

## **BENEFITS CANADA**

### **Canada's DB plans viable**

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Canadian organizations are optimistic on the financial viability of their defined benefit (DB) plans, despite the battering they've received from volatile equity markets and a global recession, a recent study reveals.

Towers Perrin's study of 439 finance executives across Canada, the U.S. and the U.K. found that 71% are committed to maintaining the long-term viability of their plans, while 86% feel confident that they have adequate cash to fund their plans for the next two years.

Canadian organizations are in the unique position of being the hardest hit by the economic downturn with respect to their DB plans, while simultaneously being the most optimistic in their outlook—in terms of both future pension funding and the overall economic landscape.

#### **Woe is Canada**

According to the study, Canadian finance executives feel more hard done by compared with those in the U.S. and the U.K., with 87% stating that their DB plans' financial strength was negatively impacted by the financial downturn, compared with 67% in the U.S. and 49% in the U.K. Almost two-thirds (63%) of Canadian respondents report that their DB plans had a negative impact on their companies' financial statements, compared with 59% in the U.S. and 37% in the U.K. Canadian executives foresee the biggest concerns over the next two years to be the DB plan's impact on cash flow (61%), followed by its impact on the income statement (44%).

Despite this, the majority of Canadian respondents are optimistic about their DB plans' outlook, with 71% saying they're focusing on the long-term viability of their plans as opposed to seeking alternatives. However, they are also keeping an eye on managing risk or "de-risking their plans" as part of their long-term strategies, with 78% of respondents identifying managing risk as their focus, versus 22% citing increasing returns.

"Our advice to plan sponsors remains the same as two years ago when we encouraged sponsors to begin 'using the calm before the storm' to implement pension risk management programs," says Monica McIntosh, national leader with Towers Perrin's asset consulting practice in Canada. "This still holds true. When the calm finally emerges after this storm, sponsors will have the opportunity to embrace evolving tools and strategies to address the ever-increasing pension risk challenges while also seeking the optimal level of returns."

#### **New Reality**

Towers Perrin refers to a "new retirement reality" on the horizon, reflected in the fact that 87% of Canadian responses—compared to 72% in the U.S. and 37% in the U.K.—indicate that the downturn is "causing a long-term shift in how companies and workers prepare for retirement."

“Organizations, employees and investors are reaching a point where the status quo of the Canadian retirement landscape is not sustainable,” says McIntosh. “Companies cannot afford to let pension plans impact their companies’ financial performance, at the mercy of economic cycles. At the same time, a significant portion of the workforce is in an untenable position, being forced to postpone retirement after the severe battering the financial storm has inflicted on their retirement savings.”

On a bright note, 61% of respondents reported that the impact of the economic downturn has increased employees’ appreciation of their DB plans.