Knowledge & Insights

MORNEAU SHEPELL

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In this issue

Quebec: Adoption of Bill 57 to amend pension plan funding

Bill 57 was introduced on June 11, 2015 and mainly amends the funding rules for private sector defined benefit (DB) plans by eliminating the solvency-basis funding requirement. However, it also adds a stabilization provision that must be funded on a going-concern basis. Special consultations on the bill were held in late October 2015, followed by detailed consideration in November, which concluded on November 24, 2015. The amendments proposed in the detailed consideration were adopted on November 26, 2015 and the bill received royal asset. Its provisions take effect on January 1, 2016. Note that the regulation has not yet been issued, so we are still missing details that will have a significant impact on interpretation and application of the new law.

Table 1 – Bill 57: the June 11, 2015 version	
Funding on a solvency basis: • **No longer required** * *No amendment*	**Changes to certain benefits**: • Elimination of the additional benefit • Payment of termination benefit based on solvency level * *Clarified; see below*
Funding on a funding basis: • Addition of a stabilization provision (SP) - Current service (SP) and past service (SP-5%) - SP target is derived from a plan's risk level based on a scale applied in accordance with the plan's investment policy ≈ 15% if 50% equities • 10-year amortization of deficits * *Amended; see below*	**Surplus: new rules** • Rules for use and appropriation • Use permitted if: - Solvency level ≥ 105% - Funding level ≥ 105% + SP • Introduction of a banker's clause (including technical and stabilization amortization payments), with no annual limit of 20% • Default 50/50 sharing clause for residual surplus (20% may be used each year) * *Amended; see below*
Funding of improvements: 5 years • Immediate if funding level is < 90% • Otherwise, 5 years * *No amendment*	**Employee contributions**: • Option of using employee contributions to fund a portion of a deficit * *Clarified; see below*
Frequency of actuarial valuations: • Annual if solvency level < 85% • Otherwise, every three years • Annual test of estimated solvency level * *Amended; see below*	**New governance rules**: • Implementation of a funding policy • Implementation of an annuity purchasing policy (if needed) * *Clarified; see below*
Annuity purchase: • Possibility of discharging obligations • Annuity purchasing policy required * *Clarified; see below*	**Letters of credit**: • Allowed for stabilization amortization payments only • Limited to 15% of funding liability * *No amendment*

The new law mainly addresses:

- **DB** plans in the Quebec private sector,

but certain aspects also concern:

- **DC** plans in the **Quebec private** sector;
- Plans **registered in another province** but that have **Quebec participants**;
- Plans **exempt** from the application of certain unding rules in the Supplemental Pension Plans Act **(e.g., municipal sector, university sector, daycare establishments, ambulance technicians)**;
- **Negotiated contribution** plans;
- Plans **being terminated**.

Note that the main measures in Bill 57 are discussed in our June 2015 *News & Views*. Table 1 above summarizes the highlights.

Amendments

After the special consultations and detailed consideration, the first version was amended. Table 2 on the next page sets out the main amendments to Bill 57, which mainly concern the funding of private sector pension plans.

Compared to the first version of the bill, several adjustments were made to the adopted version that will be well received by pension plan sponsors, including:

1. The option of taking other criteria, not just the investment policy, into account when determining the level of the stabilization provision (SP). These criteria and the manner in which they are determined will be set out in the regulation;
2. The required frequency of actuarial valuation reports drops when the plan funding level is above 90%;

Table 2 – Summary of Bill 57 amendments adopted in November 2015 – Funding:	
Stabilization provision (SP): • The SP level will be determined as set out by regulation, notably based on a scale • The scale will take a number of criteria into account (not just asset mix)	**Frequency of actuarial valuations**: • Every three years • Annual if funding level < 90% as at the last valuation • Annual estimate of solvency level remains (as does the 4-month time limit)
Surplus: • Employer contribution holidays in excess of the banker's clause possible without applying the annual 20% limit • Annual 20% limit still applies for other uses of surplus • Employee contribution holidays possible • Default 50/50 sharing clause for excess of the banker's clause has been eliminated. Current surplus sharing clauses remain despite elimination of the arbitration process • Possibility remains for reviewing surplus clauses using the consultation process established (rule of 30% opposition) • Requirement for notice to members when surplus is used has been eliminated.	**Banker's clause**: • Priority both in the event of plan termination and when plan is ongoing • Will include contributions paid in excess of required minimum • Banker's clause for employees if their contributions are used to fund a portion of a deficit • Improvements covered by the surplus will reduce the banker's clause (in addition to surplus withdrawals and contribution holidays)
Annuity purchase: • Actuarial valuation required **as at the purchase date of released annuities** (4-month time limit) • Special contribution may be required under the regulation • Insured retirees remain at risk in the event of bankruptcy for 3 years (in addition to retaining entitlement to surpluses as previously provided) • Not possible to discharge deferred pension obligations	**Governance rules**: • Funding policy must be reviewed regularly and taken into account in the investment policy • Financial penalties for failure to comply with funding policy requirements • Internal by-laws must specify the method used to quantify risks
Employee contributions: • Any agreement with respect to sharing the current service cost applies to the stabilization portion by default • If employee contributions are used to fund a portion of a deficit, then option of paying as a percentage of salaries or hourly wages (for employer and employees)	**Changes to certain benefits**: • Elimination of the additional benefit also applies to the equivalent indexation provisions. One-year time limit for implementation remains. • It is possible to pay a transfer value above the solvency ratio if the plan specifically provides for this

3. The default clause assigning surplus assets equally to the employer and employees has been eliminated. The default clause therefore remains as set out in the plan text;

4. Contribution holidays will not be restricted by the annual 20% ceiling on use of the surplus, allowing the continuation of a common practice even when no funds have accrued under a banker's clause;

5. To ensure fairness, employee contributions to reduce a deficit will also be accrued under a banker's clause.

Short-term impact on plan administration

- Since the new legislative measures come into force on January 1, 2016, plan sponsors must be prompt in addressing the administrative issues arising from the bill:
  - **Transfer values**: Regarding amounts refunded to a plan member who leaves the company (or a spouse or beneficiary following a divorce or death) and the application to transfer amounts outside the plan:
    - Will the transfer value be reduced to reflect the solvency ratio, as is now required by law?
    - Or will the current practice of paying 100% of the pension value be continued? Could the amount paid be greater than 100% when the solvency level is higher than 100%?
  - **Additional benefit**: Regarding the pre-retirement indexation required for former members:
    - Will the additional benefit be eliminated and if the answer is yes, will this apply only to future years of service or past years of service as well?

Table 3 – Summary of amendments to Bill 57 adopted in November 2015 – Other:	
Money purchase plans: • Now possible to pay flexible retirement benefits from a money purchase plan (defined contribution plan) • Same provision as included in Bill 75 for universities - Will therefore come into force earlier (at the same time as Bill 57)	**Plans exempt from application of certain provisions of the SPP Act (example: cities and universities):** • The requirement to implement a funding policy automatically applies • Other provisions (such as payment of termination benefits based on solvency ratio) do not apply unless the regulation specific to these plans is so amended
Plan merger approved if: • Post-merger solvency ratio ≥ 85% or; • Post-merger solvency ratio is greater than the pre-merger solvency ratios of the absorbing and absorbed plans, reduced by 5%	**Plans with members in more than one province and covered by the multi-jurisdictional agreement of July 2011**: • For the purpose of a division of assets by jurisdiction (split or wind-up), funding on a solvency basis of benefits accrued prior to January 1, 2016, is deemed mandatory
Plans being terminated: • Details about whether or not the new provisions under Bill 57 apply, depending on the situation • Details about the administration of pensions by the *Régie des rentes du Québec* in the event of plan termination following insolvency or bankruptcy, which is extended	**Negotiated contribution plans**: • Clarifications with respect to funding this type of plan have been added to Bill 57, notably: - Guidelines for content of notice in the event of withdrawal of an employer - Conditions for employer withdrawal when no more active members

- **Plans with members in several provinces**
  - It would not be possible to pay a transfer value based on a solvency ratio of less than 100% for participants governed by other provincial legislation. Nor would it be possible to eliminate the additional benefit for past service for such participants. Sponsors who do not wish to introduce inequalities must take these aspects into account.

Depending on the plan sponsor's decisions, plan texts will need to be amended quickly.

Plans that have Quebec participants and that are registered in another province

- Sponsors of plans registered in a province other than Quebec, but that have participants whose benefits are subject to Quebec jurisdiction, are facing the same issues and decisions as those noted above regarding the treatment of plans with Quebec participants. This means that it will likely be necessary to amend the plan fairly quickly.

Other changes

Other amendments to the SPP Act have been integrated into the amended Bill 57. These provisions are summarized in Table 3 above and also concern:

- **DC** plans in the **Quebec private** sector;
- Plans **exempt** from the application of certain funding rules in the Supplemental Pension Plans Act **(e.g., municipal sector, university sector, daycare establishments, ambulance technicians)**;
- **Negotiated contribution** plans;
- Plans **being terminated**.

Private sector DC plans and Bill 75

As of January 1, 2016, it will be possible for a private sector defined contribution plan to pay variable benefits. Sponsors who wish to do so could thus stop enforcing the transfer-out of accrued benefits by age 71. Members who wish to stay in the group plan could do so and benefit from much lower management and administration fees than they would otherwise pay in the market as individuals.

This provision will apply only to private sector plans in Quebec. The same provision (for all plans) appears in Bill 75, which mainly addresses the funding of university sector plans. See our November 2015 *News & Views* for details. Note that special consultations on Bill 75 are slated for December 2015 and February 2015. It is expected that Bill 75 will be adopted in the spring of 2016.

Conclusion and what to expect

Given the highly diverse nature of pension plans in the private sector, the proposed measures will have a different impact on each plan. Nonetheless, the elimination of solvency-based funding, and the addition of an objective greater than 100% on a funding basis, are major changes.

Plan sponsors will now have some idea of the impact these measures will have on their pension plan contributions from the time of submission of the actuarial valuation as at December 31, 2015, due by September 2016. These new rules could also spur some administrators to review their current investment or risk management policies, which were designed for a substantially different environment. However, some important details, and particularly the method of determining the stabilization provision, will not be known until the implementation regulations are issued.

Promoters for whom these new rules will reduce funding requirements in 2016 will want to see the regulations adopted as early as possible in 2016 so that they can quickly reduce their contributions. To that end, we can hope that the government will set out the provisions governing calculation of the stabilization provision in a specific regulation issued as early as January. The other items that do not affect the production of the December 31, 2015 actuarial valuation could be addressed in a different regulation adopted a bit later. Another option would be for the government to issue a temporary regulation exempting private sector plans from solvency deficiency funding as of January 1, 2016, even in the absence of a new actuarial valuation as at December 31, 2015.

Lastly, some of the amendments that affect plan administration will require action in the very near term, particularly with respect to members who leave as of January 2016. Plan sponsors will want to address this without delay.

Ontario: government announces new solvency funding relief and other changes

On November 26, 2015, the Ontario government released its 2015 Economic Outlook and Fiscal Review (the "Economic Statement"). The Economic Statement includes important announcements related to solvency funding for defined benefit (DB) pension plans, the 30% investment rule, and the Ontario Retirement Pension Plan (ORPP).

Solvency funding relief

The Ontario government intends to extend temporary solvency funding relief measures, as provided in 2009 and 2012, for an additional three years for the first valuation report filed starting on December 31, 2015. The two relief options are as follows:

- Consolidating existing solvency payment schedules into a new, longer five-year payment schedule; and
- Extending the solvency payment schedule to a maximum of 10 years (from the current maximum of five years) for any new solvency deficiency determined in the valuation report in which relief is taken, subject to the consent of plan beneficiaries.

Review of solvency funding rules

According to the Economic Statement, many sponsors continue to face challenging contribution requirements as a result of persistently low interest rates.

Recognizing this situation, the government will initiate, on an expedited basis, a review of the current solvency funding framework with a view to developing a balanced set of reforms that would focus on plan sustainability, affordability and benefit security.

ORPP announcements

The Economic Statement states that the initial board of the ORPP Administration Corporation has been appointed. Furthermore, the Ontario government will release a cost-benefit analysis of the ORPP by the end of 2015.

Elimination of the 30% rule

The government intends to eliminate the "30% rule," which restricts Ontario pension funds from owning more than 30% of the voting shares of a corporation. Currently, real estate, resource and investment corporations are exempted from the rule, and the government has been considering a further exemption for investments in public infrastructure, having identified this as an opportunity in 2013.

The government intends to post a description of the proposed regulation for consultation in early 2016.

Pooled registered pension plans

Regulations supporting the Pooled Registered Pension Plans Act, 2015, are currently in development.

Conclusion

The extension of solvency funding relief is good news for DB plan sponsors in Ontario. DB plan sponsors will also be keenly interested to follow the review of solvency funding in Ontario and any possible reforms, especially after the major change implemented in Quebec.

New book sheds new light on retirement planning

The book "*The Essential Retirement Guide: A Contrarian's Perspective*" was launched on December 2nd. Written by Morneau Shepell's Chief Actuary, Frederick Vettese, the book explodes some persistent retirement myths. This book is intended to guide readers in planning for their own retirement, exploring more closely some concepts that were presented in the book "*The Real Retirement*", which he co-authored with Bill Morneau in 2013.

While it is intended primarily to be a guide for individuals who are saving for retirement, many of the findings in the book will be of interest to sponsors of workplace pension plans. Listed below are some of the ideas covered in the book:

1. Changing demographics will cause interest rates and investment returns to stay low for decades; workers will have to save more or retire later.
   - Sponsors of Defined Benefit (DB) pension plans have seen for several years already how the recent market and demographic realities have produced substantial increases in plan costs. With the same realities affecting Defined Contribution (DC) plans, future retirement benefits (or retirement age) will fall short of expectations unless contributions to those plans are also increased substantially.
2. Those relying on capital accumulation plans should buy an annuity by age 75; that is not a time of life to be making bets on one's life span or making investment decisions. And besides, an annuity will usually provide *more* income than retirees typically generate from interest on their own savings.
   - This highlights the fact that the capacity of DC plan members to support risk drastically decreases with age. With the majority of Canadian jurisdictions now allowing DC plans to provide variable retirement income benefits, plan sponsors that allow their employees to continue taking advantage of the significant benefits of their group arrangement may wish to offer new decumulation options.
3. Employees should take full advantage of employer matching contributions under workplace pension plans – it is the closest they will come to a free lunch, and yet so many employees leave money on the table.
   - From an employer's perspective, money left on the table by their employees represents cost savings. While communication that highlights the "free lunch" could lead to cost increases, greater appreciation of the plan by members will ultimately benefit all stakeholders.
4. The "*wealth target*", the amount of money one needs to save by retirement, is extremely sensitive to retirement age. For a slightly above average income household, the *wealth target* if one retires

at age 58 can be twice as much as if one waits until 66.

  - Employers may be interested in giving their employees a better idea of how much to strive for. Good modeling tools are essential.

5. In terms of life expectancy, 70 is the new 60 (comparing mortality of those who retire now versus when they began their career); but on the other hand *healthy* life expectancy has not changed much. Independent studies in Canada, Germany, the United States and now the UK consistently show that spending in real terms drops with age, regardless of income level. The main reason is the gradually declining ability or inclination to spend money on discretionary items.

  - While pension plans cannot reflect a declining spending pattern because they are required to provide retirement income that remains level for life, this finding supports the notion of not indexing workplace pension plan benefits and having members rely solely on the inflation protection afforded by government pensions.

More and more employers are interested in new ways to educate their employees about retirement issues. Our clients who wish to provide this book to their employees may be interested in the possibility of a volume discount. For more information, contact us at: hreeves@morneaushepell.com

Ontario: proposal to combine pension and financial authorities

On November 4, 2015, an Expert Review Panel (the "Panel") appointed by the Ontario Ministry of Finance to review the mandates of the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST), and the Deposit Insurance Corporation of Ontario (DICO) released a Preliminary Position Paper (the "Position Paper").

Among the Position Paper's 37 recommendations is the establishment of a new regulatory agency called the Financial Services Regulatory Authority (FSRA). The FSRA would replace both FSCO and DICO. Key features of the proposed FSRA include:

- A governance structure comprised of an independent expert board of directors to oversee FSRA operations, and a Chief Executive Officer that reports to the board;
- A self-funded FSRA that operates outside of the Ontario Public Service as a way to support operational independence, and to improve the FSRA's ability to recruit professionals and industry expertise;
- The FSRA would operate as an integrated regulator of financial services with distinct market conduct, pensions, and prudential regulatory functions organized by divisions;
- Each FSRA division would be led by a Superintendent. For instance, the Superintendent of Pensions would be operationally accountable to the CEO;
- The FSRA would have the authority to levy administrative monetary penalties in the pension and other sectors it regulates;
- The FSRA board would be required to meet with the sectors it oversees at least once a year;
- The FSRA would create a separate 'Office of the Consumer' to consider the perspective of consumers in all of its policy-making and actions; and
- The Pension Benefits Guarantee Fund (PBGF) would be administered and overseen by an entity that is separate from, but accountable to, the FSRA.

In addition, highlights of recommendations concerning the FST included:

- The FST would operate separately from FSRA, with its own budget;
- The FST would have the power to recruit professional resources with experience in the regulated sectors;

- A mechanism would be established to appropriately allow and encourage policy-level discourse between the FST and FSRA's board; and
- Legislative or other means should be implemented to ensure that the courts give deference to the FST on policy or matters within its subject-matter expertise.

Comment

The proposed changes in Ontario are intended to provide operational flexibility to regulators, encourage a flexible and consumer-oriented regulatory approach and clarify and streamline the regulator's mandate. The proposal to authorize the new financial regulator to impose administrative penalties (i.e., levy fines without mounting a prosecution in the courts) would be a significant expansion of authority.

Public comments are invited by **December 14, 2015.**

Quebec merges pension authorities

Quebec's Bill 58 was adopted by the National Assembly and received Royal Assent. The purpose of the bill is to combine the operations of the *Régie des rentes du Québec* ("RRQ") with those of the *Commission administrative des régimes de retraite et d'assurances* ("CARRA").

The RRQ is responsible for the administration of the Quebec Pension Plan, as well as the supervision of supplemental pension plans and voluntary retirement savings plans. The RRQ was created by the Quebec government in 1966.

The CARRA is responsible for the pension plans assigned to it by the Quebec government, by the Office of the National Assembly or under specific legislation. The CARRA is thus responsible for some 30 plans, primarily in the civil service, health and social services and education sectors.

The new authority will be called *Retraite Québec*.

It is not anticipated that Bill 58 will lead to significant changes to the regulation of pension plans in Quebec.

Ontario: draft guidance note on investment policies

On December 7, 2015, the Financial Services Commission of Ontario (FSCO) released IGN-005: *Overview of Statements of Investment Policies and Procedures (SIPP) Requirements* (the "Guidance Note"). The Guidance Note summarizes the legislative requirements regarding a SIPP, but includes certain new points regarding the form of the SIPP.

One SIPP per plan

According to the Guidance Note, a registered pension plan must have one SIPP, even if there are separate defined benefit (DB) and defined contribution (DC) provisions. If there are separate parts in the SIPP, they should be labelled as such.

Differences between investment policy statements and SIPPs

The Guidance Note raises the possibility that a plan may adopt additional investment policies to a SIPP, as long as the SIPP meets the minimum requirements set out in legislation. On the other hand, it may also be appropriate for a SIPP to go beyond the prescribed minimum content requirements and address a broader range of investment policy matters.

Similar SIPPs for multiple plans

The Guidance Note states that it is permissible for a plan administrator to adopt a SIPP with provisions identical to those in the SIPP for other plans. For example, plans that invest in the same master trust, have the same administrator or use the same investment consultant may be modelled after the same SIPP.

In such circumstances, it is important that the administrator determine, in accordance with its fiduciary duties, that the investment policies and procedures set out in the model SIPP are appropriate

for its plan given all relevant factors such as the plan type and its demographics/maturity. The administrator must formally adopt the SIPP for its particular plan and may need to modify the SIPP to address any unique characteristics of the plan. Any future amendments must also be adopted, rejected or modified by the administrator for each plan.

Standard of care

The Guidance Note summarizes how FSCO interprets the standard of care applicable to plan administrators in the context of a SIPP. According to FSCO, the administrator must determine the investment policies and procedures to be set out in the SIPP, implement a review and approval process, and monitor compliance with the SIPP, all in accordance with the administrator's fiduciary duties.

The administrator should document the rationale for key investment policies and procedures, although this does not necessarily have to be documented in the SIPP itself.

Structure of the SIPP

The Guidance Note suggests that a SIPP for a DB plan or a DC plan that does not provide investment choice would typically have a section for each aspect of section 7.1 of the federal investment regulations, such as diversification, lending of cash or securities, etc. It also provides sample tables of contents for DB and DC SIPPs, but states that they are provided for illustrative purposes only.

Conclusion

The Guidance Note provides helpful advice on structuring and designing a SIPP, as well as reminding administrators of their statutory duties in considering and adopting a SIPP.

Comments on this draft can be submitted no later than **February 8, 2016**.

Ontario: new Form 14 to file with Statement of Investment Policies

The Financial Services Commission of Ontario (FSCO) has released Form 14 – *Statement of Investment Policies and Procedures (SIPP) Information Summary*. Plan administrators are required to file Form 14 with FSCO for each Ontario-registered pension plan when filing the plan's statement of investment policies and procedures (SIPP). As a reminder, the requirement to file a plan's SIPP with FSCO is effective January 1, 2016. To assist plan administrators with completing and filing Form 14, FSCO has also released a User Guide.

What is the purpose of Form 14?

Form 14 is intended to provide FSCO with general information regarding the plan's SIPP, along with confirmation that the SIPP complies with the requirements of the Ontario *Pension Benefits Act* (PBA). Form 14 also requires the administrator to confirm a SIPP's compliance with the new PBA requirement regarding Environmental, Social & Governance (ESG) factors.

When is an administrator required to file Form 14 with FSCO?

Form 14 must be filed at the same time the SIPP or a SIPP amendment is filed with FSCO. As a reminder, a SIPP is required to be filed by March 1, 2016. A SIPP amendment must be filed within 60 days after the amendment is made.

How does an administrator file Form 14 (and the SIPP)?

Beginning in January 2016, Form 14 can be accessed and completed on FSCO's Pension Services Portal (PSP). **Both** a completed and certified Form 14 and the SIPP (in PDF searchable format) must be uploaded through the PSP.

What is the content of Form 14?

Form 14 has six parts, and is designed to accommodate different types of pension plans

(including combination and hybrid plans). Depending on the type of plan, the form lists the matters that must be addressed in a SIPP, as required by the regulations. Some of the information in Form 14 will be auto-populated according to FSCO's current records for the plan (e.g., plan name, administrator and employer name, etc.).

What happens if the administrator discovers that the SIPP is not compliant when completing Form 14?

Form 14 requires the administrator or the administrator's representative to certify compliance with the legislative requirements (e.g., failure to address whether ESG factors are considered). If the SIPP is not compliant, it cannot be filed with FSCO until it is amended to be properly compliant.

Conclusion

Form 14 is detailed, and requires administrators to closely examine whether a plan's SIPP is compliant with the PBA and regulations. It is therefore important that administrators not leave completion of Form 14 to the last minute, especially if it is discovered that a plan's SIPP is not compliant and must be amended before it can be filed with FSCO.

Since there are parts of the Form 14 that are automatically populated based on FSCO's records, it is important that administrators keep their contact and plan information up-to-date on the PSP.

Market indices as at November 30, 2015

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
FTSE TMX Bond Indices				
FTSE TMX Canada Universe Bond	0.1%	-0.2%	2.4%	2.9%
FTSE TMX Canada 91 Day Treasury Bill	0.0%	0.1%	0.6%	0.7%
FTSE TMX Canada Short Term Bond	0.0%	0.0%	2.1%	2.3%
FTSE TMX Canada Mid Term Bond	-0.1%	-0.2%	3.6%	4.1%
FTSE TMX Canada Long Term Bond	0.4%	-0.4%	1.8%	3.0%
FTSE TMX Canada High Yield Bond	-0.4%	-0.2%	-1.6%	-4.5%
FTSE TMX Canada Real Return Bond	1.0%	-0.8%	1.2%	0.4%
Canadian Equity Indices				
S&P/TSX Composite (Total Return)	-0.2%	1.7%	-5.4%	-5.8%
S&P/TSX Composite Capped	-0.2%	1.7%	-5.4%	-5.8%
S&P/TSX 60 (Total Return)	-0.1%	1.4%	-4.8%	-5.4%
S&P/TSX Completion	-0.5%	2.6%	-7.3%	-7.1%
S&P/TSX Small Cap	-1.7%	2.7%	-11.9%	-12.2%
BMO Small Cap Unweighted	-4.0%	0.5%	-15.1%	-16.2%
BMO Small Cap Weighted	-1.3%	3.0%	-11.4%	-11.6%
U.S. Equity Indices				
S&P 500 (US$)	0.3%	8.8%	3.0%	2.7%
S&P 500 (C$)	2.4%	8.8%	18.6%	19.9%
Foreign Equity Indices[1]				
MSCI ACWI (C$)	0.9%	6.2%	14.3%	13.9%
MSCI World (C$)	1.3%	6.7%	16.0%	15.9%
MSCI EAFE (C$)	0.2%	5.4%	15.6%	13.3%
MSCI Europe (C$)	-0.1%	4.5%	14.7%	11.4%
MSCI Pacific (C$)	0.7%	7.3%	17.3%	17.0%
MSCI Emerging Markets (C$)	-2.2%	2.3%	0.4%	-2.7%
Other				
Consumer Price Index (Canada, October 2015)	0.1%	0.1%	2.2%	1.0%
Exchange Rate US$/C$	2.1%	0.1%	15.1%	16.7%
Morneau Shepell Benchmark Portfolios[2]				
60% Equity/40% Bonds	0.3%	2.3%	3.4%	3.5%
55% Equity/45% Bonds	0.3%	2.1%	3.3%	3.4%
50% Equity/50% Bonds	0.3%	1.9%	3.2%	3.4%
45% Equity/55% Bonds	0.3%	1.7%	3.1%	3.3%
40% Equity/60% Bonds	0.3%	1.4%	3.0%	3.3%

Asset & Risk Management

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.

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.

Contacts

Jean Bergeron, FSA, FCIA, CFA
Partner
Tel.: 514.392.7852
Fax: 514.875.2673
E-mail: jbergeron@morneaushepell.com

Robert F. Boston, CFA
Partner
Tel.: 416.380.2765
Fax: 416.445.1858
E-mail: rboston@morneaushepell.com

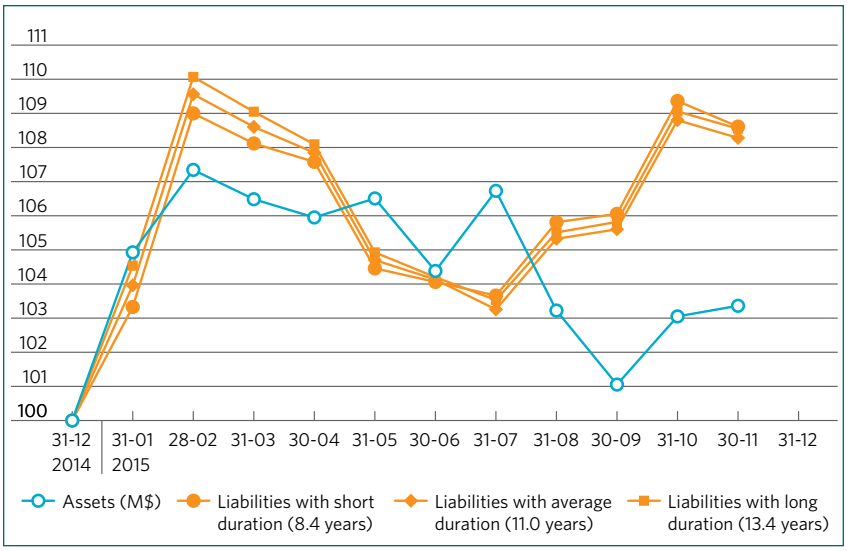
Notes:

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

Tracking the funded status of pension plans as at November 30, 2015

This graph shows the changes in the financial position of a typical defined benefit plan since December 31, 2014. For this illustration, assets and liabilities of the plan were each arbitrarily set at $100 million as at December 31, 2014. This estimate of the solvency liabilities reflects the new CIA guidance published in November 2015 for valuations effective September 30, 2015 or later. In addition, the solvency liabilities for the month of October were adjusted in order to reflect the new mortality table published by the CIA. 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, 2014



In November 2015, Canadian bonds and Global equity markets (CAD) showed positive returns, while the Canadian equity market showed negative returns, increasing assets by 0.3%. Annuity purchase rates slightly decreased during the month while the rates used in the calculation of solvency liabilities slightly increased during the month, decreasing the solvency liabilities by 0.5% for the average duration plan. The combined effect increased the solvency ratio, but only marginally.

The table below shows the impact of past returns on plan assets as well as the effect of interest rate changes on solvency liabilities, based on the plan's initial solvency ratio as at December 31, 2014.

Initial solvency ratio as at December 31, 2014	Evolution of the solvency ratio as at November 30, 2015 for three different groups of retirees		
	Short duration (8.4 years)	Average duration (11.0 years)	Long Duration (13.4 years)
100%	95.2%	95.5%	95.2%
90%	85.6%	85.9%	85.7%
80%	76.1%	76.4%	76.2%
70%	66.6%	66.8%	66.7%
60%	57.1%	57.3%	57.1%

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 (CIA) for the purpose of determining pension commuted values.
3. This estimate of the solvency reflects the new CIA guidance published January 2015, May 2015, August 2015 and November 2015.
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).

Since the beginning of the year, driven by positive returns in the Canadian bonds and global equity markets (CAD) the plan's assets increased by 3.4%. The solvency liabilities increased over that same period between 8.3% and 8.6% depending on the duration of the group of retirees. The decrease in the plan's solvency ratio as at November 30, 2015 depends on the plan's initial ratio, but stands between 2.7% and 4.8%.

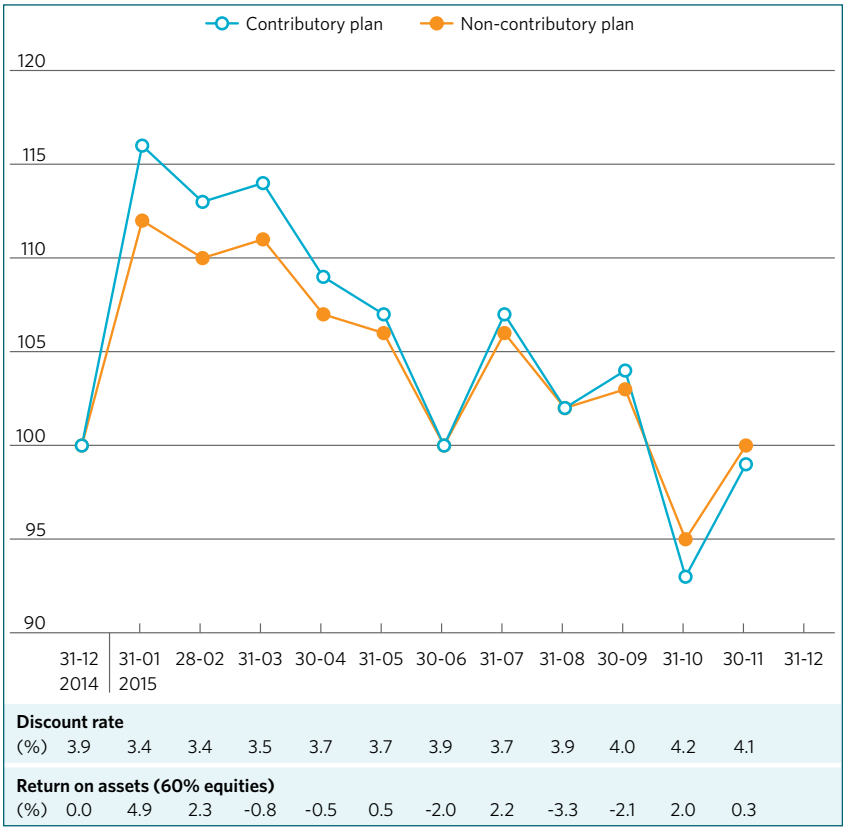
Please contact your Morneau Shepell consultant for a customized analysis of your pension plan.

Impact on pension expense under international accounting as at November 30, 2015

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

The 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, 2014



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 2014*	November 2015	Change in 2015
11	3.78%	3.95%	17 bps
14	3.99%	4.18%	19 bps
17	4.15%	4.35%	20 bps
20	4.25%	4.46%	21 bps

* The rates as at December 31, 2014 were revised to reflect a refinement in the methodology used.

Comments

1. The expense is established as at December 31, 2014, based on the average financial position of the pension plans used in our 2014 *Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits* report (i.e. a ratio of assets to obligation value of 95% as at December 31, 2013).
2. The return on assets corresponds to the return on the Morneau Shepell benchmark portfolio (60% equities and 40% fixed income).
3. The actuarial obligation is that of a final average earnings plan, without indexing (two scenarios: with and without employee contributions.

The discount rate has decreased in the last month, which had the effect of increasing the pension expense. Since the beginning of the year, the increase in the discount rate was offset by poor returns (relative to the discount rate), and the pension expense returned to the same level it was at the beginning of year.

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MORNEAU SHEPELL

Contributing editors

Glorie Alfred, J.D., LL.M.
Pension Legislation

Jérôme Dionne, FCIA, FSA
Pension Consulting

Frederick Vettese, FCIA, FSA
Chief Actuary

Andrew Zur, LL.B.
Pension Legislation

Morneau Shepell is the only human resources consulting and technology company that takes an integrative approach to employee assistance, health, benefits and retirement needs. The Company is the leading provider of employee and family assistance programs, as well as the largest administrator of retirement and benefits plans and the largest provider of integrated absence management solutions in Canada. Through health and productivity, administrative, and retirement solutions, Morneau Shepell helps clients reduce costs, increase employee productivity and improve their competitive position. Established in 1966, Morneau Shepell serves approximately 20,000 clients, ranging from small businesses to some of the largest corporations and associations in North America. With almost 4,000 employees in offices across North America, Morneau Shepell provides services to organizations across Canada, in the United States, and around the globe. Morneau Shepell is a publicly-traded company on the Toronto Stock Exchange (TSX: MSI)

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