MORNEAU SHEPELL

NEWS & VIEWS

IN THIS ISSUE

IMMINENT C/QPP EXPANSION OR TARGETED PRPP SOLUTION?

We might be on the verge of a major development in pension reform, since we have witnessed several events over the last few months focusing on improvements for our retirement income system. Governments need to consider carefully the implications of a possible C/QPP expansion, but might wish to examine simpler solutions as well.

First let us recap significant events that happened recently:

- **July**: All Canadian Premiers continued discussions to enhance our public and private pension system;
- **August/September**: Quebec's public finance committee held a consultation on major recommendations made by the D'Amours committee last spring, including an innovative public program called the "longevity pension", and then a consultation on the proposed VRSP rules (comparable to PRPPs elsewhere in Canada);
- **September**: PEI's finance minister circulated a detailed new CPP expansion proposal;
- **October**: Ontario's Premier visited a few other Premiers to promote a CPP expansion and announced that otherwise, she would consider an Ontario-only alternative;
- **November 1**: Provincial and territorial finance ministers met in Toronto to consider a CPP/QPP expansion, issuing a statement that defined

four objectives that should guide future discussions, namely that any expansion should:

1. Be responsible and fully funded and focus on today's workers
2. Moderate the short-term effects on businesses, families, and the economy;
3. Improve the future retirement incomes of middle-income earners; and
4. Protect lower-income workers.

The first objective is meant to avoid another intergenerational transfer of wealth so any fresh expansion would be prospective only. It would not provide a windfall for baby boomers, some of whom might therefore need to retire a bit later than expected.

The second objective acknowledges the warnings from business groups that any quick and significant increase in payroll taxes could damage the current slow economic recovery. This could be addressed by reducing concurrently other payroll taxes. Nevertheless, it should be realized that any action aimed at redressing a perceived lack of savings is bound to imply that additional sums will need to be saved, and while savings reduce immediate consumption, they generate capital for current investments and lead to future consumption.

The third objective recognizes the fact that middle-income earners are not very well protected by the current public system and that a majority of them do not even participate in a private pension plan. Basically, this defines the biggest issue with our current retirement income system.

The fourth objective implies that lower-income earners, who are already very well protected by the current system, would end up losing half of those sums if and when they eventually receive GIS benefits, since these would be clawed back at 50%.

It is interesting to note that all of the above concerns were voiced by various stakeholders during the recent Quebec hearings on the D'Amours Report, in addition to the concern that the Quebec proposal to implement a new longevity pension should be coordinated with a potential CPP expansion by the rest of Canada.

PEI PROPOSAL FOR CPP EXPANSION

It is interesting to note that the specific CPP expansion proposal recently unveiled by PEI's finance minister seems to address directly those four objectives, as can be summarized as follows:

1. **Be fully funded**: additional benefits of 15% of earnings would apply only to service after the implementation date and would be financed by additional contributions of 3.1% (shared equally between employees and employers, at 1.55% each) of the covered earnings. Although we have not seen on what basis that 3.1% might suffice to finance a benefit level of 15%, it is well known that the current CPP contribution of 9.9% finances not only a benefit level of 25%, but also windfalls granted to previous generations, so the proposed 3.1% might be sufficient to finance fully the new benefit;
2. **Moderate short term effects**: the changes would be delayed about two years and then would be phased in over about three years. So the contribution rates would not change right away and then would increase annually by only approximately 0.5% of earnings for each party, which likely represents only a fraction of expected annual salary increases;
3. **Improve pension of middle-income earners**: the new benefits and contributions would apply to earnings between approximately $25,000 and $100,000 (the current CPP earnings ceiling is $51,100);
4. **Protect lower-income earners**: by excluding the first $25,000 of earnings for the new benefits and contributions, the potential impact on future GIS benefits would be greatly reduced. In addition, this partial exclusion would reduce the impact of the new contributions as a percentage of total earnings; for example, someone earning $50,000 would pay the new contributions on just half of total earnings, so that the annual contribution increase of 0.5%

would represent only 0.25% of total earnings (which would also be diluted by the income tax deduction).

The impact can be summarized as follows at different salary levels:

ANNUAL CONTRIBUTION

SALARY LEVEL	CURRENT[1]	PROPOSED[1]	INCREASE	IN %
$25,000	$1,064	$1,064	Nil	Nil
$50,000	$2,302	$2,689	$387	+17%
$75,000	$2,356	$3,131	$775	+33%
$100,000	$2,356	$3,518	$1,162	+49%

[1] *These contribution amounts represent the portion payable by employees (employers pay the same amount).*

ANNUAL PENSION

SALARY LEVEL	CURRENT[2]	PROPOSED[2]	INCREASE	IN %
$25,000	$6,250	$6,250	Nil	Nil
$50,000	$12,500	$16,250	$3,750	+30%
$75,000	$12,775	$20,275	$7,500	+59%
$100,000	$12,775	$24,025	$11,250	+88%

[2] *These pension amounts would result after the transition period and taking into account a full contributory period, but ignoring the effect of future salary increases.*

These tables show that for higher-income earners, this expansion would produce an increase of approximately 50% in contributions and almost 90% in benefits, while for middle-income earners, it would represent an increase of approximately 20% to 30% in contributions and 30% to 60% in benefits. This would probably go a long way to improve their retirement security, but only after a phase-in period of about 40 years, in order to satisfy the full funding objective.

OTHER CONSIDERATIONS RELATED TO STATED OBJECTIVES

As the finance ministers and premiers examine closely such a proposal, they may wish to consider carefully the following potential implications related to their stated objectives:

FOR THE OBJECTIVE RELATED TO THE PROTECTION OF LOW-INCOME EARNERS:
While it may be true that additional contributions would likely end up reducing their future GIS benefits by 50% (meaning they get their own contributions back, but not their employer's), this is already true of their current CPP contributions. One difference is that the CPP expansion would cost less than the current CPP, which includes the cost of past inter-generational transfers.

On the one hand, do governments wish to maintain their current "unrewarding" contributions and simply not exacerbate that problem with a CPP expansion, or else do they wish to attempt to rectify what is already counterproductive? On the other hand, do governments wish that low earners continue relying in the future on benefits funded solely by general tax revenues supported by future taxpayers?

If they wish to redress the current problem, one approach might be to exempt a significant first layer of earnings, such as $15,000 or $25,000, and by applying that exemption not only for contributions (as is the case with the current basic exemption of $3,500) but also for benefits; however this would have a substantial effect on the appropriate contribution rate needed to maintain the current level of CPP funding, and also on the future costs of the GIS program. Another approach might be to find some compromise by applying a less severe clawback formula for CPP benefits (maybe only up to a certain level, such as half the maximum CPP benefit), or by considering the CPP expansion as a tax free savings account, which is not counted for GIS calculations.

FOR THE OBJECTIVE RELATED TO THE IMPROVEMENT OF THE PENSION FOR MIDDLE-INCOME EARNERS:
Depending on what is the targeted level of middle-income where the current lack of savings may be most acute, is it appropriate to spread a CPP expansion gradually all the way up to earnings of $100,000, or should the improvements be more concentrated in the range up to $75,000? Some stakeholders may feel

that public plans should focus on those who need the most assistance, while those who are better off could be left to handle their own affairs.

For example, instead of new rates of 3.1% and 15% being applied between $25,000 and $100,000, new rates of 5% and 25% could be applied between $25,000 and $75,000, which would produce very comparable results for high earners but much more impact for middle earners. The following tables illustrate how this alternative would affect different salary levels:

ANNUAL CONTRIBUTION

SALARY LEVEL	CURRENT[1]	PROPOSED[1]	INCREASE	IN %
$25,000	$1,064	$1,064	Nil	Nil
$50,000	$2,302	$2,927	$625	+27%
$75,000	$2,356	$3,606	$1,250	+53%
$100,000	$2,356	$3,606	$1,250	+53%

[1] *These contribution amounts represent the portion payable by employees (employers pay the same amount).*

ANNUAL PENSION

SALARY LEVEL	CURRENT[2]	PROPOSED[2]	INCREASE	IN %
$25,000	$6,250	$6,250	Nil	Nil
$50,000	$12,500	$18,750	$6,250	+50%
$75,000	$12,775	$25,275	$12,500	+98%
$100,000	$12,775	$25,275	$12,500	+98%

[2] *These pension amounts would result after the transition period and taking into account a full contributory period, but ignoring the effect of future salary increases.*

FOR THE OBJECTIVE RELATED TO MODERATING THE SHORT TERM EFFECTS ON THE ECONOMY: Although it may be justified to pay attention to short term effects, it would be wise to consider also medium and long term effects. For example, the current system was structured by creating different sources of retirement savings (the so-called "three pillars"), and leaving a significant part to be played by private plans, including workplace plans and personal plans. The gist of today's problem is that only a smallish percentage of private sector workers participate in private plans. Any expansion of the public plans is bound to push those workers who already participate in private plans (or their employer) to reduce their contributions to those private plans. This may very well produce a vast displacement of investments from private to public funds.

For example, it was estimated that the Quebec proposal for a new longevity pension would produce annual contributions totalling about $4 billion, but that this would be offset by reductions of about $2 billion in private plans. A rough estimate of the impact of a CPP expansion might be to triple those numbers for the rest of Canada.

Such a displacement helps to reduce the net short term impact on the economy, but requires private plans to implement the adjustment. This implementation should be pretty straightforward for a defined contribution plan, e.g. if you were used to paying 5% of salary and now you are asked to pay 3% into a new plan, you can simply reduce your existing contribution to 2%. But for defined benefit plans, the appropriate offset may not be as easily determined, especially if the public plan expansion is phased in over three years. So this adjustment in private plans may require significant effort and administrative expenses.

If we look into the long term, it should be realized that the displacement of contributions will produce huge sums going from private financial institutions to some public body; this may have some advantages, but also some disadvantages, which should be carefully considered by governments now.

ALTERNATIVE APPROACH: A TARGETED PRPP SOLUTION

While any alternative that might be considered involves certain advantages and disadvantages, it can be useful to remind ourselves of the problem that needs to be addressed and then to attempt devising a solution that focuses on that problem as much as possible, while minimizing collateral impacts where there is no problem.

If we try to keep that in mind, another approach may be to focus the changes on workers who do not already participate in private plans, so that the new public plan simply complements what has already been established, rather than displace it.

Over the last couple of years, finance ministers have pursued a parallel track to reinforce the private plans by developing new rules for PRPPs (or VRSPs in Quebec). While this new vehicle might help to cover some of the workers who are not covered currently by one of the existing private plans, if their employer (or themselves) take advantage of that new vehicle, it is hard to imagine that this new vehicle will have a widespread impact if the rules make it totally voluntary. And this seems to be one reason why the finance ministers are trying to do more than their recent PRPP initiative.

But the strategy now being planned by finance ministers for expanding the public plan could be revised so as to dovetail into their PRPP initiative. Here is a broad outline of a targeted solution that could be based on a public PRPP.

- When taxpayers file their tax returns, determine whether they have accumulated a certain minimum target level of retirement savings in the last year; if not, then impose a contribution into a public pension plan.
- This test could be based on whether they have either an RRSP deduction or a Pension Adjustment (which is reported as a result of their participation in their employer's pension plan, including a new PRPP). If this approach were considered, it might be preferable to ensure that the reported retirement savings really end up providing retirement income, so the current rules on locking-in might need to be reinforced.
- For example, if the alternative now being considered were new CPP contributions of 3% on earnings between $25,000 and $100,000, someone who earns $75,000 would be expected to contribute (in combination with the employer) an amount of $1,500 toward retirement savings in one form or another (in addition to the current CPP). On his tax return, if he reported at least $1,500 in RRSP contribution or in a PA, then he would not need to make any additional contribution; but if he reported less, then he would need to contribute (through a tax-administered assessment) such missing retirement savings into the new public pension plan. To avoid an immediate cash outlay, this lack of savings could be spread over the coming year.
- The way to link this approach to the new PRPP rules would be for governments to set up their new public pension plan as a PRPP for this purpose, or even select a PRPP set up by a financial institution, possibly from a short list offered to each taxpayer to select on his tax return (if he doesn't have enough being saved in his RRSP or employer pension plan).
- We could even envisage several provincial PRPPs (one being in existence already in Saskatchewan). This would certainly help those PRPPs achieve very rapidly the economies of scale that help to keep administrative costs at a very low level, which is one of the main objectives of the PRPP rules.

While there would still be several details to analyze before setting up such an approach, this targeted public PRPP solution may offer a lot of advantages.

So as politicians prepare to make some important decisions on a possible expansion to CPP/QPP, let us hope they will weigh in the above considerations and alternatives.

P.E.I. ANNOUNCES CHANGES TO PUBLIC SECTOR PENSIONS

The government of Prince Edward Island recently announced a number of significant changes that will impact the two large public sector pension plans that cover civil servants (as well as health sector workers) and teachers in the province. The P.E.I. government pointed to an estimated $400 million deficit in the public sector pension plans in support of the need for changes. The government has committed to making annual special payments of $25 million for the next 20 years to increase the funded status of the pension plans.

The changes adopt some aspects of Target Benefit and Shared Risk pension plans, including the removal of guaranteed indexing for public sector retirees. Currently pensions are indexed at full CPI for civil servants and at 60% of CPI for teachers. For the next three years, their pensions will be indexed at the same rate as in 2013 (i.e. 1.5% and 0.9% respectively). Starting in 2017, indexing, or cost of living adjustments ("COLA"), will be at full CPI for both groups, but contingent on the plan's financial situation: it will only be granted if the pension plan's funded status meets a certain threshold (greater than 110%). Once awarded, COLA increases will be protected and not subject to future reductions. The government predicts COLA will be awarded an average of 4 out of every 5 years.

The announced changes will also impact benefits that active members will earn for future service, by:

- Increasing the retirement age for an unreduced pension from 60 to 62 and changing the service requirement from 30 to 32 years for an unreduced earlier pension, after attaining age 55 (for service from 2019);
- Moving from "best three years" and "best five years" formulas to an "indexed average earnings" formula, effective 1/1/2014, including future indexing of pre-2014 service, with indexing until retirement equal to 1.5% for the next three years and based on average industrial wages afterwards, but contingent on the plan's funded status being at least 100%. The government expects that this indexing will be awarded to active members an average of 9 out of every 10 years;
- Potentially increasing contribution percentages depending on the plan's funded status:
    - If it falls below 110%, special contribution increases of 1% for Employees and 2% for the Employer, payable until the funded status reaches 115%, plus
    - If it falls below 100%, an extra 2% for the Employer, payable until the funded status reaches 105%, plus
    - Extra Employer contributions if necessary to reach 100% within five years.

Legislation to implement these changes is expected to be introduced by the end of 2013, to become effective January 1, 2014.

Under the PEI approach, government is continuing to protect the dollar amount of pensions payable (including indexing received to date). While future increases may be lower as a result of these changes, the dollar amount of members' benefits will never be reduced.

CANADA – EUROPEAN UNION TRADE AGREEMENT INCLUDES CHANGES TO PRESCRIPTION DRUG PATENT RULES

Canada and the European Union (EU) signed on October 18, 2013 a trade agreement in principle, which includes changes to Canada's prescription drug patent rules. Under the agreement, prescription drug patent protection could be extended by up to two years to compensate drug manufacturers for time lost in obtaining regulatory approval. If ratified, this change would delay the availability of lower cost, generic equivalent drugs.

In recent years, most provinces and territories across the country have taken significant steps to limit the prices of targeted generic drugs. As the February 2013 issue of *News & Views* noted, nine provinces and three territories announced they would work together in a volume purchasing agreement to acquire the six most prevalent generic drugs. Though reports indicate the two year extension is a compromise from the initial position of five years, any change allowing an extension of patents would slow down the progression towards reduced prescription drug prices in Canada.

While estimating the financial impact is challenging, the federal government has acknowledged that there will be upward pressure on prescription drug costs as a result of the agreement. Various studies were conducted on the projected cost of such a change, warning of potential cost increases of $1 billion or even more each year.

As noted, it is only an agreement in principle that has been reached at this point. Not all aspects of the agreement have been finalized and the document still requires drafting. The deal must then be passed by the Canadian and European parliaments as well as the parliaments of the 28 EU nations. As a result, final approval may not occur for another two years. With this change only impacting those drugs patented after the agreement is ratified, the additional costs noted above are likely to be incurred many years down the road.

Several provinces have indicated that their concerns regarding prescription drug prices were communicated to the federal government during the confidential negotiations. In response, the federal government has reportedly provided written confirmation that they will fully reimburse provinces for any impact on prescription drugs resulting from this agreement.

There has been no mention of reimbursing private plans or patients for increased costs. While it is impossible to project the financial impact of an extended period of patent protection, the difference in cost between brand name and generic drugs has become increasingly pronounced due to agreements that limit the generic price relative to that of the brand name drug. If adopted in its current form, organizations that sponsor group benefit programs, their employees and private payers may be expected to foot the bill for the higher cost of brand name drugs as a result of this trade agreement.

AS AT OCTOBER 31, 2013

MARKET INDICES

The following table shows the Morneau Shepell monthly summary of returns from various market indices. It also includes returns from benchmark portfolios used by pension funds.

	RETURNS			
	Monthly	Quarter to date	Year to date	1 year
TSX GROUP/PC BOND INDICES				
DEX Universe Bond	1.1%	1.1%	-0.5%	0.0%
DEX 91 Day Treasury Bill	0.1%	0.1%	0.9%	1.1%
DEX Short Term Bond	0.6%	0.6%	1.6%	1.9%
DEX Mid Term Bond	1.3%	1.3%	0.3%	0.7%
DEX Long Term Bond	1.5%	1.5%	-4.5%	-3.7%
DEX High Yield Bond	0.7%	0.7%	4.0%	5.6%
DEX Real Return Bond	2.5%	2.5%	-9.2%	-9.2%
CANADIAN EQUITY INDICES				
S&P/TSX Composite (Total Return)	4.7%	4.7%	10.3%	11.0%
S&P/TSX Composite Capped	4.7%	4.7%	10.3%	11.0%
S&P/TSX 60 (Total Return)	5.0%	5.0%	10.4%	11.3%
S&P/TSX Completion	4.0%	4.0%	10.0%	10.0%
S&P/TSX Small Cap	3.9%	3.9%	4.6%	2.9%
BMO Small Cap Unweighted	2.8%	2.8%	-1.5%	-2.4%
BMO Small Cap Weighted	3.4%	3.4%	4.1%	3.3%
U.S. EQUITY INDICES				
S&P 500 (US$)	4.6%	4.6%	25.3%	27.2%
S&P 500 (C$)	5.9%	5.9%	31.3%	32.7%
FOREIGN EQUITY INDICES[1]				
MSCI ACWI (C$)	5.5%	5.5%	24.7%	28.6%
MSCI World (C$)	5.4%	5.4%	27.7%	31.2%
MSCI EAFE (C$)	4.9%	4.9%	25.7%	32.4%
MSCI Europe (C$)	5.8%	5.8%	26.8%	33.2%
MSCI Pacific (C$)	3.1%	3.1%	24.0%	31.2%
MSCI Emerging Markets (C$)	6.4%	6.4%	5.4%	11.5%
OTHER				
Consumer Price Index (Canada, September 2013)	0.2%	0.2%	1.7%	1.1%
Exchange Rate US$/C$	1.2%	1.2%	4.8%	4.4%
MORNEAU SHEPELL BENCHMARK PORTFOLIOS[2]				
60% Equity/40% Bonds	3.4%	3.4%	10.7%	12.1%
55% Equity/45% Bonds	3.2%	3.2%	9.8%	11.0%
50% Equity/50% Bonds	3.0%	3.0%	8.8%	10.0%
45% Equity/55% Bonds	2.8%	2.8%	7.8%	8.9%
40% Equity/60% Bonds	2.6%	2.6%	6.9%	7.9%

[1] Returns net of taxes on dividends, except for MSCI Emerging Markets.
[2] The returns are compounded monthly.

ASSET & RISK MANAGEMENT

In **Asset Management**, we provide objective advice on all aspects of asset management for pension funds, including investment policy statements, portfolio manager searches, investment performance measurement and investment strategy.

In **Risk Management**, we provide a structured, comprehensive approach to pension risk management, including implementation of liability-driven investment strategies, advice on allocation of the risk budget within an asset-liability framework and execution of continuous and dynamic processes for risk reduction.

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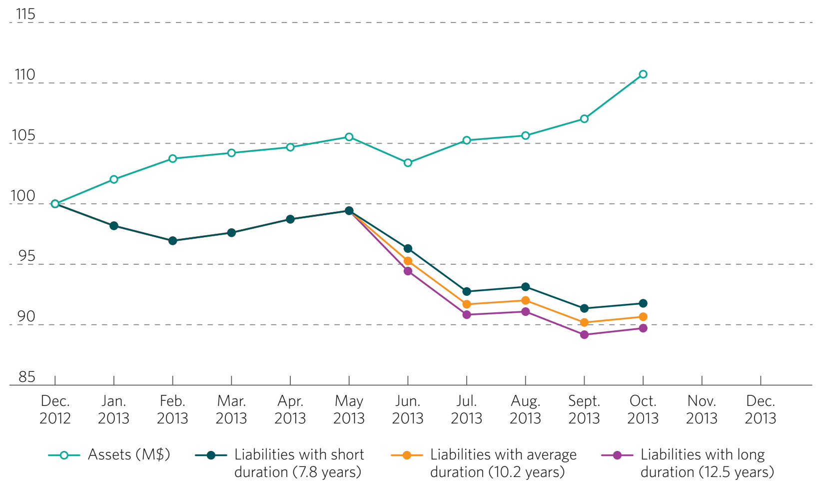
TRACKING THE FUNDED STATUS OF PENSION PLANS

This graph shows the changes in the financial position of a typical defined benefit plan since December 31, 2012. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2012. This estimate of the solvency liabilities reflects the new CIA guidance published in November 2013 for valuations effective September 30, 2013 or later. Therefore, beginning on September 30, 2013, we present the evolution of liabilities for three groups of retirees, each with a different duration (short, average and long). The following graph shows the impact of past returns on plan assets and the effect of interest rate changes on solvency liabilities.

THE EVOLUTION OF THE FINANCIAL SITUATION OF PENSION PLANS SINCE DECEMBER 31, 2012



In October 2013, Canadian bond and equity markets rose, as did global equity markets, which caused assets to increase by 3.4%. However, a decrease in the annuity purchase rates used to calculate solvency liabilities caused liabilities to increase by 0.5%, for the average duration group. The combined effect resulted in an improvement of the solvency ratio.

The table opposite shows the impact of past returns on plan assets as well as the effect of interest rate changes on solvency liabilities, depending on the plan's initial solvency ratio as at December 31, 2012.

Since the beginning of 2013, assets rose by 10.7%, driven by excellent returns in global equity markets. Meanwhile, the increase in interest rates caused liabilities to decrease between 8.2% and 10.3%, depending on the duration of the group of retirees. The increase of the solvency ratio as at October 31, 2013 depends on the initial solvency ratio, but stands between 12.4% and 23.4%, which represents a great improvement in the financial situation of pension plans.

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

Comments:

1. No consideration has been made for contributions paid to the plan or for benefits paid out of the plan.
2. Solvency liabilities are projected using the rates prescribed by the Canadian Institute of Actuaries for the purpose of determining pension commuted values.
3. This estimate of the solvency reflects the new CIA guidance published in November 2013 for valuations effective September 30, 2013 or later.
4. The underlying typical defined benefit plan is a final average plan with no pension indexing, including active and inactive participants representing 60% and 40% of liabilities, respectively.
5. Assets are shown at full market value. Returns on assets are based on those of the Morneau Shepell benchmark portfolio (60% equities and 40% fixed income). It should be noted that this benchmark portfolio replaced the one that was previously used, which contained 55% of equities and 45% of fixed income.

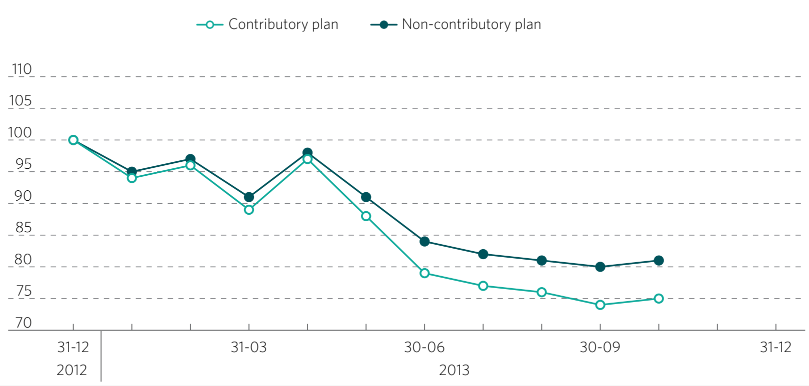
INITIAL SOLVENCY RATIO AS AT 12/31/2012	EVOLUTION OF THE SOLVENCY RATIO AS AT 10/31/2013 FOR THREE DIFFERENT GROUPS OF RETIREES		
	SHORT DURATION (7.8 YEARS)	AVERAGE DURATION (10.2 YEARS)	LONG DURATION (12.5 YEARS)
100%	120.7%	122.1%	123.4%
90%	108.6%	109.9%	111.1%
80%	96.5%	97.7%	98.7%
70%	84.5%	85.5%	86.4%
60%	72.4%	73.3%	74.1%

IMPACT ON PENSION EXPENSE UNDER INTERNATIONAL ACCOUNTING

Every year, companies must establish an expense for their defined benefit pension plans.

The following graph shows the expense impact for a typical pension plan that starts the year at an arbitrary value of 100 (expense index). The expense is influenced by changes in the discount rate based on high-quality corporate and provincial (adjusted) bonds and the median return of pension fund assets.

EXPENSE INDEX FROM DECEMBER 31, 2012



(In %)											
Discount rate	3.7	3.9	3.8	3.9	3.7	4.0	4.4	4.4	4.5	4.5	4.4
Return on assets (55% equities)	n/a	1.8	1.6	0.5	0.5	0.6	-2.0	1.7	0.3	1.2	3.2

The pension expense has decreased by 25% (for a contributory plan) since the beginning of the year, mainly due to the increase in the discount rate. However, the pension expense has increased since last month due to the decrease in the discount rate in the last month, despite a higher than expected return on asset.

The table below shows the discount rates for varying durations and the change since the beginning of the year. A plan's duration generally varies between 10 (mature plan) and 20 (young plan).

DISCOUNT RATE

DURATION	DECEMBER 2012	OCTOBER 2013	CHANGE IN 2013
11	3.61%	4.18%	57 bps
14	3.80%	4.45%	65 bps
17	3.92%	4.61%	69 bps
20	4.00%	4.71%	71 bps

Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

Comments:

1. The expense is established on the basis of the revisions made to IAS 19, applicable on January 1, 2013. The key change concerns the finance cost on plan assets which is now calculated with the discount rate instead of the expected return on plan assets. For more information, please refer to the *News & Views* of July 8, 2011.
2. Please note that the discount rates shown reflect the educational note published by the Canadian Institute of Actuaries entitled *Accounting Discount Rate Assumption for Pension and Post-employment Benefit Plans* (September 2011).
3. The expense is established as at December 31, 2012, based on the average financial position of the pension plans used in our *2012 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits* report (i.e. a ratio of assets to obligation value of 83% as at December 31, 2011).
4. The return on assets corresponds to the return on the Morneau Shepell benchmark portfolio (55% equities and 45% fixed income).
5. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions).

ABOUT US

Morneau Shepell is the largest Canada-based human resource consulting and outsourcing firm focused on pensions, benefits, employee assistance program (EAP) and workplace health management and productivity solutions. We offer business solutions that help our clients reduce costs, increase employee productivity and improve their competitive positions by supporting their employees' financial security, health and well-being.

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