PA: \$4,111.0	BOMBARDIER TRUST (CANADA) 51 Rank 2012: 53 ↑ 16.2% 2013 PA: \$4,519.0 2012 PA: \$3,889.0	BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND 58 Rank 2012: 57 ↑ 4.4% 2013 PA: \$3,757.4 2012 PA: \$3,599.3	ALBERTA - MANAGEMENT EMPLOYEES PENSION PLAN * 65 Rank 2012: 65 ↑ 15.6% 2013 PA: \$3,460.6 2012 PA: \$2,993.4
PUBLIC SERVICE PENSION PLAN ** 3 Rank 2012: 4 ↑ 17.7% 2013 PA: \$55,483.0 2012 PA: \$47,128.0	B.C. TEACHERS PENSION FUND 10 Rank 2012: 10 ↑ 12.8% 2013 PA: \$20,651.8 2012 PA: \$18,308.8	CANADIAN FORCES PENSION PLAN ** 17 Rank 2012: 17 ↑ 19.6% 2013 PA: \$14,872.0 2012 PA: \$12,438.0	RÉGIME DE RETRAITE DU PERSONNEL D'ENCADREMENT (RRPE, QUÉBEC) (MANAGEMENT) 24 Rank 2012: 24 ↑ 11.4% 2013 PA: \$8,688.6 2012 PA: \$7,797.7	THE CIVIL SERVICE SUPERANNUATION BOARD 31 Rank 2012: 31 ↑ 11.7% 2013 PA: \$6,099.3 2012 PA: \$5,461.6	CANADIAN IMPERIAL BANK OF COMMERCE 38 Rank 2012: 37 ↑ 13.8% 2013 PA: \$5,470.4 2012 PA: \$4,806.0	TORONTO TRANSIT COMMISSION * 45 Rank 2012: 46 ↑ 14.8% 2013 PA: \$4,904.1 2012 PA: \$4,271.6	SHELL CANADA LTD. 52 Rank 2012: 52 ↑ 15.2% 2013 PA: \$4,489.0 2012 PA: \$3,896.0	MONTREAL TRANSIT CORP. 59 Rank 2012: 60 ↑ 11.2% 2013 PA: \$3,725.0 2012 PA: \$3,350.0	SUNCOR ENERGY INC. 66 Rank 2012: 68 ↑ 15.5% 2013 PA: \$3,331.8 2012 PA: \$2,885.0
HEALTHCARE OF ONTARIO PENSION PLAN 4 Rank 2012: 3 ↑ 8.9% 2013 PA: \$51,600.0 2012 PA: \$47,400.0	CANADA POST CORP. 11 Rank 2012: 12 ↑ 14.6% 2013 PA: \$19,191.1 2012 PA: \$16,743.5	AIR CANADA PENSION INVESTMENTS 18 Rank 2012: 18 ↑ 10.6% 2013 PA: \$13,648.0 2012 PA: \$12,337.7	ALBERTA - PUBLIC SERVICE PENSION PLAN * 25 Rank 2012: 26 ↑ 16.9% 2013 PA: \$8,542.1 2012 PA: \$7,309.2	IMPERIAL OIL LTD. 32 Rank 2012: 39 ↑ 25.0% 2013 PA: \$5,872.0 2012 PA: \$4,696.0	ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ** 39 Rank 2012: 42 ↑ 18.0% 2013 PA: \$5,374.0 2012 PA: \$4,556.0	BANK OF MONTREAL 46 Rank 2012: 43 ↑ 5.9% 2013 PA: \$4,781.0 2012 PA: \$4,515.8	NEW BRUNSWICK TEACHERS' PENSION PLAN ** 53 Rank 2012: 47 ↑ 7.0% 2013 PA: \$4,448.5 2012 PA: \$4,157.5	IBM CANADA LTD. 60 Rank 2012: 59 ↑ 8.6% 2013 PA: \$3,716.5 2012 PA: \$3,423.6	TEACHERS' RETIREMENT ALLOWANCES FUND BOARD (MANITOBA) 67 Rank 2012: 66 ↑ 10.2% 2013 PA: \$3,285.3 2012 PA: \$2,982.3
QUEBEC GOVERNMENT & PUBLIC EMPLOYEES RETIREMENT PLAN (RREGOP) 5 Rank 2012: 5 ↑ 11.6% 2013 PA: \$50,384.9 2012 PA: \$45,140.6	HYDRO-QUÉBEC 12 Rank 2012: 13 ↑ 14.1% 2013 PA: \$18,732.0 2012 PA: \$16,414.0	GENERAL MOTORS OF CANADA LTD. 19 Rank 2012: 19 ↓ 1.7% 2013 PA: \$10,948.0 2012 PA: \$11,132.0	RÉGIME DE RENTES DU MOUVEMENT DESJARDINS 26 Rank 2012: 28 ↑ 17.8% 2013 PA: \$8,254.8 2012 PA: \$7,006.4	HYDRO ONE 33 Rank 2012: 35 ↑ 14.8% 2013 PA: \$5,731.0 2012 PA: \$4,992.0	CANADIAN BROADCASTING CORP. PENSION PLAN 40 Rank 2012: 33 ↑ 0.7% 2013 PA: \$5,335.6 2012 PA: \$5,301.0	SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN 47 Rank 2012: 50 ↑ 16.6% 2013 PA: \$4,753.5 2012 PA: \$4,077.0	ABRPPVM - MONTREAL POLICE PENSION ² 54 Rank 2012: 54 ↑ 13.0% 2013 PA: \$4,319.0 2012 PA: \$3,822.0	TELECOMMUNICATION WORKERS PENSION PLAN 61 Rank 2012: 49 ↓ 9.4% 2013 PA: \$3,699.9 2012 PA: \$4,082.5	UNIVERSITY OF TORONTO (C/O UNIVERSITY OF TORONTO ASSET MANAGEMENT) 68 Rank 2012: 71 ↑ 18.0% 2013 PA: \$3,245.9 2012 PA: \$2,751.0
B.C. MUNICIPAL PENSION FUND 6 Rank 2012: 6 ↑ 15.4% 2013 PA: \$35,802.4 2012 PA: \$31,014.4	BCE MASTER TRUST FUND 13 Rank 2012: 11 ↑ 2.0% 2013 PA: \$18,082.0 2012 PA: \$17,727.0	ONTARIO POWER GENERATION INC. 20 Rank 2012: 20 ↑ 5.8% 2013 PA: \$10,893.0 2012 PA: \$10,299.0	TELUS CORP. PENSION PLAN 27 Rank 2012: 27 ↑ 11.6% 2013 PA: \$7,974.0 2012 PA: \$7,147.0	RIO TINTO ALCAN INC. 34 Rank 2012: 36 ↑ 13.6% 2013 PA: \$5,647.1 2012 PA: \$4,969.1	CHRYSLER CANADA INC. 41 Rank 2012: 38 ↑ 12.5% 2013 PA: \$5,335.0 2012 PA: \$4,744.2	RESOLUTE FP CANADA INC. * 48 Rank 2012: 45 ↑ 5.5% 2013 PA: \$4,742.2 2012 PA: \$4,496.9	NAV CANADA 55 Rank 2012: 55 ↑ 5.4% 2013 PA: \$4,020.0 2012 PA: \$3,813.0	CO-OPERATIVE SUPERANNUATION SOCIETY PENSION PLAN 62 Rank 2012: 61 ↑ 11.2% 2013 PA: \$3,673.0 2012 PA: \$3,303.0	PULP & PAPER INDUSTRY PENSION PLAN 69 Rank 2012: 58 ↓ 6.9% 2013 PA: \$3,201.0 2012 PA: \$3,439.0
ALBERTA - LOCAL AUTHORITIES PENSION PLAN * 7 Rank 2012: 7 ↑ 15.7% 2013 PA: \$26,460.4 2012 PA: \$22,863.0	CANADIAN NATIONAL RAILWAY CO. 14 Rank 2012: 14 ↑ 6.7% 2013 PA: \$16,869.0 2012 PA: \$15,811.0	CANADIAN PACIFIC RAILWAY 21 Rank 2012: 21 ↑ 9.6% 2013 PA: \$10,667.0 2012 PA: \$9,733.0	PROVINCE OF NEWFOUNDLAND & LABRADOR 28 Rank 2012: 29 ↑ 20.9% 2013 PA: \$7,853.0 2012 PA: \$6,497.0	NEW BRUNSWICK PUBLIC SERVICE SUPERANNUATION ** 35 Rank 2012: 34 ↑ 7.6% 2013 PA: \$5,623.3 2012 PA: \$5,226.2	NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PENSION PLAN ¹ 42 Rank 2012: 23 ↑ 9.0% 2013 PA: \$4,950.5 2012 PA: \$4,540.2	NOVA SCOTIA HEALTH EMPLOYEES' PENSION PLAN 49 Rank 2012: 44 ↑ 5.4% 2013 PA: \$4,598.0 2012 PA: \$4,363.0	LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA 56 Rank 2012: 62 ↑ 21.1% 2013 PA: \$3,911.6 2012 PA: \$3,231.0	SASKATCHEWAN TEACHERS' RETIREMENT PLAN 63 Rank 2012: 64 ↑ 19.3% 2013 PA: \$3,669.8 2012 PA: \$3,076.6	IWA - FOREST INDUSTRY PENSION PLAN 70 Rank 2012: 69 ↑ 10.1% 2013 PA: \$3,121.1 2012 PA: \$2,834.7

TOP 100

PENSION FUNDS

UNIVERSITY OF MONTREAL **71**

Rank 2012: **72** ↑ 12.7%
 2013 PA: \$3,050.0
 2012 PA: \$2,706.0

UNIVERSITY OF QUEBEC **72**

Rank 2012: **73** ↑ 14.8%
 2013 PA: \$3,048.8
 2012 PA: \$2,654.7

GLENCORE CANADA ⁴ **73**

Rank 2012: **70** ↑ 8.2%
 2013 PA: \$3,023.8
 2012 PA: \$2,793.6

CANADA LIFE ASSURANCE CO. ⁵ **74**

Rank 2012: **97** ↑ 94.0%
 2013 PA: \$2,990.0
 2012 PA: \$1,541.0

U.S. STEEL CANADA INC. **75**

Rank 2012: **74** ↑ 10.5%
 2013 PA: \$2,914.0
 2012 PA: \$2,638.0

B.C. HYDRO & POWER AUTHORITY PENSION FUND **76**

Rank 2012: **75** ↑ 12.9%
 2013 PA: \$2,899.1
 2012 PA: \$2,567.7

ALBERTA - UNIVERSITIES ACADEMIC PENSION PLAN * **77**

Rank 2012: **67** ↓ 7.7%
 2013 PA: \$2,712.6
 2012 PA: \$2,937.6

NATIONAL BANK OF CANADA **78**

Rank 2012: **76** ↑ 12.1%
 2013 PA: \$2,686.6
 2012 PA: \$2,396.2

GEORGE WESTON LTD. **79**

Rank 2012: **78** ↑ 13.0%
 2013 PA: \$2,527.0
 2012 PA: \$2,236.0

CANADIAN UTILITIES LTD. PENSION PLAN **80**

Rank 2012: **79** ↑ 12.7%
 2013 PA: \$2,460.4
 2012 PA: \$2,182.4

LAVAL UNIVERSITY **81**

Rank 2012: **77** ↑ 4.0%
 2013 PA: \$2,430.5
 2012 PA: \$2,337.0

COMINCO PENSION FUND CO-ORDINATING SOCIETY (TECK COMINCO METALS LTD.) **82**

Rank 2012: **80** ↑ 11.6%
 2013 PA: \$2,356.0
 2012 PA: \$2,111.9

WORKPLACE SAFETY & INSURANCE BOARD EMPLOYEES PENSION PLAN **83**

Rank 2012: **81** ↑ 12.6%
 2013 PA: \$2,313.0
 2012 PA: \$2,055.0

SYNCRUDE CANADA LTD. **84**

Rank 2012: **84** ↑ 17.7%
 2013 PA: \$2,249.0
 2012 PA: \$1,910.0

PRATT & WHITNEY CANADA **85**

Rank 2012: **82** ↑ 9.8%
 2013 PA: \$2,177.6
 2012 PA: \$1,983.6

TRANSCANADA CORP. **86**

Rank 2012: **86** ↑ 17.9%
 2013 PA: \$2,152.0
 2012 PA: \$1,825.0

ARCELORMITTAL DOFASCO **87**

Rank 2012: **85** ↑ 9.0%
 2013 PA: \$2,078.3
 2012 PA: \$1,907.3

PROVINCE OF PRINCE EDWARD ISLAND **88**

Rank 2012: **98** ↑ 35.3%
 2013 PA: \$2,055.0
 2012 PA: \$1,519.0

CANADIAN COMMERCIAL WORKERS INDUSTRY PENSION PLAN * ⁶ **89**

Rank 2012: **83** ↑ 11.4%
 2013 PA: \$1,983.5
 2012 PA: \$1,780.0

ALBERTA - SPECIAL FORCES PENSION PLAN * **90**

Rank 2012: **88** ↑ 15.3%
 2013 PA: \$1,964.7
 2012 PA: \$1,703.7

VIA RAIL CANADA INC. **91**

Rank 2012: **89** ↑ 11.0%
 2013 PA: \$1,914.0
 2012 PA: \$1,725.0

MANULIFE FINANCIAL **92**

Rank 2012: **90** ↑ 8.5%
 2013 PA: \$1,840.9
 2012 PA: \$1,696.7

FIDUCIE GLOBALE DES REGIMES DE RETRAITE DE LA VILLE DE QUEBEC (QUEBEC CITY PENSION PLANS) ⁷ **93**

Rank 2012: **n/a** ↑ 12.5%
 2013 PA: \$1,811.0
 2012 PA: \$1,610.0

YORK UNIVERSITY **94**

Rank 2012: **99** ↑ 16.6%
 2013 PA: \$1,767.3
 2012 PA: \$1,515.4

UNIVERSITY OF BRITISH COLUMBIA FACULTY PENSION PLAN **95**

Rank 2012: **94** ↑ 13.0%
 2013 PA: \$1,749.6
 2012 PA: \$1,548.1

ENBRIDGE INC. **96**

Rank 2012: **95** ↑ 12.8%
 2013 PA: \$1,743.0
 2012 PA: \$1,545.0

UNIVERSITY OF OTTAWA **97**

Rank 2012: **n/a** ↑ 18.2%
 2013 PA: \$1,727.8
 2012 PA: \$1,462.0

SUN LIFE ASSURANCE COMPANY OF CANADA **98**

Rank 2012: **93** ↑ 8.7%
 2013 PA: \$1,722.9
 2012 PA: \$1,584.8

SASKATCHEWAN MUNICIPAL EMPLOYEES' PENSION PLAN **99**

Rank 2012: **96** ↑ 7.6%
 2013 PA: \$1,659.4
 2012 PA: \$1,542.3

UNITED FOOD AND COMMERCIAL WORKERS UNION PENSION PLAN **100**

Rank 2012: **87** ↓ 9.3%
 2013 PA: \$1,651.7
 2012 PA: \$1,822.0

2013 Top 100 Total: **\$975,216.2**

2012 Top 100 Total: **\$875,198.4**

% Variance: **↑ 11.4%**

Notes: The International Union of Operating Engineers Local 793 in Ontario (No. 92 in last year's report) is no longer ranked, as it has ceased participation in the CIIN Pension Fund Survey.
 * 2012 figure has been restated. ** As of March 31, 2013. **1** Formerly listed as Nova Scotia Pension Agency. This plan has split into two funds, Nova Scotia Public Service Superannuation Pension Plan and Nova Scotia Teachers' Pension Plan.
2 Formerly listed as ABRPPVM - Montreal Police Benevolent & Pension Assoc. **3** Formerly listed as Toronto Dominion Bank.
4 Formerly listed as Xstrata Canada (the Glencore acquisition occurred in May 2013). **5** Canada Life Assurance Co. completed its acquisition of Irish Life in July 2013. Market value as of Dec. 31, 2013, includes Irish Life. **6** 2013 pension assets estimated based on the average growth of 99 out of the Top 100 pension plans in Canada. **7** Formerly listed as City of Quebec. This plan has resumed participation in the CIIN Pension Fund Survey.

Figures in this report are based on the Top 100 plans participating in the 2014 CIIN Pension Fund Survey or annual reports. Benefits Canada assumes no responsibility for the accuracy of the data provided. All totals are subject to a +/- variance due to rounding.

TOP 10 | FASTEST GROWING PENSION FUNDS (%) ASSETS (MILLIONS) AS OF DEC. 31, 2013

	2013 Pension Assets	2012 Pension Assets	% Variance
1 Province of Prince Edward Island (No. 88)	\$2,055.0	\$1,519.0	↑35.3%
2 Imperial Oil Ltd. (No. 32)	\$5,872.0	\$4,696.0	↑25.0%
3 Alberta Teachers' Retirement Fund (No. 23)	\$9,441.7	\$7,645.7	↑23.5%
4 Scotiabank Group Master Trust Fund (No. 43)	\$4,927.0	\$4,021.0	↑22.5%
5 Labourers' Pension Fund of Central and Eastern Canada (No. 56)	\$3,911.6	\$3,231.0	↑21.1%
6 Province of Newfoundland & Labrador (No. 28)	\$7,853.0	\$6,497.0	↑20.9%
7 Healthcare Employees' Pension Plan - Manitoba (HEPP) (No. 37)	\$5,490.9	\$4,563.6	↑20.3%
8 Canadian Forces Pension Plan (No. 17)	\$14,872.0	\$12,438.0	↑19.6%
9 City of Montreal (No. 44)	\$4,905.0	\$4,111.0	↑19.3%
10 Saskatchewan Teachers' Retirement Plan (No. 63)	\$3,669.8	\$3,076.6	↑19.3%

Notes: Based on the Top 100 plans participating in the 2014 CIIN Pension Fund Survey or annual reports. This table encapsulates organic growth, new mandates and returns, not growth due to mergers and acquisitions.

explains Jim Keohane, the plan's CEO.

Under its LDI strategy, HOOPP has divided its portfolio into two segments: a liability-hedging portfolio and a return-seeking portfolio. The liability-hedging portfolio comprises assets that match the plan's obligations, such as real estate and real return bonds. The return-seeking portfolio takes equity risk through derivatives and credit risk through credit default swaps. "What we're trying to do is ensure that our assets outperform our liabilities over the long run—and if we can do that, then we'll be able to write pension cheques no matter what happens," Keohane explains.

Despite increasing interest from plan sponsors, LDI hasn't been broadly adopted to date. "It's still a fairly new strategy in the Canadian marketplace," explains Simmons. However, Kirby says even plans that do not currently use the strategy have started thinking about it—and that if interest rates rise significantly, the LDI conversation will be front and centre.

Shake It Up

Another popular risk management strategy for pension funds is investing in alternative asset classes, such as real estate and infrastructure. It's an approach that works well for the Colleges of Applied Arts & Technology (CAAT) Pension Plan (No. 29). "When we did our asset/liability studies, we introduced various alternative asset classes, [and they] showed

positive traits when tested against our liability structures," says Derek Dobson, CAAT's CEO and plan manager.

And some pension funds that are already investing in infrastructure and real estate are looking to further diversify within alternatives by eyeing assets previously considered more exotic, such as hedge funds. "I wouldn't say they're [all] banging down the door to buy hedge funds," says Kirby. "But they're certainly welcoming the conversation to learn more about hedge funds—how to utilize hedge fund strategies and which type of hedge funds are available in the marketplace."

A major reason for the growing appeal of hedge funds is that the transparency issues plaguing them until recently have now almost completely disappeared. The catalyst for change was the 2008 financial meltdown, including the investment scandal surrounding former NASDAQ chairman Bernie Madoff, whose Wall Street firm ran an elaborate Ponzi scheme. After these events, investors grew reluctant to put capital in *any* hedge fund that would not provide full transparency because the risks were too high, explains Kirby. As a result, many hedge funds complied with these investor demands and now provide transparency.

The pension plan of the Toronto Transit Commission (TTC) (No. 45) invests in hedge funds, although Vincent Rodo, chief financial and administrative officer of the TTC, describes the plan as

"relatively conservative." "In the hedge fund environment, we're big on hedge fund of funds," he says. "So instead of buying any one hedge fund, we're more likely to look at a manager that has a fund of, say, 30 to 50 individual hedge funds." Rodo adds that hedge fund of funds offer more diversification than a single hedge fund and are easier to administer. About 4% of the pension plan's total portfolio is allocated to hedge fund of funds, and about 2% of its total portfolio is invested in the secondary hedge fund market.

A Toast to the Birthday Girl

With Canadians living longer, pension plans are also looking to control the risk of improved longevity. This February, the Canadian Institute of Actuaries released the first-ever mortality tables and mortality improvement scales based on pensioner mortality experience in Canada. (Previously, Canadian pension plans used the American standard mortality table and improvement scale.) Under the new Canadian tables, life expectancy for a 65-year-old man is currently 22.1 years—up from 19.8 years. For a woman age 65, it's 24.4 years, compared to 22.1 previously.

While it is always present, longevity is a slow-moving threat that may not be top of mind for pension plan sponsors every single quarter the way interest rate risk is, for example. "On a relative basis, it's not as big, and it changes very slowly over long

"If you are mispricing your longevity, it will continue to compound year over year"

— William da Silva, Aon Hewitt

periods of time," Keohane says. "We have improved longevity in our assumptions, so it's just a question of whether we assumed the rate was high enough or not."

Making correct longevity assumptions is important because if plan sponsors miscalculate the risk, trouble will ensue down the road, warns William da Silva, senior partner and national retirement practice leader with Aon Hewitt. "Einstein reportedly said that the 8th wonder of the world is compound interest. If you are mispricing your longevity, it will continue to compound year over year," da Silva explains. "It's not like capital markets, where it reverts to a mean that should be net positive for the plan over the long term." Da Silva adds that, even if the mispricing of the longevity risk is only 0.5% or 1% per annum, it becomes a significant risk after a number of years, making the catch-up quite material.

Have Your Cake and Eat It, Too?

When it comes to keeping risk under control and ensuring long-term sustainability, some DB pension funds are interested in solutions beyond asset diversification and a focus on future obligations. They are considering changing plan design. One type of structure that has recently piqued the interest of plan sponsors is the target benefit plan (TBP)—a pension arrangement in which the risk is shared between the employer and employees.

A hybrid between DB and DC plan design, a TBP aims to collect defined contributions in order to secure a target benefit in retirement. But, under this shared-risk structure, benefits and contributions change over time depending on the plan's performance. If the returns are lower than expected, the plan sponsor can increase contributions and/or reduce benefits. If the returns are higher than expected, the plan sponsor can increase benefits or reduce contributions.

This past April, Ottawa unveiled TBP legislation that would allow certain companies to voluntarily adopt a TBP structure. The arrangement would be available only to Crown corporations and federally regulated private sector industries, such as transportation, telecommunications and banking. Employers outside of this domain would not be allowed to adopt the new design. But despite this restriction, Ottawa's proposal will encourage many eligible plan sponsors to look at TBPs—and, in many cases, to adopt them, predicts Fred Vettese, chief actuary with Morneau Shepell, explaining that the absence of enabling legislation in most provinces has been a limitation. "I think TBPs are going to be the plan of choice in place of defined benefit in the long run."

TBPs can be a hard sell to DB members. However, these plans offer greater benefit security than a switch to a DC arrangement. "The main argument against TBPs is that there will be less security for members. Well, that ship has sailed," comments Vettese. "In the private sector, only one employee in 10 right



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YEARS



THE NUMBERS

- At the end of 2013, assets for the Top 100 pension funds totalled **\$975 billion**, compared with \$875 billion in 2012. That's an increase of **11.4%**.
- Only **five plans** reported an asset decline: General Motors of Canada Ltd. (No. 19), Telecommunication Workers Pension Plan (No. 61), Pulp & Paper Industry Pension Plan (No. 69), Alberta - Universities Academic Pension Plan (No. 77), and United Food and Commercial Workers Union Pension Plan (No. 100).
- **Sixty-nine** plans reported double-digit increases. The Province of Prince Edward Island (No. 88) had the largest organic growth at **35.3%**.
- Fiducie globale des régimes de retraite de la ville de Québec (formerly Quebec City Pension Plans) (No. 93) has re-entered the Top 100 list, and the University of Ottawa (No. 97) is a new entrant to the Top 100.

Note: Data was collected through the Canadian Institutional Investment Network between Feb. 1 and May 17, 2014, with an accounting year-end date of Dec. 31, 2013, unless otherwise specified.

now is covered by a DB plan. And that ratio is not improving any time soon.”

Hit Parade

The idea of risk-sharing in pension plans isn't new. A number of DB plans—including the biggest ones, such as HOOPP and the Ontario Teachers' Pension Plan—are jointly sponsored pension plans (JSPPs). The JSPP design is very similar to the TBP. The main difference is that, under a JSPP, accrued benefits cannot be reduced except in the case of a plan windup.

The CAAT Pension Plan, for instance, is a JSPP with a 50/50 contribution structure. Some risk is also shared with both active and retired members. “For service earned after 2007 in our plan, [inflation] indexation on that service is paid only when the plan is in a surplus position,” explains Dobson. “Our retirees have not experienced any impact to date, as we've been in a surplus position since 2007.” Because the CAAT Pension Plan cannot reduce accrued benefits, in the event of affordability and deficit issues, the only option is to change plan design on a future-service basis, Dobson adds.

At the TTC—whose pension fund is also a JSPP—this design has been critical both for recent funding improvements (the plan is virtually fully funded on a going-concern basis) and for mitigating the impact of previous financial shocks. “With many of the large public sector plans, you take the four or five best years [in terms of] earnings and that represents their base year. For us, it's whatever four best years our actuary says we have enough assets to justify,” explains Rodo. The choice of the four best years is revised annually, when the plan looks at the market value of its assets and liabilities. On the basis of that, it also calculates the cost of indexing benefits to inflation. If the plan does not have enough assets to cover the cost of revising its base year and indexing its benefits, it doesn't do so.

“If you go back to 2008, with all the horrible troubles in those markets, the TTC pension plan did not index and did not update the base year,” says Rodo. “Our pension board understands that, and our members understand it. If some plans still had to provide

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TARGET BENEFIT PLANS AT A GLANCE

BY JANA STEELE

Target benefit plans (TBPs) are a type of pension plan that incorporates DB and DC attributes. Like DC plans, contributions to TBPs are fixed (or variable within a predetermined range). Like DB plans, TBPs provide a DB-type pension benefit and allow for pooling of investment and longevity risk. However, unlike DBs, TBPs permit benefit adjustments. If, for example, there are insufficient funds to provide the targeted DB benefit, benefits may be reduced. Target benefits are allowed in most Canadian jurisdictions for multi-employer plans; however, until recently, they were not contemplated for single-employer plans.

TBPs are receiving greater attention as more provinces consider adopting target benefit rules for single-employer plans. It all started with New Brunswick's shared-risk model, a type of TBP, which was introduced in the province in 2012. This spring, the federal government unveiled a proposal for TBPs (they would be available to Crown corporations and federally regulated private sector industries) and started a consultation process. In addition, over the last few years, Ontario, Nova Scotia, Alberta and B.C. have introduced TBP provisions in their applicable legislation. However, they are not yet in force, and there are no regulations.

TBPs generally have greater compliance obligations. For example, New Brunswick's rules require the plans to have a funding policy road map, outlining the actions that must be taken when the plan has a shortfall or surplus. The federal consultation paper has a similar requirement. Risk management is required under both New Brunswick's rules and Ottawa's proposal.

One issue for consideration is whether legislation should permit existing DB plans to convert accrued benefits to target benefits when a plan sponsor wants to change the plan design. New Brunswick's rules allow the conversion of accrued benefits. The federal consultation paper contemplates conversion of accrued benefits with "consent." It does not, however, indicate what level of consent would be required.


Another issue for plan sponsors is the governance of TBPs. New Brunswick's rules require the administrator of a shared-risk plan to be a board of trustees, a trustee or a not-for-profit corporation. The legislation does not specify the constitution of boards of trustees; however, generally, joint governance (with member and employer representatives) has been adopted. The federal consultation paper proposes a joint governance structure that would include the participation of active and retired members as well as other beneficiaries, plan sponsors and external representatives, such as pension experts. It's also up for discussion whether there should be a different governance framework for unionized and non-unionized environments.

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indexing for their pensions and a base-year update, then you're in a double-jeopardy position. You have no way to control your liabilities, and [they] go up." This structure is different from some other JSPPs that are mandated to provide indexing and base-year updates, Rodo notes.

Even though the shared-risk JSPP arrangement has been used by certain DB plans for decades, in general, the public still misunderstands how responsibilities are divided in DB plans, according to Keohane. "People's perception is that the employers put all the money in—which they don't—and that if [the plan] becomes underfunded, the employer has *all* the responsibility to bring it back to a fully funded status," explains Keohane. "That's not true and never was true."

What *is* true right now is that Canada's DB pension plans had a great year in 2013—a welcome break from the wide funding gaps seen not so long ago. As a result, pension funds are breathing a sigh of relief and regaining confidence in their long-term sustainability. "I think the plans—if they're run properly and with the proper business model—are sustainable," says Keohane. "One of the flaws is that people view themselves as asset managers. [They] just ignore the liabilities and try to maximize returns, [so] they end up with a lot of volatility in outcomes."

So, to avoid that wrenching volatility, plan sponsors need a prudent approach to risk and a long-term perspective. Because, sooner or later, the party will end—and they'll need a plan to get home safely. 

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