

## Legislative News Release

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# Employee Pension Plans

*The aim of these news releases is to keep you up to date on the most recent legislative changes governing pension plans and various aspects of the way in which your plan works. This initiative is part of Assumption Life's information and communications program for employers, pension committee members, and employees participating in your pension plan. This particular news release shares with you some current issues involving pension plans and investments.*

*We encourage you to send copies of this news release to your employees.*

## Seniors wealthier than before

The number of seniors living in poverty has declined dramatically over the past 25 years, as incomes for those over 65 more than doubled, according to the latest census data released by Statistics Canada.

Figures show the median income for couples over the age of 65 reached \$45,674 in 2005, up 55.8 per cent from 1980.

“Part of that is due to the increase in private retirement income,” Statistics Canada analyst Rene Morissette said.

“The second factor is that today’s elderly are much more educated than their counterparts in the past and that tends to increase their employment income.”

The percentage of seniors living in poverty also shrank, from 30 per cent in 1980 to 14.4 per cent in 2005.

Mr. Morissette attributes that in part to increases in old age security benefits, guaranteed income supplements and Canadian Pension Plan benefits.

“Another factor that might have played a role in recent years is the growing labour market involvement of women who, when they retire with their husbands, now may have been contributing several years to the CPP,” he said.

“As a result, (they) may receive greater pension income than their counterparts who in the past were simply not working.”

In 2006, 1.2 million seniors said they lived on their own, and nearly three quarters of them were women.

Of the more than 3.2 million couples without children at home in 2006, about a quarter of them were elderly couples over the age of 65 – a number that’s doubled over the last 25 years.

In that same time period, the median income of elderly women living on their own rose by 46 per cent to \$19,923, while that of their male counterparts rose nearly 64 per cent to \$23,886.

Over the past 25 years, retirement income from private pensions, for example, has grown faster than any other income source for seniors. It rose from less than 15 per cent of their income in 1980 to more than 30 per cent in 2005.

Seniors with richer private portfolios were also receiving less money from the federal government under old age security pension plans and guaranteed income supplements.

While payments from the Canada and Quebec pension plans increased for all seniors, total income for elderly couples and single men rose faster than their government benefits.

Elderly women living on their own also saw their government benefits jump by nearly 23 per cent between 2000 and 2005.

Seniors who had recently immigrated to Canada were also found to rely more heavily on employment earnings than their Canadian-born counterparts.

# Employee Pension Plans

## CPP 'able to meet obligations'

A legislated contribution rate of 9.9% from year 2010 is enough to pay future expenditures and to accumulate assets worth CAD\$235billion (US\$233.5billion) in 2015, the latest Actuarial Report for the Canada Pension Plan has revealed.

The results of the report, produced every three years, showed accumulated assets would be 5.2 times the annual expenditures in 2015, with assets projected to be \$1,432bn or six times the annual expenditures in 2050.

It said: "Better-than-anticipated experience, especially regarding investment performance, labour force participation and employment data, over the period 2004 to 2006, has put downward pressure on the minimum contribution rate.

"On the other hand, a more costly demographic outlook, due to the continuing increases in longevity, combined with an unexpected increase in the number of early retirement benefit uptake, lower inflation expectations and lower rates of return on investments have put upward pressure on the minimum contribution rate."

The report said, under the 9.9% contribution rate, the assets would grow rapidly over the next 13 years. Beyond that, they would continue to grow, but at a slower pace.

It said: "These are indicators that the plan is financially sustainable over the long term."

"The pool of assets generated over the projection period provides the plan with the capacity, through investment earnings, to absorb some, but not all, of the possible unforeseen economic or demographic fluctuations, which otherwise would have to be reflected in the legislated contribution rate."

"Thus, despite the projected substantial increase in benefits paid as a result of an aging population, the plan is expected to be able to meet its obligations throughout the projection period."

## Index Beats Active Managers

The Toronto Stock Exchange (TSX) has 256 companies listed, yet over one third of its return in the last two years is attributable to only two stocks.

It's not surprising then that only 8.2 per cent of Canadian equity active fund managers outperformed the S&P/TSX composite index for the first quarter of 2008, says the 'Standard & Poor's Indices Versus Active Funds Scorecard' (SPIVA) for Canada.

Researches in Motion (RIM) and PotashCorp of Saskatchewan have been in the news a lot lately. They account for over 35% of the total return of the Index, RIM up 360% and Potash, 640%.

But timing the market, or any stock, is risky as no one knows what the future holds. If these stocks begin to decline, this could have a tremendous negative impact on the market. For this reason, prudent Canadian pension fund managers diversify their portfolios by ensuring that they are not overly exposed to a select few stocks – even when a particular stock or two appear inviting. This is a matter of discipline and it is how fund managers protect your pension investments, through diversification.

## Retirement Decision Made Quickly

The interval between when workers first begin *thinking seriously* about retirement and *actual* retirement is fairly short, says a survey of recent retirees by the Employee Benefit Research Institute. It found that two years or less elapse between the start of serious consideration and follow-through; 22% reported they first began thinking seriously about retiring only six months before they left the company, while another 22 per cent began serious consideration about one year beforehand. Only 28 per cent gave their decision serious consideration for more than two years. Retirees likely to say they gave only about six months of serious consideration to their decision are those who were *not at all* satisfied with their job. On the other hand, retirees who retired before age 58 or who left due to their own health are more likely to have considered their decision for at least five years.