Assumption Life

Legislative News Release

Employee Pension Plans

Issue 32
Fourth Quarter 2008

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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 the current financial crisis.

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

Canadian Pensions jolted by drop in markets

The value of Canadian pension plans suffered the largest quarterly decline in a decade as the credit crisis caused equity markets around the world to drop.

RBC Dexia Investor Services says the value of plans tumbled 8.6% during the third quarter of 2008.

“Year-to-date, Canadian pensions are down 10.1%," says Don McDougall, RBC Dexia’s director of advisory services. “It hasn’t been pretty – and judging by the performance in October so far, the situation is not getting any better."

Unfortunately, it was a quarter where there were very few places to hide – other than the total flight to safety of cash. But this would have required an insight into the workings of some previously considered stalwart institutions such as Lehmans, AIG, Fortis bank and many others that apparently their own senior management did not have. And even outside the financial services institutions – which bore the brunt of financial, political and public wrath – concerns of collateral damage to the real economy severely impacted the commodity-heavy Canadian stock market, as oil fell significantly and agricultures and mining were hit hard as well.

The hardest-hit equity class was Canadian equity, which plunged 18.2% as weakening commodity prices sent the S&P/TSX composite index lower. Materials stocks fell 33.6%, while energy stocks dropped 28.3% in the third quarter.

"Fortunately, most Canadian funds had already trimmed their exposure to resources," McDougall explains. "By locking in gains earlier in the year, pensions deftly outperformed the index by 1.7%."

Global equities fell 11.2%, matching the MSCI World Index in the latest quarter. Ironically, American stocks and a stronger U.S. dollar helped cushion the blow. In Canadian dollar terms, the MSCI EAFE index slumped by 16.8% over the quarter, an 18-year record decline.

In domestic bonds, Canadian pensions slipped 1.5% in the quarter—far below the 0.4% dip in the DEX Universe broad market benchmark. Spreads varied considerably: longer maturity bonds dropped 3.1%, while real return bonds lost 9%—their worst quarter in 14 years.

Stay the Course

Share prices never rise in consistent fashion, but go through corrections from time to time. However, over the long term, stocks do increase in value.

Investors who moved out of their investments when stocks decreased in value only assured themselves of the loss from the market. Had they held on longer, they would have recovered the loss and again enjoyed growth. Stocks have a history of providing growth for

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investors that is significantly ahead of the rate of inflation.

Discipline and commitment are the keys to successful long-term investing. Past crises have demonstrated the importance of staying invested in equities in order to recuperate the losses and reap the benefits of long-term ownership.

Quebec Acts on Financial Crisis

The government of Quebec has announced various pension measures to address the global financial crisis and its impact on the province, says a Hewitt 'Monitor.' The government is proposing a new series of initiatives to ensure the solvency of supplemental pension plans which will take into account the financial situation of companies and the interests of workers and pensioners. For example, the solvency deficiency amortization period could be lengthened from five to 10 years.

As well, Quebec has stated its commitment to apply, effective December 31, 2008, the actuarial standards that the Canadian Institute of Actuaries plans to bring into force in 2009 for all Defined Benefit pension plans, provided they reduce plan deficits.

Revised Standards of Practice for Pension Commuted Values

The Actuarial Standards Board (ASB) of the Canadian Institute of Actuaries (CIA) published an Exposure Draft on June 27, 2008 proposing changes to the current Standards of Practice for Pension Commuted Values. The CIA standards define the methodology for calculating lump sum payments from defined benefit pension plans, when a terminating member chooses to transfer the value of the vested pension to a locked-in retirement account under the portability provisions of pension standards legislation.

The impact of the proposed changes is an overall decrease in commuted values payable to terminating members. Similarly, there will be a corresponding decrease in the portion of solvency liabilities that use a commuted value basis. The amount of the decrease in commuted values will depend on the member's age, type of plan and the final basis adopted.

In New Brunswick, Ontario and Quebec, a change in regulations will be needed before the new commuted value basis can take effect. If the proposed changes proceed, pension plan administrators will have to adjust their pension-related systems to use the revised assumptions for calculations on and after Feb. 1, 2009.

Employers must keep pension plan records

We would like to remind employers with employee pension plans that even though the Canada Revenue Agency has a policy of a minimum of 7 years for tax purposes, the employer is obligated to keep a record of all Pension Adjustment (PA) amounts.

Nova Scotia Releases Pension Review

The Nova Scotia Pension Review Panel's 'Interim Discussion Paper' would allow plan sponsors to amortize plan surplus over a minimum of eight years.

The paper, which has just been released, says while the panel agrees "asymmetry" exists between employers/sponsors and employees in Defined Benefit pension plans, it does not agree that this means that employers/sponsors carry all the risks, while employees carry none. It says unless an employer can demonstrate that they will exist forever, employees are at risk that the employer may cease to exist. Employees are also at risk of being asked to make additional contributions if the plan requires increased funding.

It says its surplus amortization proposal would allow plans to benefit from the surplus slowly, which would provide a cushion to mitigate any sudden changes in funding status. Amortization would be through prospective reductions in minimum funding requirements. To see the 'Interim Discussion Paper', visit: http://www.gov.ns.ca/lwd/pensionreview/.

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