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EDITION

## EVOLUTION & REVOLUTION

*A look at the past, present and future of the benefits, pensions and investment industries as Benefits Canada celebrates its 45th anniversary p14*

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October 2022

### PLUS!

A look at KPMG in Canada's new daily living benefit p10

The 2022 Top 50 DC Plans Report p22

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## Looking back and ahead as Benefits Canada celebrates 45 years

The first issue of *Benefits Canada* hit the desks of the country's human resources, benefits, pension and investment professionals in 1977, four years before I was born.

That same year, Canada's inflation rate was eight per cent, very close to July 2022's annualized inflation rate of 7.6 per cent. A lot has changed in 45 years, but a lot has stayed the same. Or at the very least, some moments of the past are seeping into the present.

While many of *Benefits Canada's* readers will recall the various developments of the last 45 years, I haven't always been tuned into the issues affecting Canadian employers. First of all — as I mentioned earlier — the magazine is older than I am. And I certainly wasn't keeping up with these subjects in my elementary, high school or even university days.

My introduction to the wonderful world of workplace benefits was 12 years ago, when I lived in London, England and joined the staff of *Employee Benefits* magazine, a British publication that mirrors *Benefits Canada* in many ways. My engagement and enduring attachment to these topics was almost immediate and I learned so much in my five years — researching and writing about many of the same themes we write about at *Benefits Canada* today.

Back home, I joined the *Benefits Canada* team in 2015, learning the ropes of the Canadian legislative landscape for both pensions and benefits, as well as the federal and various jurisdictional employment standards. It was a steep learning curve, for sure, especially compared to the comparatively simplistic regulatory systems in the U.K.

However, many of the topics I started writing about in the U.K. in 2010 and in Canada in 2015 are still ubiquitous today. As you'll notice across this whole special issue, many people have noted that the more things change, the more they stay the same.

We asked two former editors — Don Bisch (2005-2008) and Alyssa Hodder (2008-2015) — to share their thoughts on the evolution of the benefits industry over the last 45 years and

what may be coming in the decades ahead. Both Bisch and Hodder are still in the industry, so they're in good positions to take a wide view of this question. Read their respective columns on pages 20 and 30.

At the centre of this issue, the Benefits Feature (page 14), Pension Feature (page 22) and Investment Feature (page 32) also tackle this question. With plenty of research and interviews with industry professionals who have seen it all, each feature takes a stroll down memory lane then gazes into a crystal ball to see what's on the horizon for employers and plan sponsors.

Again, 'the more things change, the more they stay the same' seems to be the general consensus. Certainly, group benefits plans have evolved with developments in technology, an increased focus on personalization and other design changes aimed at combating increasing costs, but especially in the midst of a global pandemic, employers continue to use their benefits offerings to support their employees' health and well-being.

The pension industry has witnessed the decline of defined benefit plans alongside the rise of defined contribution plans, subsequently seeing the traditional paternalistic approach to retirement savings shift to an individual focus that aims to support employees' divergent financial needs and priorities.

However, the central goal is still the same — guiding Canadians to a secure and sustainable retirement. And while the inflationary environment may look similar to the one facing Canadians in the 1970s, institutional investors are accelerating the move towards alternative assets, as well as the growth in environmental, social and governance investing.

Finally, I want to emphasize that, while *Benefits Canada* is made up of an amazing team, we're nothing without all of the thought leaders across these industries. We learn from all of you every single day and we always aim to translate those learnings into our print articles, online stories and industry leading events.

Happy Anniversary, *Benefits Canada*! Here's to many more years ahead!



By **Jennifer Paterson**  
jennifer.paterson@contexgroup.ca

### WATCH FOR . . .

#### WHAT'S IN STORE FOR THE FUTURE OF WORK?

*Benefits Canada* will host a webinar to discuss the results of the inaugural **Future of Work Survey** on Dec. 1. Register to attend at [tinyurl.com/yth59jhy](https://tinyurl.com/yth59jhy).

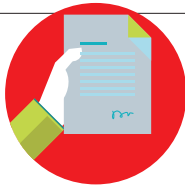
## Last month's top news, moves and numbers in the pension, benefits and investment industries

### PEOPLE WATCH



- **Nicholas Rubbo** is managing director of the **Caisse's** Espace CDPQ.
- **Irini Kalamakis** is senior managing director and global head of strategic partnerships at the **OMERS**.
- **Bronwyn Ott** is global head of well-being and benefits strategy at **Nasdaq**.
- **Patricia Johns** is chief people and culture officer at **Meridian**.

### SURVEY SAYS



**49%** of married women were more likely to say they've done a retirement needs calculation, compared to **35%** of divorced or single, never-married women (EBRI).

**43%** of global institutional investors expect fixed income performance to continue to decline over the next 12 months (Aeon Investments).

**32%** of employees said they'd refuse to commute five days a week (IWG).

**25%** of Canadian employees said they're experiencing increased tension or conflict at work (LifeWorks).

### M&A

- **AGA Benefit Solutions** is acquiring **Aptus Benefits**.
- **Telus** completed its previously announced acquisition of **LifeWorks**.



## TOP 5 STORIES OF THE LAST MONTH



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- 1** Which employers are finalists in the 2022 Workplace Benefits Awards?
- 2** Expert panel: How national dental care could impact group benefits plans
- 3** Canadian employers increasing salaries, offering remote work to attract talent: survey
- 4** How employers can support employees' financial, mental well-being during high inflation
- 5** RBC employees returning to in-office working to foster collaboration, creativity

## EMPLOYERS IN THE NEWS

- **IBM** is entering a US\$16 billion pension risk transfer to secure 100,000 retirees' DB pension plan.
- **Lyft** is reducing its physical office space amid a shift to remote work.
- **RBC** is asking employees to return to in-office working to foster more in-person collaboration and creativity.
- **HSBC** is adding coverage for fertility treatments, surrogacy and gender affirmation.
- **Goldman Sachs** is lifting most coronavirus vaccination requirements for employees returning to the office.
- **Talk Shop Media** is adding a 'pawrental' leave benefit for new pet parents.

## PENSION INVESTMENTS

- The **Caisse's** real estate arm, Ivanhoé Cambridge, is partnering with a logistics and real estate management firm to expand its European logistics portfolio. The **Caisse** is also leading a funding round for a customer engagement software provider and is selling most of its shares in an Indian real estate developer.
- The **CPPIB** is acquiring a stake in a financial management company and is entering a joint venture focused on the hospitality sector.
- The **OMERS** is investing in an Arizona-based solar energy business and is acquiring a mechanical service provider from Huron Capital Partners.
- The **Ontario Teachers'** is acquiring a majority stake in a chain of private hospitals in India. It's also entering an agreement with a Canadian company seeking to develop copper mines in Saskatchewan.





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The DC Plan Summit is an invitation-only event; however, there are a limited number of invitations available upon request. To determine if you are eligible, please email Alison Webb: [alison.webb@contexgroup.ca](mailto:alison.webb@contexgroup.ca)

# Should employees be saving for retirement or focusing on other financial priorities?

As Canadians face continued economic uncertainty, a recent university graduate and a long-time teacher share their views on balancing different financial priorities

COMPILED BY LEAH GOLOB

## Sul Mahmood

Age 24, a product specialist at OpenPhone Technologies Inc.



## Mike Goldberg

Age 54, a teacher at Martingrove Collegiate Institute in Etobicoke, Ont.

Canadians should be saving for a combination of retirement and other financial priorities.

If there's anything I know (and from all the stuff I've read and just talking to my parents), retirement planning or investing, in general, is something that's better done earlier than later, even if you have rent payments or student debt.

When you're young, even with other financial priorities, it's important to put five to 10 per cent of your income away. Through my workplace registered retirement savings plan, I'm being very aggressive and trying to save as much money and invest as much money as possible to gain the benefits of compound interest.

When it comes to my student debt, it was interest-free for the first 12 months. Obviously, you want to be paying down some of it, but at the same time, if you think about it from a financial standpoint, it's advantageous to invest when your interest is zero so you can pay that debt down more slowly.

I graduated from Wilfred Laurier University last year and I know a lot of people who've moved out of their parents' homes and to Toronto because they have to go to the office four or five days a week. With my situation, there's a big difference. I'm lucky to be working fully remotely, living with my parents and not paying rent. That's a huge benefit compared to having to pay rent on a condo in the city and dedicate a huge chunk of my income to that.

Other than my debt and retirement savings plan, I'm putting money towards an emergency fund to help in case I get laid off. For example, I've heard six months of expenses is a good goal for that and I'm slowly saving money towards it. I also plan to create a travel savings account, since I'm planning to travel and work at the same time at some point next year.

From my perspective, it's very easy to say, 'Well, you should always be saving for retirement.'

I have a defined benefit pension plan through my employer, so I have an automatic savings plan in place. But I also save a bit on top of that.

I have the original *The Wealthy Barber* sitting in front of me. The book's advice is to put 10 per cent towards your long-term savings and 10 per cent towards short-term goals. I share this with my students. The idea is that you can be self-sufficient when you retire. Again, this is easy for me to say because around 12 per cent of my annual income is tucked away in my DB pension, so I've got something waiting for me once I retire if all goes well.

But for someone who's starting out, it isn't as easy to do. I remember when I finished university and started my first full-time job, it was really hard to save money. For me, it's a no-brainer because it comes off my income. It can still be a struggle, but I always have that long-term view.

Even as we're facing inflation and rising interest rates and the future looks a bit disastrous, my attitude has always been that this too shall pass. If you look long term at the S&P/TSX composite index, for example, eventually you see a growth, even with horrible financial situations. If you look over the last 100 years, there's generally an eight per cent increase or somewhere around that.

Again, for someone like me, my mortgage is almost paid off and I'm locked into a really good rate, so this is easy for me to say since I'm not looking at 20 years of mortgage payments ahead of me. But my attitude is stay the course and things will eventually work out if everything happens as it has in the past — which I think it will, even if it looks pretty bad right now.

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# SUPPORTING ROLE

*How KPMG in Canada's  
daily living benefit is  
providing support and  
necessary equipment for  
employees with disabilities*

BY SADIE JANES

EMILIE INAKAZU IS DIRECTOR OF BENEFITS, PENSION AND WELL-BEING AT KPMG IN CANADA.

**A**s employers increasingly focus on diversity, equity and inclusion in their human resources policies and benefits programs, KPMG in Canada has introduced a daily living benefit that provides coverage for living aid equipment for employees.

Some examples of equipment that qualifies under the new benefit are chairlifts, grab bars and bathroom equipment such as bath chairs or rails.

The firm has a flexible benefits plan with three different levels — basic, comprehensive and premium — so annual maximums for all benefits, including the daily living benefit, vary based on which option an employee chooses.

“We really had an opportunity to — at the time we implemented — be first in this space, so being in a position to really try to lead the way and lead the market in adding programs and benefits that are valuable for a diverse population is something we take a lot of pride in,” says Emilie Inakazu, director of benefits, pension and well-being at KPMG in Canada.

Before the benefit was introduced in December 2021, the company joined one of its disability inclusion network’s regular meetings and asked direct questions about what this particular employee group valued and where there might be opportunities to do something different.

“This benefit was introduced in direct response to the insights shared in that conversation,” says Inakazu. “Once the benefit was rolled out, we did go back to the group to gauge [whether this was] what they were expecting and the feedback was very positive. They felt this was a really great step forward to evolving our program to ensure we continue to support this diverse population with varying benefits needs.”

### Connection to overall DEI strategy

Providing these types of benefits as part of an overall DEI strategy can play a major part in developing an engaged and productive workforce, as well as contributing to the overall well-being of employees and their families, says Melanie Jeannotte, chief executive officer of Arthur J. Gallagher & Co.’s benefits and HR consulting division in Canada.

“For [a DEI] strategy to drive organizational growth, it’s critical to demonstrate commitment to meaningful actions through benefits programs — adding a daily accessibility benefit can be one of those actions.”

Indeed, KPMG in Canada’s strong focus on people with disabilities is part of its larger DEI strategy, says Inakazu, noting the company is targeting about six per cent of its population to represent this particular diverse group in 2025. “It was very exciting to be able to lead the charge in this space and, hopefully, other employers follow suit to really make sure it’s a group that is well-supported across Canadian businesses.”

For other employers looking to add a similar benefit, it’s important to ask for feedback from the relevant employee group and have a solid relationship with their insurers, she adds. “I think it helps to have a strong partner. We’re lucky with our carrier that they were able to support the administration of this benefit within our medical plan.”

Every company’s population is different, so employers will have different priorities based on their employee demographic. “Anything you can do that’s supportive of a diverse portion of your employee population is always going to be a positive thing and it just reflects an authentic and genuine commitment to that particular group,” says Inakazu.

Going forward, KPMG in Canada recognizes its employee population will continue to evolve, so the benefits program needs to develop as well. The benefits team tries to continuously monitor and adjust its offerings based on those changes, she adds, noting it helps to have a strong partnership with the DEI team.

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### BY THE NUMBERS

**6%** – The targeted percentage of representation for people with disabilities at KPMG in Canada by October 2025

**47%** – The percentage of organizations that said they consider DEI a top organization/HR priority, according to a 2021 survey by Gallagher

**72%** – The percentage of benefits plan sponsors with a documented DEI strategy, according to the 2022 Benefits Canada Healthcare Survey

# INVESTMENT INSIGHTS

## PERSPECTIVES ON INVESTMENT STRATEGIES

The Canadian retirement system wasn't necessarily designed to accommodate women's experiences like taking career breaks to give birth and care for children or other dependents. However, the pandemic highlighted just how much of a material impact career breaks can have on their retirement savings journeys—evidenced by the 2020 health crisis that drove Canadian women's labour force participation to its lowest level in more than 30 years. "Defined contribution plan sponsors need to keep these 'secular forces' in mind when designing their plans and investment lineup to ensure their female employees are on track to meet their retirement goals," says Nadia Savva, managing director of platforms and subadvisory, and Sarah Donahue, managing director of consultant relations at MFS Investment Management.

### ARE THERE DIFFERENCES BETWEEN MEN AND WOMEN'S RETIREMENT SAVINGS JOURNEYS?

**DONAHUE:** Women are more likely to leave the workforce or take part-time jobs to accommodate caregiving responsibilities—and it's a well-known fact that women earn less than men on average and, therefore, save less for retirement. The gender pension gap (the difference in retirement income between men and women) averages 26 per cent across OECD countries, which includes Canada. Women also live longer than men, meaning they have to stretch less retirement savings across longer time periods. However, it's important to note that it's 2022 and every family is unique; men can also remain at home or take time off to be main caregivers.

**SAVVA:** There are also generational differences for women that are more pronounced than they are for men. In the last 50 years, we've seen a huge increase in women entering the workforce and pursuing post-secondary education.




So when you're talking about wealth management and retirement with women, you need to think about the cohort you're discussing it with.

### IS IT POSSIBLE FOR WOMEN TO CLOSE THE RETIREMENT SAVINGS GAP WHILE STILL TAKING CAREGIVING LEAVE?

**SAVVA:** MFS looked at a scenario where three different women entered the workforce at the same time—with the same pay and making the same contributions into a capital accumulation plan. The differences are that one woman never leaves the workforce, one takes a seven-year gap and one never comes back to work after her caregiving leave. For the individual who came back after seven years, she required an extra two and a half years of working to be able to achieve the same retirement outcome as her counterpart who never left. While this is based on coming back to the same job and salary, it's still not realistic. That said, while we've seen a great evolution in the workforce, more often than not when a person experiences a prolonged career gap, they can't always come back to a job with the same pay.

## The disrupted retirement savings journey

Impact of taking a break from the workforce on retirement savings

43 YEAR PERIOD		
	7-YEAR BREAK	33-YEAR BREAK
 <b>TAYLOR</b> No caregiver leave	 <b>JORDAN</b> With caregiver leave	 <b>SIDNEY</b> With caregiver leave & does not return to workforce

### EMPLOYEE CONTRIBUTION

Amount invested	\$96,710	\$79,431	\$10,705
<b>FINAL ACCOUNT VALUE</b>	<b>\$367,361</b>	<b>\$284,305</b>	<b>\$107,229</b>

### EMPLOYEE CONTRIBUTION (INCLUDING EMPLOYER MATCH)

Amount invested	\$193,419	\$158,862	\$21,411
<b>FINAL ACCOUNT VALUE</b>	<b>\$734,723</b>	<b>\$568,609</b>	<b>\$241,458</b>

Hypothetical annual retirement income derived from account	\$51,983	\$40,230	\$15,173
Additional years of work past age 65 needed to generate equivalent retire income	n/a	2.5	n/a

An article from *The New York Times* highlighted the 10-year baby window that's the key to the pay gap. It uses U.S. census data and shows women who take a gap before the age of 25 and after the age of 35 are actually in a pretty good position to narrow the pay gap with their male counterparts. But the ages between 25 to 35 are peak retirement saving years—and this is when women tend to take time off to start families. That's something I've experienced on a personal level. I didn't think waiting to have kids was going to increase my chance of narrowing the retirement gap, but I knew if I could get to a certain level in my career it wouldn't be as hard to catch up. Unfortunately, for me and many women, when you wait too long to have kids, you can experience fertility issues. I was one of them—and I ended up having to go through fertility treatments to have my child. There can be a career cost to parenthood; women have to consider not only the tradeoffs of their career and starting a family, but also their biological clocks. It's an additional layer of stress women tend to experience.

#### WHAT CAN EMPLOYERS DO TO ENSURE WOMEN ARE ON TRACK TO MEET THEIR RETIREMENT INCOME GOALS?

**DONAHUE:** From a plan design and advice perspective it makes sense to consider how best to communicate with plan members—both men and women—because one size does not fit all. Special attention needs to be paid to the plan design to ensure it doesn't worsen gender inequality in retirement. Some of our suggestions would be providing financial incentives for women to join and save within plans. We also know auto-enrolment, re-enrolment and auto-escalation features can have material impacts on improving retirement savings. Plan sponsors can also tailor their communications to women in order to raise the importance of savings and where women might possibly contribute to their plans however and whenever they can.

#### HOW SHOULD THIS INFLUENCE DC PLAN SPONSORS' TARGET-DATE FUND LINEUP?

**DONAHUE:** Compared to men, women are found to be more risk averse and have lower levels of financial literacy overall—and this definitely influences their attitude toward savings. Previous studies have shown how women might invest in more conservative solutions than what their actual risk

preferences should be. We definitely need to improve investment returns on women's retirement savings by implementing non-conservative default investment options. We advocate for a suite of target-date funds to be the default solution for CAP plans, which is becoming more prevalent. It has definitely helped women assume similar levels of risk and return in comparison to men.

Based on our annual plan member survey data, we're seeing an opportunity to educate not only women on the benefits of target-date funds, but men as well. Thirty-two per cent of plan members who aren't using target-date funds said they don't understand the benefits.

But a target-date fund is hugely beneficial and easy to use for busy women—they can just set it and forget it. Should a plan member not be engaged, it's better for them to be invested in a target-date fund that's allocating responsibly for them. There's a benefit to inertia. In our survey we found that 55 per cent of men took no action when it came to their retirement savings during COVID, as opposed to 70 per cent of women. There's power in leaving that money invested in a strong retirement solution.

#### WHAT KIND OF TARGET-DATE FUND GLIDE PATHS MAKE THE MOST SENSE FOR THESE EMPLOYEES?

**SAVVA:** The biggest difference among the target-date funds out there is the glide path. In particular, women may want to consider target-date fund suites with a curve that's a bit steeper in the earlier years so they have the opportunity to catch up if they take a gap. Small adjustments can be made to get women back on track after missing years in the workforce, such as determining the extra contributions needed to move in the right direction or what target-date vintage is right for them.

**DONAHUE:** Plan sponsors should offer plan members an intuitive glide path that balances capital accumulation early on and downside protection in retirement. We believe one that starts off more aggressive will benefit women, with the goal of emphasizing wealth accumulation and taking advantage of wealth compounding over time. Closer to retirement, a glide path should be focused on capital preservation, with a more conservative allocation.



**SARAH DONAHUE**  
MANAGING DIRECTOR OF  
CONSULTANT RELATIONS,  
MFS INVESTMENT MANAGEMENT



**NADIA SAVVA**  
MANAGING DIRECTOR OF PLATFORMS  
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MFS INVESTMENT MANAGEMENT



# THE PAST, PRESENT AND FUTURE OF BENEFITS PLANS

BY LAUREN BAILEY

*From the siloed plans of the 80s and 90s to the highly customized plans of today, the benefits industry has evolved significantly in the past 45 years*



**T**he provision of employer-sponsored benefits has evolved significantly over the last 45 years, with the past decade ushering in the most consequential changes, fueled by technology, increased competition and demand.

In the 80s and 90s, benefits plans were very siloed and one size fits all, says Chris Pryce, founder and president of Human Capital Benefits, noting everyone

had the same plans and there was little to no customization, which resulted in lower employee engagement. Now, with employers concerned about the ‘Great

Resignation,’ they want to ensure their plans speak to potential candidates, while emphasizing the corporate ideals of the company, he adds.

Traditionally, employers were reluctant to add more costs to their benefits plans, but these costs have increased exponentially since the early 90s, notes Jean-Guy Gauthier, an expert in risk and benefits management at CQFD Actuariat. Benefits plans are often more expensive to administer than employer-sponsored pension plans, he says, adding they’ve taken on more prominence in the eyes of employers and



“Benefits Canada has been a staple for me over the last 30 years. Initially in print and now digitally as a daily digest. BC is the pre-eminent source for relevant industry news from thought leaders. I’m fortunate to have been interviewed for various articles over the years — including this month.

— Chris Pryce, founder and president, Human Capital Benefits

“I would like to extend my congratulations to Benefits Canada on its 45th anniversary. Over the years, Benefits Canada has been an expert source for current trends and issues and has been a leader in tracking benefits strategies and industry networking. I have always been grateful for their ability to work with benefits sponsors on real-life solutions and plan management impacts. Looking forward to another 45 years!

— Vic Medland, CEO, Ontario Teachers Insurance Plan

consultants and are recognized as a vital tool for attraction and retention.

### Fueling innovation with drug plans

“Drug plans are a great example of the potential of adapting to new realities and making an offering relevant in the context of the . . . changing world,” says Gauthier. “You don’t have to look too far back to remember when cancer drugs were only administered within the hospital environment. The drug plan was really an innovation.”

However, as provincial governments offload these drug costs to private plans, employers’ costs are on the rise. Indeed, the year-over-year spend for traditional drugs per plan member increased by 3.7 per cent in 2021, according to Express Scripts Canada’s latest drug trends report. For specialty drugs, the year-over-year spend per plan member was up 6.8 per cent.

“Drug costs are astronomical compared to years past,” says Michael Mazzuca, a partner and employment lawyer at Koskie Minsky LLP. “Some of these

specialty drugs can run tens of thousands of dollars and plan [sponsors] have to somehow plan for that.”

One innovation is the implementation of biosimilar switching policies to increase the uptake of these drugs. In the public sector, British Columbia, Alberta and Quebec have all introduced one of these policies in recent years. The Régie de l’assurance maladie du Québec’s policy makes exceptions for pregnant women, paediatric patients and those with chronic illnesses who’ve experienced two or more therapeutic

## BY THE NUMBERS

**55%** of private drug plans had mandatory generic substitution policies in 2021, down slightly from **56%** in both 2020 and 2019.

Generic prescription drugs accounted for **66%** of claims covered by private drug plans in 2021, compared to **64%** in 2020.

Stimulant ADHD drugs accounted for **19%** of claims, equivalent to **\$241M** of total eligible costs in 2021.

Diabetes drugs accounted for **12%** of eligible drug costs and roughly **8%** of claims.

Depression medications accounted for **5%** of the total eligible cost and **11%** of claims.

Source: Telus Health's 2021 drug trends report

failures and are being treated with a biologic drug for that condition.

Citigroup Inc. encourages its plan members to consult their physicians on the efficacy of the biosimilars available for them to use. In cases where plan members' physicians believe the brand name offers more efficacy, better results or if a member is allergic to some components of the generic brand, the plan will still cover the more expensive drug, says Stella Yu, senior vice-president of total rewards. "At the end of the day, it's not about cost-cutting, it's really about consumerism."

Some in the industry believe relief is on its way. After multiple delays, the Patented Medicine Prices Review Board's new regulations took effect July 1, 2022. The regulations create two new drug categories — high or low priority — based on their anticipated impact on Canadian consumers, with the high priority drugs subjected to a more comprehensive price review. As well, the regulations include a new basket of comparator countries and reduced reporting requirements for medicines at lowest risk of excessive pricing.

### A national pharmacare program

Various levels of government have discussed a national pharmacare program for several decades — indeed, Canada has attempted to bring in a national system nine times over the last 76 years.

In 2018, the federal government's

“*Congratulations to all the staff at Benefits Canada for a stellar 45 years! For so many years, your daily post has been one of the first things I open to start my day. You have earned such a strong reputation for producing stellar conferences, focusing on health and benefits issues of the day.*

– Marilee Mark, principal,  
Marilee Mark Consulting

“*Wow, 45 years! Thank you for being a steadfast voice in our wonderful industry. I always look forward to the daily digest arriving in my inbox. You provide tremendous value to many stakeholders. Your team should be very proud of the many accomplishments over the years. Cheers to many more decades.*

– Shannon Darvill, senior consultant, Silverberg Group/  
People Corporation

“*I have attended many Benefits Canada events and have found them to be well organized and relevant. Keep up the good work and may you be around for many more years!*

– André Dupuis, manager,  
employee benefits,  
WestRock Canada

“*Benefits Canada continues to provide a space to help leaders share and strategize for the future of the industry.*

– Kate Interisano, compensation and benefits manager,  
Niagara Casinos

parliamentary budget office pegged the total cost of pharmacare at about \$20 billion. And in March 2022, the Liberal Party announced a partnership with the New Democratic Party to deliver a national pharmacare program to Canadians.

“I see pharmacare playing a more essential role in terms of drug plans in the future,” says Pryce.

From a plan sponsor perspective, Yu says a national pharmacare program would offer cost and risk-sharing benefits. While Citi's drug plan doesn't impose maximums, it has a pooling arrangement through its insurer that pools claims over \$50,000 and, subsequently, mitigates risk. While employers are waiting to see the finer details of a national system, Yu believes it could help employers share the risk with a much bigger pool.

However, stakeholders must consider which drugs might be available on a pharmacare program's formulary, cautions Gauthier, noting any assumption that a national system will be clear cut is premature.

### The rise of health-care spending and wellness accounts

Choice and flexibility are the new architects of the current benefits plan design, says Pryce, noting employers are increasingly turning to health-care spending or wellness accounts to help members use their plans in a way that best suits their and their families' needs.

The federal Income Tax Act governs which benefits are eligible under these accounts. Traditionally, HCSAs were the domain of an insurance company, but more technology providers have entered the space in the last 10 years, he adds.

Wellness accounts have become a function of the culture of an organization, helping employers brand themselves and stand out among their competitors, says Gauthier. To attract and retain staff in the post-pandemic labour market, many companies have expanded their wellness accounts in ground-breaking ways, from covering childcare, meal deliveries, Indigenous medicines, home office setups and work-from-anywhere costs. He doesn't see employers back-peddling from this trend anytime soon.

“The theme of flexibility has taken different forms, but it’s been there all along,” he says, noting coverage continues to widen as benefits plan design adapts to people’s personal preferences and constraints.

In the future, employers may shift health-care dollars to employees, allowing them to manage routine expenses through an HCSA with catastrophic coverage going through a program managed by a provider of their choosing, says Pryce.

### Expanding the benefits plan reach

During a recent roundtable with young female employees, Diana Godfrey, senior vice-president of human resources at Fidelity Canada, learned they were interested in coverage for harvesting and freezing their eggs.

At the time, the organization hadn’t considered how families were changing and that women were starting their families at older ages, she adds. But once it was on the organization’s radar, Fidelity Canada adjusted its benefits program to include coverage for fertility treatments.

Citi’s workforce is comprised of new graduates, those nearing retirement and everyone in between, says Yu, highlighting the importance of ensuring the organization’s benefits plans meet the needs of all generations, sexualities, families and cultures.

Indeed, when it comes to the evolution of benefits plans, Yu suggests plan sponsors strive to understand the makeup of their plan members, where they are in their life stages and the benefits they need to support them through their life journeys.

Over the last two years, employers are increasingly viewing their plans through a diversity, equity and inclusion lens — and Citi is no exception. The bank covers fertility treatments, providing all employees with \$7,500 in prescription drug coverage and up to \$24,000 in medical services outside of the various public health-care systems. In January 2023, it will add gender affirmation coverage to its benefits plan, covering up to \$24,000 annually for lifetime, outside of the provincial government’s provisions.

In May 2020, Citi increased its paid maternity leave for birth parents or pri-

mary caregivers globally. In Canada, Citi had previously provided a maternity leave top-up to 75 per cent of pay for 17 weeks, with 75 per cent top-up for eight weeks for adoption leave and no top-up for parental leave. Now, in Canada, the bank provides 16 weeks of paid leave at 100 per cent top-up for birth mothers and six weeks of paid leave at 100 per cent top-up for other parents.

When Godfrey started in the benefits industry, domestic relationships weren’t recognized unless legislated in a particular province, much less same-sex benefits. “We’ve only just cracked the surface. The idea of using pronouns a few years ago was foreign to everyone and now it’s embraced by many employers.”

### Employee well-being taking centre stage

In the past, HR professionals had to demonstrate a return on investment when they wanted to introduce wellness initiatives, but now they’re an essential element of the employment brand, says Yu.

Historically, Citi’s mental-health supports were included under its paramedicals bucket, which offered three tiers for plan members — a free basic level, \$1,000 for the comprehensive coverage and \$1,400 for the premium option. In January 2019, the organization separated mental-health support from the other paramedical services, allotting each plan member \$1,000 for basic coverage, \$2,000 for comprehensive and \$2,500 for the premium option.

Earlier this year, Citi nearly doubled its annual coverage to \$2,000 for basic, \$3,500 for compre-

hensive and \$4,000 for the premium option. It also expanded the practitioners covered under the plan to include psychologists, clinical counsellors, marriage and family therapists, psychoanalysts, psychotherapists and social workers.

“Every year, we monitor how many people actually reach the maximum, whether it’s our employees or their dependants. Then we determine whether we need to invest more into it.”

Citi isn’t alone: the 2022 Benefits Canada Healthcare Survey found 24 per cent of plan sponsors recently increased their maximum level of coverage for mental-health counselling, up from 19 per cent in 2021 and 18 per cent in 2020. The average annual maximum for mental-health counselling was \$2,006, up from \$1,294 in 2021.

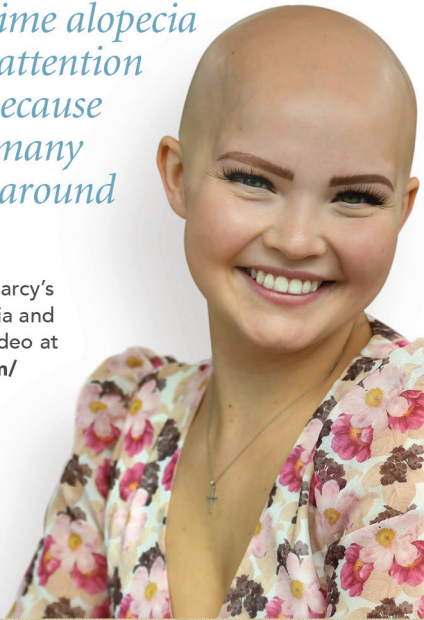

Employers have realized that mental, physical and financial wellness are all aligned, says Godfrey, noting they’re also focused on the bigger picture

## PLAN MEMBER POINT OF VIEW

EMPLOYEE EXPERIENCES AND INSIGHTS

*“It’s about time alopecia receives the attention it deserves because it affects so many individuals around the world.”*

Read more about Marcy’s journey with alopecia and watch her impact video at [benefitscanada.com/plan-member-pov](https://benefitscanada.com/plan-member-pov)



— how people conduct their lives and what they need to thrive and be healthy and productive at work and at home.

### The emergence of virtual care

Although coronavirus pandemic-fuelled closures of physician's offices and backlogs in the public health-care system quickly made virtual health care a benefits staple, Yu says employers are still waiting to see whether the government will fully integrate it into the public system.

Indeed, employers may not want to continue paying for a benefit that's available for free on the public system, notes Gauthier. Another deciding factor will be the price of virtual care — if it rises and employees are asked to pay a premium, he's not sure the benefit will continue to appeal to them.

While telehealth's rapid integration into employer-sponsored benefits plans was a temporary solution during the pandemic, these changes have made everyone's lives easier, says Godfrey, noting employee feedback has been

**“***Congrats! You are the trusted source for benefits trends and information in Canada. At SEB, we appreciate your innovative approach to communications and events. Tech Insights was a welcome virtual event that came at a time when meeting clients face to face was not an option.*

— Lynda Galama, VP, marketing and communications, SEB Administrative Services Inc.

**“***Benefits Canada has been the most valuable industry tool for me over the years. It's a staple for keeping us up to date. Congratulations and here's to another 45 years.*

— Bill Zolis, senior employee benefits consultant, Penmore Benefits

phenomenal and she expects employers will keep providing these benefits. “The reality is having access to physicians and health care online gives employees back their day. It's also beneficial for employers because staff don't have to take time off to see a doctor. The gift of time is appreciated by everyone.”

### Adapting to the mobile workplace of the future

As the workforce continues to evolve, benefits plans will also have to adapt, says Mazzuca, noting he expects multi-employer plans will become more prevalent because they'll allow benefits plans to adapt to the mobile workforces of the future.

He works with many multi-employer plans that are either fully or partially sponsored by a union. These plans help employees in highly transient industries, such as construction, take their benefits plans with them when they move companies, he adds, noting these plans are being touted as a model for portability.

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Canadian Life & Health Insurance Association  
Association canadienne des compagnies d'assurances de personnes



In December 2021, Ontario's advisory committee on the future of work released a report recommending the province introduce a new portable benefits program for gig and precarious workers. One of the committees' recommendations was for the province to support workers who fall outside the purview of traditional benefits programs, noting there's an opportunity for Ontario to design and deliver a new type of portable benefits strategy tied to employees rather than employers.

With the price of employer-sponsored benefits continuing to skyrocket, Pryce says plans could eventually shift to a format similar to the U.S.' health exchange, in which plan sponsors can allot a certain number of dollars for employees to use to purchase the health-care programs they need and value most. In a digital society, this becomes much easier for employers to administer and for employees to use, he adds.

Going forward, the benefits plan model will need to be accessible, but also interconnected, he says. "The shift to

“Benefits Canada has been a staple over the last 20 years for me — when trying to identify new trends in the industry, providing a setting for sponsors to discuss challenges or an opportunity to meet new industry players. Keep up the great work! Happy Anniversary, Benefits Canada!”

– Alain Malaket, CEO, InBenefits

“Wow, it has been 45 years since Benefits Canada began providing incredible support and education to the benefits industry. From the amazing people on staff to the breadth of knowledge delivered, we wouldn't be the same without you. Thank you, Benefits Canada!”

– Barbara Martinez, national practice leader, drug solutions, Canada Life

digital creates a lot of opportunities to expand the benefits industry and who knows where that will go.”

Lauren Bailey is an associate editor at *Benefits Canada*: [lauren.bailey@contexgroup.ca](mailto:lauren.bailey@contexgroup.ca).



## KEY TAKEAWAYS

- Choice and flexibility are the new architects of benefits plan design and can help employers attract and retain employees.
- Employers are expanding benefits offerings so they meet the needs of a changing workforce demographic.
- Employee wellness initiatives, once considered a nice-to-have add-on, are now an essential element of the employment brand.



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# THE MORE THINGS CHANGE . . .



I was a little daunted to write a piece for *Benefits Canada's* 45th anniversary issue — it has been almost 15 years since I last penned a column for the magazine and I'm a little out of practice.

The assignment seemed straightforward — 500 to 600 words on how benefits have evolved or what's expected for the next 45 years. I could never have predicted half of the events of the past two years, let alone the next 45, so I figured a retrospective was the safer bet.

But when I sat down to start writing, it occurred to me: how do you sum up one of the greatest periods of change in human history in a page or less?

Sure, we'd already sent someone to the moon by the time the first issue of *Benefits Canada* rolled off the presses in 1977. But the last four and a half decades have brought their share of advancements and upheaval — the dawn of personal computers and the internet, the fall of the Berlin Wall, 9/11 and the war on terror, the mapping of the human genome, smartphones, social media, climate change and a global pandemic. Not to mention disco, the mullet and parachute pants.

I started thinking about all of the developments in our industry during that time and how much benefits plans have evolved. There'd be enough for an entire Netflix docuseries.

The nature of the workplace — and of work itself

— have changed dramatically since the late 1970s. Back then, you gave a company your best 30 years in exchange for job security, a decent wage, a pension plan and a generous benefits program.

But the downsizing and restructuring of the 1980s and 1990s changed things. Organizations had to pass more costs along to employees. Many replaced their traditional defined benefit pension plans with defined contribution plans and their traditional benefits plans with health-care spending accounts. In exchange, employees got more flexibility and choice.

At the same time, the digital age was transforming the plan member experience. Before the 1990s, everything was done on paper. As the internet became more pervasive and technology improved, the plan member experience went digital. Now, plan members can submit claims, check their coverage balances and even consult virtually with a physician all using their mobile devices.

It wasn't just technological advances that were reshaping benefits. As awareness grew about mental health, employers started to take a more holistic approach to supporting their employees. We saw the proliferation of employee assistance programs and other wellness plans that focused on plan members' overall well-being. More recently, employers have started to recognize the need to provide benefits that better reflect the diversity of their workforce. And the 'Great Resignation' has a lot of organizations rethinking their plans.

So yes, benefits plans have evolved significantly over the last 45 years, but one thing hasn't changed. I notice it every time I fill my regular prescription at the local pharmacy and I know my medication is covered. It occurs to me whenever I see the monthly pension deduction on my payroll statement and remember that retirement isn't that far off. And it really hit home recently when we called to book my 12-year-old to be fitted for braces.

Benefits plans still matter. Forty-five years on, they continue to make a real difference in the lives of working Canadians. They're every bit as important as they were back then. If I were to make one prediction for the next 45 years, it's that they'll matter even more.

**Don Bisch is director of group marketing at Equitable Life Insurance Co. of Canada. He was the editor of *Benefits Canada* between April 2005 and April 2008.**

*We'd already sent someone to the moon by the time the first issue of **Benefits Canada** rolled off the presses in 1977.*



*Congratulations on this special occasion. Your contribution to our industry has been invaluable throughout the years. We wish you continued success!*

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# DEFINED CONTRIBUTION EVOLUTION

BY BLAKE WOLFE

***A look at the past, present and future of DC pension plans as Benefits Canada celebrates its 45th anniversary***

**W**hile defined contribution pension plans currently outnumber defined benefit pension plans, this wasn't always the case, recalls Bita Jenab, a principal at RetirementWorks Services Inc.

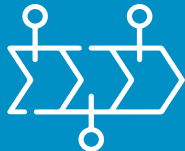
DC plans began to gain popularity in the mid-1980s, due to a combination of legislative and economic changes, she adds. "This period marks the introduction of pension accounting rules under the Canadian Institute of Chartered Accountants, which, in my opinion, were the primary driver of these conversions [around the move from DB to DC plans]."

Under these rules, notes Jenab, private sector DB plan sponsors were required to recognize their pension obligations in their corporate financial statements. "Before, they didn't have to record their pension liabilities and basically expensed their contributions. But under these rules, if you had a DB plan, it affected corporate

profits and valuation of the company."

This period also marks one of the longest stretches of stellar equity market performance, she says. "The stock markets did very well at this time and interest rates were high. It looked deceptively good to switch from a DB plan to a DC plan. That's how the momentum started."

In addition, the change was also spurred by the increasing costs of DB plan sponsorship. "These plan sponsors had to deal with the variability of this cost," says Jenab. "DC plans offered predictable costs and far simpler accounting requirements. These rules had less to do with pension legislation and more to do with how public companies had to prepare their financial statements under accounting rules."



### TIMELINE OF DC PLANS

**1939**

The CSS, one of Canada's oldest DC plans, is established in Saskatchewan

**1980s**

The shift from DB to DC begins amid a strong stock market and high interest rates

**1987**

Bâtirente is established in Montreal

**1990s**

The shift from DB to DC continues, driven by plan members as stock markets remain strong

**2000s**

Target-date funds are introduced in Canada

**2010s**

Plan sponsors begin to focus on decumulation as a large number of DC plan members approach or enter retirement

**2019**

In its budget, the federal government proposes the establishment of VPLAS

# N

### Ongoing evolution

Early DC plans were created to mimic DB plans, with contribution rates escalating as plan members aged, says David Morton, senior director at WTW.

“A lot of these plans were in a much higher interest rate environment — a DC plan contribution rate of seven per cent might have been enough to replicate the value of a DB plan. We’re nowhere near that today. Plan members didn’t worry too much about their DC plans because many of them had historical DB plan benefits that were going to provide them with a really good [retirement income] base. Returns were strong, interest rates were high and these plan members were able to get enough out of their DC plan.”

In the 1990s, the shift from DB to DC

continued to pick up, mainly driven by a strong stock market, he adds. “[Plan members] saw how well the stock market was doing and DB plans were on contribution holidays at that time. By the early 2000s, it became an employer-pushed change to better manage the risks they were exposed to under DB plans.”

And as DC plans became more prominent, plan sponsors’ focus shifted to member engagement and plan governance. “The focus was placed on increasing member participation, getting them to save more, investor education, self-serve tools and innovations such as target-date funds where you could park your money and forget about it,” says Jenab.

### The decumulation challenge

The last 10 years have been marked by a growing focus on the decumulation phase of DC plan membership.

“We’ve seen an entire generation of workers retire from purely DC plans with no trace of a DB promise,” says Jenab. “Plan sponsors, members and the industry as a whole are waking up to the realities of a mature DC plan system, where plan members have to navigate longevity risk, investment risk and inflation risk in their retirement.”

Quebec-based Bâtirente, which is No. 37 in the 2022 Top 50 DC Plans Report, was one of the first DC plans to integrate decumulation products such as life income funds and retirement income funds. “It’s important for us to not just bring plan members to retirement, but help them through retirement and support them in the transition from accumulation to decumulation,” says Éric Filion, the plan’s general manager. “It’s part of our core values to not just give them a cheque but to really help them succeed in retirement.

“There’s still a lot of education left to do [on decumulation] — there are a lot of questions from plan members about fiscal implication. We need to make sure they understand the risks and that they may outlive their savings. They may not be fully aware they may live to age 90 or 95, so we really need to help them to not outlive their money.”

Nicole Quintal, communications manager at the Co-operative Superannuation Society Pension Plan, ranked at No. 2, says decumulation is a key focus in its plan member education strategy. “We’re here to help our members ensure financial security

TOP 10 | **HYBRID PLANS**

2021 PENSION ASSETS (MILLIONS) ARE AS OF DEC. 31, 2021; 2020 PENSION ASSETS (MILLIONS) ARE AS OF DEC. 31, 2020

	2021 PA	2020 PA	Variance
<b>1</b>   Quebec Construction Industry	\$30,500.0	\$27,600.0	▲10.5%
<b>2</b>   Suncor Energy Inc.	\$6,035.3	\$5,700.3	▲5.9%
<b>3</b>   Syncrude Canada Ltd.	\$4,566.1	\$4,212.3	▲8.4%
<b>4</b>   York University	\$3,470.7	\$3,260.5	▲6.4%
<b>5</b>   United Food and Commercial Workers Union Pension Plan	\$2,949.9	\$3,083.4	▼-4.3%
<b>6</b>   George Weston Ltd.	\$2,554.4	\$2,421.4	▲5.5%
<b>7</b>   McGill University Pension Plan	\$1,943.7	\$1,770.9	▲9.8%
<b>8</b>   ArcelorMittal Dofasco	\$1,916.4	\$1,989.0	▼-3.7%
<b>9</b>   University of Victoria	\$1,724.2	\$1,513.4	▲13.9%
<b>10</b>   Carleton University	\$1,676.0	\$1,495.0	▲12.1%
<b>Top 10 total</b>	<b>\$57,336.8</b>	<b>\$53,046.3</b>	<b>▲8.1%</b>

Source: Companies participating in the Canadian Institutional Investment Network's 2022 pension fund survey or annual reports

in retirement. We want them to feel taken care of both during and after their working years.”

And while significant changes to federal and provincial legislation will be required in the future before variable payment life annuities become widely available to DC plan members, this option presents one possible solution to the decumulation problem, says Nadine Tabet, associate partner of wealth solutions at Aon. “We need VPLAs to make [DC] plans work correctly. If plan members don’t have the means to retire, they’re going to stay with their employer. From a social standpoint, this isn’t a good situation.”

While smaller plans may not fully benefit from a VPLA’s ability to pool longevity risk, there has been talk in the industry of having pooling for smaller plans to group together to achieve that scale, says Kin Chin, head of retirement and relationship management at Franklin Templeton Canada. “[VPLA] payments are based on investment returns, but also mortality credit from those who die earlier than expected. Having a solution like this is a big improvement from RIFs or LIFs or annuities.”

**Changing investment options**

Morton likens the evolution of DC plan investment options to the evolution of mobile phones.

“[At first], plan members had to pick

“*For over 25 years, I continue to look forward to this publication. It continues to offer value and up-to-date insight and opinion into significant issues faced by industry stakeholders. It is a regular go-to in my library.*

– Chuck Bruce, CEO, Provident10

“*I regularly read Benefits Canada to gain insights on industry developments from various perspectives. Benefits Canada assists in keeping my understanding of the marketplace current.*

– Jared Mickall, principal and Winnipeg office wealth leader, Mercer

“*How do you start your day? A cup of java? A shower? A quick jog? For me, every day when I get to the office, I start my day with Benefits Canada. I love being up to date with what is going on. Benefits Canada helps keep me on top of it. Congratulations on 45 years!*

– Sheri Wright, VP, stakeholder relations and communications, LAPP Corp.

from a lineup of funds — that was like a car phone. Then there were pre-mixed funds, like a balanced fund, which is the equivalent of the first mobile phones. Those funds met the needs of maybe 10 per cent of the population — for everyone else, it was either too much or too little equity. . . . The investment community then moved to asset allocation funds. Instead of one balanced fund, there were five, varying from very conservative to growth-focused funds. These were like the flip-phone era.”

However, he notes plan members weren’t monitoring these funds and didn’t realize they needed to switch as they got older. “The investment community recognized this situation and introduced target-date funds, which are like today’s smartphones. These funds recognize everyone in the plan has the same expectation for when they need that money and, if you know it’s a long way off, the manager will add more equity exposure. The use of these plans, including as the default, has been a key innovation.”

In 2011, the CSS pension plan added an equity fund and a bond fund for a total of four investment funds that allows members to create their own asset mix. “We’ve added more flexibility for members to customize their pension according to their own situation,” says Quintal.

DC plan sponsors are also focusing more on environmental, social and

# Our people put the benefit into group benefits

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# TOP 50 DEFINED CONT

<p><b>THE PUBLIC EMPLOYEES PENSION PLAN (SASKATCHEWAN)</b> <b>1</b></p> <p>Rank 2020: <b>1</b> ▲6.8%</p> <p>2021 PA: \$12,222.0 2020 PA: \$11,449.0</p>	<p><b>ROYAL BANK OF CANADA</b> <b>6</b></p> <p>Rank 2020: <b>6</b> ▲11.1%</p> <p>2021 PA: \$2,100.0 2020 PA: \$1,890.0</p>	<p><b>THE CO-OPERATORS GROUP LTD.</b> <b>11</b></p> <p>Rank 2020: <b>11</b> ▲10.1%</p> <p>2021 PA: \$1,273.0 2020 PA: \$1,156.0</p>	<p><b>NUTRIEN LTD.</b> <b>16</b></p> <p>Rank 2020: <b>16</b> ▲10.7%</p> <p>2021 PA: \$986.8 2020 PA: \$891.5</p>	<p><b>QUEBECOR MEDIA INC.</b> <b>21</b></p> <p>Rank 2020: <b>19</b> ▲6.7%</p> <p>2021 PA: \$671.7 2020 PA: \$629.6</p>
<p><b>CO-OPERATIVE SUPERANNUATION SOCIETY PENSION PLAN</b> <b>2</b></p> <p>Rank 2020: <b>2</b> ▲7.3%</p> <p>2021 PA: \$4,594.1 2020 PA: \$4,280.5</p>	<p><b>MANULIFE FINANCIAL CORP.</b> <b>7</b></p> <p>Rank 2020: <b>8</b> ▲11.2%</p> <p>2021 PA: \$1,652.0 2020 PA: \$1,486.0</p>	<p><b>UNIVERSITY OF SASKATCHEWAN</b> <b>12</b></p> <p>Rank 2020: <b>12</b> ▲11.2%</p> <p>2021 PA: \$1,256.2 2020 PA: \$1,129.8</p>	<p><b>MANITOBA SCHOOL BOARDS ASSOCIATION</b> <b>17</b></p> <p>Rank 2020: <b>17</b> ▲7.7%</p> <p>2021 PA: \$832.5 2020 PA: \$772.9</p>	<p><b>CENOVUS ENERGY INC.<sup>1</sup></b> <b>22</b></p> <p>Rank 2020: <b>45</b> ▲3.0%</p> <p>2021 PA: \$656.0 2020 PA: \$637.0</p>
<p><b>UNIVERSITY OF BRITISH COLUMBIA FACULTY PENSION PLAN</b> <b>3</b></p> <p>Rank 2020: <b>3</b> ▲11.7%</p> <p>2021 PA: \$3,012.0 2020 PA: \$2,697.0</p>	<p><b>SOBEYS INC.<sup>*</sup></b> <b>8</b></p> <p>Rank 2020: <b>9</b> ▲11.2%</p> <p>2021 PA: \$1,650.9 2020 PA: \$1,484.6</p>	<p><b>CLAC PENSION PLAN</b> <b>13</b></p> <p>Rank 2020: <b>13</b> ▲11.5%</p> <p>2021 PA: \$1,152.5 2020 PA: \$1,034.1</p>	<p><b>TECK RESOURCES LTD.</b> <b>18</b></p> <p>Rank 2020: <b>18</b> ▲10.5%</p> <p>2021 PA: \$742.3 2020 PA: \$672.0</p>	<p><b>CANADIAN UTILITIES LTD. (AN ATCO CO.)<sup>*</sup></b> <b>23</b></p> <p>Rank 2020: <b>24</b> ▲21.9%</p> <p>2021 PA: \$647.4 2020 PA: \$531.0</p>
<p><b>COSTCO WHOLESALE CANADA LTD.</b> <b>4</b></p> <p>Rank 2020: <b>4</b> ▲11.4%</p> <p>2021 PA: \$2,769.4 2020 PA: \$2,486.9</p>	<p><b>IBM CANADA LTD.<sup>*</sup></b> <b>9</b></p> <p>Rank 2020: <b>7</b> ▲9.2%</p> <p>2021 PA: \$1,642.0 2020 PA: \$1,503.0</p>	<p><b>BOMBARDIER<sup>*</sup></b> <b>14</b></p> <p>Rank 2020: <b>14</b> ▲11.2%</p> <p>2021 PA: \$1,074.7 2020 PA: \$966.5</p>	<p><b>SUN LIFE ASSURANCE CO. OF CANADA</b> <b>19</b></p> <p>Rank 2020: <b>20</b> ▲16.4%</p> <p>2021 PA: \$699.5 2020 PA: \$601.1</p>	<p><b>SASKATCHEWAN PENSION PLAN<sup>*</sup></b> <b>24</b></p> <p>Rank 2020: <b>22</b> ▲14.3%</p> <p>2021 PA: \$604.6 2020 PA: \$528.8</p>
<p><b>BCE MASTER TRUST FUND</b> <b>5</b></p> <p>Rank 2020: <b>5</b> ▲16.7%</p> <p>2021 PA: \$2,572.0 2020 PA: \$2,203.0</p>	<p><b>WESTERN UNIVERSITY</b> <b>10</b></p> <p>Rank 2020: <b>10</b> ▲11.1%</p> <p>2021 PA: \$1,415.0 2020 PA: \$1,273.6</p>	<p><b>SHELL CANADA LTD.</b> <b>15</b></p> <p>Rank 2020: <b>15</b> ▲10.5%</p> <p>2021 PA: \$1,042.0 2020 PA: \$943.0</p>	<p><b>FINNING INTERNATIONAL INC.<sup>*</sup></b> <b>20</b></p> <p>Rank 2020: <b>21</b> ▲13.4%</p> <p>2021 PA: \$685.0 2020 PA: \$604.0</p>	<p><b>HUDSON'S BAY CO.</b> <b>25</b></p> <p>Rank 2020: <b>23</b> ▼-6%</p> <p>2021 PA: \$523.0 2020 PA: \$526.0</p>

\*2020 figure has been restated. \*Sobeys Inc. and Bombardier declined to participate this year. Their totals were calculated using the average growth across the top 48 pension funds in 2021. 1. Husky Energy amalgamated into Cenovus Energy Inc. in 2021.

Figures in this report are based on responses provided by the survey participants. *Benefits Canada* assumes no responsibility for the accuracy of the data provided. All totals are subject to +/- variance due to rounding.

Source: Companies participating in the *Canadian Institutional Investment Network's* 2022 pension fund survey or annual reports

# RIBUTION PLANS

<b>SOLLIO COOPERATIVE GROUP<sup>†</sup></b> <b>26</b> Rank 2020: <b>28</b> ▲15.1% 2021 PA: \$497.9 2020 PA: \$432.4	<b>KPMG LLP</b> <b>31</b> Rank 2020: <b>31</b> ▲16.0% 2021 PA: \$436.0 2020 PA: \$376.0	<b>ARCELORMITTAL DOFASCO</b> <b>36</b> Rank 2020: <b>34</b> ▲15.4% 2021 PA: \$418.3 2020 PA: \$362.5	<b>NIAGARA CASINOS</b> <b>42</b> Rank 2020: <b>39</b> ▲1.0% 2021 PA: \$340.2 2020 PA: \$336.7	<b>CANADIAN BAPTIST MINISTRIES</b> <b>47</b> Rank 2020: <b>44</b> ▲10.0% 2021 PA: \$297.0 2020 PA: \$270.0
<b>HSBC BANK CANADA</b> <b>27</b> Rank 2020: <b>26</b> ▲14.9% 2021 PA: \$470.3 2020 PA: \$409.3	<b>TOROMONT INDUSTRIES LTD.</b> <b>32</b> Rank 2020: <b>29</b> ▲12.5% 2021 PA: \$433.0 2020 PA: \$385.0	<b>BÂTIRENTE</b> <b>37</b> Rank 2020: <b>41</b> ▲35.4% 2021 PA: \$413.5 2020 PA: \$305.3	<b>CAMECO CORP.</b> <b>43</b> Rank 2020: <b>42</b> ▲12.3% 2021 PA: \$336.2 2020 PA: \$299.2	<b>UNIVERSITY OF REGINA ACADEMIC AND ADMINISTRATIVE PENSION PLAN</b> <b>48</b> Rank 2020: <b>50</b> ▲16.3% 2021 PA: \$287.5 2020 PA: \$247.1
<b>CANADIAN YMCA RETIREMENT FUND</b> <b>28</b> Rank 2020: <b>25</b> ▲11.3% 2021 PA: \$461.0 2020 PA: \$414.3	<b>GOVERNMENT OF NEWFOUNDLAND AND LABRADOR</b> <b>33</b> Rank 2020: <b>27</b> ▲6.1% 2021 PA: \$431.9 2020 PA: \$406.9	<b>GLENCORE CANADA</b> <b>38</b> Rank 2020: <b>32</b> ▲11.8% 2021 PA: \$411.5 2020 PA: \$368.1	<b>ARCHDIOCESE OF VANCOUVER</b> <b>44</b> Rank 2020: <b>43</b> ▲18.3% 2021 PA: \$329.9 2020 PA: \$278.9	<b>GOLDER ASSOCIATES LTD.</b> <b>49</b> Rank 2020: <b>49</b> ▲14.4% 2021 PA: \$283.8 2020 PA: \$248.2
<b>GEORGE WESTON LTD.</b> <b>29</b> Rank 2020: <b>33</b> ▲20.0% 2021 PA: \$438.3 2020 PA: \$365.3	<b>SHAW COMMUNICATIONS INC.</b> <b>34</b> Rank 2020: <b>36</b> ▲19.0% 2021 PA: \$419.0 2020 PA: \$352.0	<b>MAPLE LEAF FOODS INC.</b> <b>39</b> Rank 2020: <b>38</b> ▲12.7% 2021 PA: \$382.9 2020 PA: \$339.8	<b>CARGILL LTD.</b> <b>45</b> Rank 2020: <b>46</b> ▲15.1% 2021 PA: \$306.4 2020 PA: \$266.3	<b>TRANSALTA CORP.</b> <b>50</b> Rank 2020: <b>N/A</b> ▲7.5% 2021 PA: \$257.0 2020 PA: \$239.0
<b>APOTEX INC.</b> <b>30</b> Rank 2020: <b>30</b> ▲14.9% 2021 PA: \$437.2 2020 PA: \$380.6	<b>PCL CONSTRUCTION GROUP INC.</b> <b>35</b> Rank 2020: <b>35</b> ▲16.7% 2021 PA: \$418.9 2020 PA: \$359.0	<b>AON CANADA INC.</b> <b>40</b> Rank 2020: <b>37</b> ▲7.3% 2021 PA: \$377.6 2020 PA: \$351.8	<b>MICHELIN NORTH AMERICA (CANADA) INC.</b> <b>46</b> Rank 2020: <b>48</b> ▲19.9% 2021 PA: \$303.1 2020 PA: \$252.9	<b>RESOLUTE FP CANADA INC</b> <b>50</b> Rank 2020: <b>N/A</b> ▲8.4% 2021 PA: \$257.0 2020 PA: \$237.0

<b>NOVA CHEMICALS CORP.</b> <b>41</b> Rank 2020: <b>40</b> ▲17.9% 2021 PA: \$367.7 2020 PA: \$311.7
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2021 Top 50 total: **\$56,289.8**

2020 Top 50 total: **\$50,972.1**

VARIANCE: **▲ 10.4%**

governance factors in their investment approaches, notes Morton. “There was an uptick after [the 2021 United Nations Climate Change Conference]. That’s when I noticed a lot more media attention. It’s around when the chief executive officer of BlackRock [Inc.] said climate change is going to influence how certain companies will perform — they’re now making their passive funds ESG-focused in a way.”

Bâtirente’s fiduciary responsibility is inextricably linked to ESG. “It’s part of our DNA and we were one of the first signatories of the [UN’s principles for responsible investment],” says Filion. “We can’t manage our pension plan without considering long-term economic and social development, as well as sound capitalization of the plan. Both are required for sustainable economic performance. . . . We’re a non-profit organization and the board reviews our practices and investments. In 2020, we took steps to reduce our carbon footprint by 50 per cent. It’s not about managing risk — it’s about making a difference.”

### Auto features

While automatic enrolment and escalation could have a positive impact on DC plan members, Canadian plan sponsors have generally been wary of introducing these features due to inconsistencies between employment and pension laws, says Morton.

Auto features are more common in the U.S., where the law permits their use, he adds, noting some Canadian jurisdictions, such as Ontario, are currently re-examining legislation around auto-enrolment. “[WTW’s] last DC pension plan survey showed 67 per cent of employers are using auto-enrolment, at least for new hires, where it’s permissible. The challenge is with existing employees. If you’re doing it just for new employees, eventually you’ll get to the right place, but your entire workforce needs to turnover before you have auto-enrolment for everyone.

“A lot of employers want to apply auto-enrolment to existing workers, but that’s where employment legislation gets in the way. Some jurisdictions, such as British Columbia and Alberta, under employment law, stipulate an employer can’t deduct anything from an employee’s wages without getting the employee’s explicit permission.

“*I joined Mercer in 1987 and soon after learned that everyone read Benefits Canada, which back then was a monthly magazine that came in the mail. Thirty-five years later I read Benefits Canada almost every day via the modern email news feed. Congratulations to Benefits Canada for 45 years of relevance and here’s hoping that I am around in five years for the blow out party on your 50th.*

– Joe Nunes, executive chairman, Actuarial Solutions Inc.

“*Congratulations to the Benefits Canada team on reaching a milestone of serving the pension and benefits community for 45 years! Through hard work, dedication and a lot of innovation, BC continues to be the reliable source of information for pension and benefits professionals throughout Canada.*

– Caroline Tison, CEO, Canadian Pension & Benefits Institute

“*Benefits Canada and the Canadian Investment Review are both brilliant publications that allow me to stay close to emerging trends and issues in the world of pensions and investment. Wonderful articles, excellent journalism and incredible thought leaders profiled providing innovative ideas and inspirations.*

– Winston Woo, executive director, tax and pensions, AGS Automotive Solutions

“Auto-escalation is a little different. You’re running afoul of employment legislation in essentially any circumstance in most jurisdictions. Some plan sponsors are trying to do it by re-enrolling members as part of the benefits plan enrolment and they may add on the pension plan enrolment and say, ‘We want you to tell us how much you want to contribute — by the way, we’ll pre-select for you to contribute the maximum amount that gets an employer match.’”

In addition to the U.S., Tabet highlights the U.K.’s introduction of auto-enrolment in 2012 as a lesson for Canada. Before it was implemented, fewer than half of U.K. private sector employees were in a workplace pension. Today, that percentage has grown to roughly 90 per cent.

“[Auto features] are a part of smart [DC pension plan] design, but many employers are reluctant to use them because of employment law,” she says. “Employees don’t think about retirement early in their career. You can’t tell someone who just graduated and has student debt that all their money has to go to retirement, but employers have to decide how they want to support these employees and auto features can help with that. Employers have a huge role to play — they have direct access to employees and their workers already trust them. And employees with better financial health will do better at their job.”

**Blake Wolfe is the managing editor of *Benefits Canada*: [blake.wolfe@contexgroup.ca](mailto:blake.wolfe@contexgroup.ca).**



### KEY TAKEAWAYS

- Defined contribution plans began to gain popularity in the mid-1980s, due to a combination of legislative and economic changes.
- Investment options for DC plans continue to evolve, with a focus on ESG among the latest developments.
- While the use of automatic features isn’t yet widespread in Canada, tools like auto-enrolment and auto-escalation can help plan sponsors support plan members’ retirement savings goals.

# Dear plan sponsors, we need to talk.

For too long, the focus has been squarely on accumulation. Plan members' contributions are invested in target date funds or other balanced portfolios, and then when they retire, they're left on their own to figure out what to do with the money they've saved.

We get it.

Managing a savings program is hard work and focusing on decumulation is no easy task. And yet DC plans can leave employees uncertain and vulnerable in retirement when they need help the most.

## **On October 18, that's all going to change.**

Purpose Investments is leading the way with an innovative decumulation solution and is partnering with LifeWorks to make it available to DC plan sponsors on their platform. The Longevity Pension Fund® is the world's first mutual fund that provides income for life to retirees using longevity risk pooling, in similar ways to a DB plan.

Third-party actuarial evaluations done annually? Robust risk oversight? Expert Advisory Committee?

Yes, yes, and yes.

The Longevity Pension Fund provides income for life, and the confidence members need to spend in retirement without fear of running out.

We know you care deeply about your plan members, so let's help them create the secure retirement they deserve. Your members will thank you later – in around 47 years,\* give or take.

Talk to your plan consultant or visit [RetireWithLongevity.com/DC](https://www.RetireWithLongevity.com/DC) for more information.

Warmly,



**Fraser Stark**

President, Longevity Retirement Platform



**Pat Leo**

VP, Longevity Retirement Solutions

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\*47 years is the point at which the final member of a cohort of 20,000 65-year-old men and women is expected to pass away, showing that some of your plan members are bound to have very, very long lives.

Commissions, trailing commissions, management fees and expenses all may be associated with investment fund investments. The prospectus contains important detailed information about the investment fund. Please read the prospectus before investing. There is no assurance that any fund will achieve its investment objective, and its net asset value, yield, and investment return will fluctuate from time to time with market conditions. If the securities are purchased or sold on a stock exchange, you may pay more or receive less than the current net asset value. Investment funds are not guaranteed, their values change frequently, and past performance may not be repeated. The Fund has a unique mutual fund structure. Most mutual funds redeem at their associated Net Asset Value (NAV). In contrast, redemptions in the decumulation class of the Fund (whether voluntary or at death) will occur at the lesser of NAV or original purchase price less distributions paid.

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by Purpose

# BACK TO THE FUTURE



**O**ur industry sometimes gets a bad rap for being overly traditional and slow to change. But there's no question we've seen some major shifts in employee benefits over the past 45 years. Three of those shifts will have implications for employers going forward.

## Greater onus on the individual to save for retirement

Over the years, we've seen a significant decline in defined benefit pension plans and a rise in defined contribution plans, especially in the private sector. We've also seen an overall decline in workplace pension coverage. Combined, these factors put more pressure on the individual to plan, save and invest for retirement — which is a real challenge, given the state of financial literacy among Canadians today.

In fact, research by the International Foundation of Employee Benefit Plans found only about a third (34 per cent) of Canadian respondents felt very or somewhat positive about their financial literacy/knowledge. And a 2022 study by the Healthcare of Ontario Pension Plan found more than half (55 per cent) of respondents said they're concerned about having enough money in retirement.

Recognizing the important connection between financial and mental well-being, the dialogue has been shifting — and will continue to shift — from financial literacy to wellness. Given the ongoing trend of declining workplace pension coverage, the industry hopes the future will bring a broader range of decumulation

solutions that allow individuals to turn their savings into a reliable and predictable income stream that will last them through retirement.

## Rise of technology to support benefits administration, delivery

We've seen technology expand in leaps and bounds — and the pandemic certainly accelerated that growth. From digital communications to reach a diverse workforce, to artificial intelligence to combat benefits fraud, to chatbots to streamline the user experience, technology has transformed how benefits are managed, administered, delivered and communicated to plan members.

As of April 2022, 63 per cent (or five billion people) of the global population were internet users, according to Statista. As the pace of technology accelerates, its applications in our industry will also increase. For example, virtual care came to the forefront during the coronavirus pandemic and has the potential to play a key role in Canadian health care in the future, particularly as this sector continues to grapple with post-pandemic burnout and a general labour shortage.

## Increased personalization, customization of benefits

Today's labour market is an employee market. The mantra of 'what's in it for me?' is driving employers to rethink their benefits programs to accommodate a desire for flexibility and customization at the individual level. What's more, the growing emphasis on diversity, equity and inclusion in the benefits space means many are reviewing and revamping their benefits programs and related communications to ensure they're inclusive and truly meeting the needs of all members.

Looking ahead, benefits flexibility and inclusivity will remain important. We'll likely see more customization and continued expansion of employee benefits beyond pure insurance into areas like child or elder care, tuition support and other non-traditional benefits that support employees' work-life balance and overall well-being. This may also mean supporting a wider range of benefits across different specialized providers.

While it's a lot for plan sponsors to manage, the advantage is increased awareness and appreciation. A recent survey by RBC Insurance Inc. found 69 per cent of Canadians aged 35 to 44 and 73 per cent of Canadians aged 18 to 34 said they're likely to leave their current employer for another that offers better benefits. Of course, since benefits can be a powerful lever for attracting and retaining talent, effectively communicating the value of those benefits will be critical.

Without a crystal ball, it's hard to know just what the industry will look like 45 years from now. But if the future is anything like the present, employees will still be at the centre — and that's the most pivotal shift of all.

**Alyssa Hodder is the director of education and outreach for Canada at the International Foundation of Employee Benefit Plans. She was the editor of *Benefits Canada* between October 2008 and September 2015.**

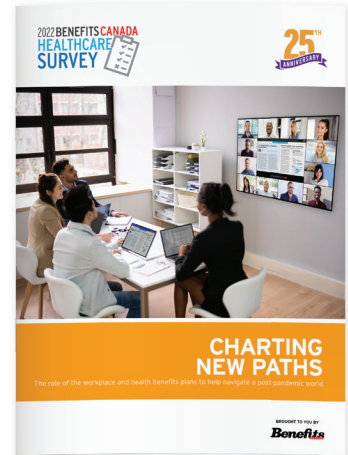
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# LATE 70s BACK IN VOGUE

## AS INSTITUTIONAL INVESTORS LOOK TO THE FUTURE

*While a lot has changed  
for the investment  
industry over the past  
45 years, today's  
economic climate shares  
some similarities with  
the decade of Benefits  
Canada's inaugural issue*

BY MICHAEL MCKIERNAN





**A**s a fresh-faced elementary school student in 1977, Aaron Bennett wasn't quite in the target demographic for the freshly launched *Benefits Canada* magazine.

Still, Bennett — now the chief investment officer at Ontario's University Pension Plan — has a pretty firm grasp on the concerns that would have occupied the minds of his predecessors as they leafed through that inaugural edition, since they bear a remarkable resemblance to the ones he's currently facing. "History doesn't necessarily repeat itself, but it often rhymes."

#### **Flashback to the 70s**

For many in the investment industry, the recent spike in inflation brought back



#### **TIMELINE**

**1977**

First edition of *Benefits Canada* rolls off the presses

**1987**

Ontario's Rowan Report recommends certain public sector pension funds be allowed to diversify their portfolios by investing in markets and operating as arm's length entities independent of government

**1990**

The Ontario Teachers' is established following reform of Ontario's Pension Benefits Act

**1991**

The Foreign Property Rule is loosened for the first time since its introduction in 1971, allowing tax-deferred retirement plans to hold up to 20 per cent of their portfolio in foreign assets

**1997**

The CPPIB is formed

**2001**

The Foreign Property Rule cap is raised to 30 per cent of funds' book value

**2005**

The Foreign Property Rule is eliminated

**2008**

The financial crisis spurs a liquidity squeeze, creating opportunities for Canadian pensions

**2020**

The coronavirus pandemic shakes capital markets and sparks lockdowns globally

**2020**

Eight of Canada's largest pension plans — the AIMCo, the BCI, the Caisse, the CPPIB, the HOOPP, the Ontario Teachers', the OMERS and PSP Investments — demand companies adhere to the Sustainability and Accounting Standards Board and the task force on climate-related financial disclosures framework when reporting ESG disclosures

memories of the late 1970s — the last time serious doubts were expressed about central banks' ability to keep rates under control as they spiraled towards double figures.

Back then, investors also had to deal with a labour market revolution powered by advances in technology and education, just as members of the baby boomer generation began to establish themselves in C-suites across the country, as well as on shop floors.

These days, Canadian workplaces already shaken up by the mass retirement of workers from the very same generation have seen the coronavirus pandemic reset traditional norms regarding the office and remote working. In either era, Bennett says the disruption of large secular trends brought investment executives at Canada's largest financial institutions to essentially the same conclusion. "The playbook that we used for the last 10 or 15 years maybe isn't the right playbook for the next 10 or 15 years."

But that may be where the parallels end, according to Yusuke Khan, Canada investments leader at Mercer, who explains that the complex combination of assets owned and controlled by today's typical institutional investor would be unrecognizable to their forebears in the industry. "If you went back to the 70s or before, you would see much more conservative portfolios."

Over time, pension plans in particular reduced their reliance on bonds, progressing gradually towards the 60/40 split with equities that became the gold standard for balanced portfolios with investors of various sizes, he adds.

Anyone who wanted to get more creative found their ambition constrained by regulations that limited investment beyond Canadian borders. The Foreign Property Rule, established under the Income Tax Act in 1971 to encourage the growth of Canadian capital markets, capped the proportion of foreign investments at 10 per cent of a registered retirement plan's total assets.

The rule wasn't loosened until 1991, when the limit on foreign assets began rising in a series of increments, topping out at 30 per cent in 2001, before its elimination altogether in 2005. In the meantime, a package of reforms to Ontario's Pension Benefits Act cleared the way for

“*I've been a reader of Benefits Canada for 20 years and I saw the evolution of the industry and the magazine through the years. All the big names have been interviewed over the last 45 years and Benefits Canada has continuously been a great source of information. Keep up the good work!*”

— Alex Daudelin, marketing growth leader, Aon

“*Benefits Canada has been my preferred source for news, trends and relevant content about the evolving benefits, pension and wellness landscape for years now. Its content is high fibre for plan sponsors looking to keep their finger on the pulse of what is happening now! Congrats, BC, on your 45th!*”

— Dana Nevison, director, benefits and rewards, MNP LLP

“*Benefits Canada is Maslow in a magazine! From novice to veteran, it provides something for everyone's needs. Written and visual information, knowledge and current news, thoughtful opinions, networking and extraordinary events deliver intellectual stimulation galore. Congrats and thanks for 45 years!*”

— Blair Richards, chief investment officer, Halifax Port ILA/HEA

the emergence of a Canadian model of pension plan management, characterized by massive jointly-sponsored plans — such as the Ontario Teachers' Pension Plan and the OPSEU Pension Trust — operating independently and controlling their investment strategies in-house.

“From there, it has really been a quest for innovation and improvement both in expected returns and managing risks,” says Khan.

Following the Canada Pension Plan Investment Board's formation in 1997, Ed Cass, its chief investment officer, says the end of the Foreign Property Rule was a “tremendously significant” moment in the development of the fund, coinciding as it did with the CPPIB's shift from passive to active management.

“It allowed us to diversify geographically, which importantly helps insulate the fund against concentration risk in Canada. We now invest in all major asset classes worldwide to enhance long-term risk-adjusted returns through diversification and security selection, while building a highly resilient portfolio. By doing so, the fund benefits from positive global growth in the world's largest investment markets and remains resilient during periods of slow growth within specific regions.”

### Shift to alternative assets

In recent years, the search for yield in a low interest rate environment accelerated Canadian institutional investors' shift towards alternative assets.

Indeed, between 1999 and 2019, the proportion of defined benefit pension funds' real estate assets tripled from four per cent to 12 per cent, according to the Pension Investment Association of Canada's annual asset mix survey, while the actual value of that property exploded over the same period, from \$20 billion to almost \$280 billion. More recent data from the PIAC suggested around a quarter of all Canadian DB assets fall into the broader alternative asset category, encompassing real estate, private equity and hedge funds, among other investments.

More than a third of the Colleges of Applied Arts and Technology pension plan's assets are tied up in alternatives, including a small but growing allocation

to agricultural investments, according to Asif Haque, the plan's chief investment officer. "We believe they carry a return premium over public alternatives and we're giving up liquidity to access these opportunities," he says, noting his stance is aided by the longer-term investment horizon the CAAT pension plan works on.

"Canadian pension investors are in a very interesting position in being able to look through current volatility and find value where it exists," he adds.

James Davis, chief investment officer at the OPTrust, expects the trend towards alternative assets to continue for the foreseeable future, thanks in part to the increased efficiency of public markets. "It's much harder to add value than it was in 1977. As we head into the future, there's going to be a lot more continued interest in alternative investing — infrastructure, real estate private equity — because of the diversification benefits of those assets. But probably equally as important is the value-creation potential that those assets provide . . . because of the depth of talent and the depth of relationships that are possible in an institutional investing framework."

### The Canadian pension model

In a 2020 study, Sebastien Betermier, associate professor of finance at McGill University, identified the steady stream of income and diversification that comes with real estate and infrastructure assets as a key plank of Canadian pension funds' consistent outperformance of their global peers between 2004 and 2018.

"The Canadian funds did better not only when you looked at their overall risk-to-return ratio, but also in terms of asset-to-liability hedging. It was interesting to us, because typically the more you hedge, the more you have to bear costs on returns and that wasn't the case here."

In addition, Betermier and his co-authors found Canadian pension funds distinguished themselves from other large pension, corporate and sovereign wealth funds through their heavier use of in-house investment teams, allowing them to manage more than half of their own assets. The Canadian pension plans then compounded their savings by redeploying the extra funds internally,

outpending comparable investors across asset classes.

In a follow-up study, Betermier and his colleagues looked at the extraordinary level of direct real estate investment by Canadian pensions plans, finding their transactions accounted for 60 per cent of the global deal volume involving retirement funds, despite representing just six per cent of all pension assets under management. "Here, the funds are doing it themselves," he says. "They're on the ground, building the projects themselves in Toronto, in Montreal and abroad."

Using domestic data on LEED certification for new and retrofitted buildings, the authors also found Canadian pension funds are pursuing an impact strategy of greening urban properties. "There is this combination of value-added as well as a positive environmental impact," says Betermier.

### A rise in ESG investing

For the CPPIB, environmental, social and governance factors have become increasingly important, says Cass, ever since it began incorporating sustainability into investment decision-making over a decade ago.

"ESG is going to be an even bigger factor in the future. Investors will need to learn how to construct portfolios that both manage the risks, as well as access the opportunities that climate change, in particular, presents," he says, pointing to the fund's plan to boost investment in green and transition assets to at least \$130 billion by 2030.

When it comes to ESG considerations, Canadian

## INSTITUTIONAL INVESTORS IN THE BENEFITS CANADA ERA BY THE NUMBERS

**7.6%** – Canada's annualized inflation rate as for July 2022, according to Statistics Canada

**8%** – Canada's inflation rate in 1977, according to the OECD

**10%** – The cap on foreign property as a proportion of total retirement plan assets between 1971 and 1991

**\$12.3BN** – The value of real estate held by Canadian pension funds in 1999 or **4%** of their total holdings, according to the PIAC

**\$278.5BN** – The value of real estate held by Canadian pension funds in 2019 or **12%** of their total holdings, according to the PIAC

**88%** – The proportion of Canadian institutional investors that use ESG integration to invest sustainably, compared with a global average of **75%**, according to a Schroders survey

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Benefits Canada Magazine

We wish you continued success in the future and thank you for your impact on the pension and benefits industry

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The graphic features a large, stylized number '45' composed of golden particles on a dark blue background. The text is arranged in a clean, professional layout with a mix of serif and sans-serif fonts.

institutional investors are ahead of the game compared to their U.S. counterparts, says Marina Severinovsky, North American head of sustainability at Schroders. “It’s always a year after we’re having conversations with our Canadian clients that we’re having the same conversations with our U.S. clients.”

The 2022 edition of the firm’s annual institutional investor study backs up Severinovsky’s sentiments, with 88 per cent of Canadian respondents reporting they use ESG integration to invest sustainably, compared to a global average of 75 per cent.

She was also struck by the proportion of Canadian institutional investors that identified the positive societal and planetary impact as a driver of their sustainable investment strategy. The corresponding figure was 38 per cent for U.S. investors, who Severinovsky says tend to be more focused on performance. “Maybe what Canadian investors have figured out is that there is money to be made from solving the world’s big problems. It’s not

“*Congratulations! Just as you are mentioning your 45-year anniversary, it becomes clear why your publications and conferences are operated with such smooth and experienced professionalism and why your organization remains a flagship in pensions- and benefits-related thought leadership.*

– Anthony Treier, senior portfolio manager, fixed income and currencies, TELUS Corp.

“*Benefits Canada is a reliable resource and the go-to medium for all issues relevant to our industry.*

– John Mosey Jr., vice-president, Mosey and Mosey Insurance Ltd.

mutually exclusive that you should want good returns and should also be able to address some of those challenges.”

There are still plenty of obstacles for institutional investors seeking to make the most of their sustainable investments, says Melanie Pickett, head of asset owners for the Americas at Northern Trust Corp. While a large proportion of public companies make some kind of ESG disclosure, the quality varies. “Private companies are much more inconsistent and there isn’t really a model that they’ve settled on,” she adds.

In late 2020, a number of Canada’s largest pension plans took matters into their own hands, demanding that companies adhere to the Sustainability and Accounting Standards Board and the task force on climate-related financial disclosures framework when reporting ESG disclosures.

But the issue isn’t unique to ESG disclosure, according to Pickett, who says data analytics capability will be crucial for institutional investors if they’re to



## Appointment of an innovative leader to develop savings and retirement solutions

**Sun Life is pleased to announce the appointment of Jean-Michel Lavoie to the role of Vice-President, Strategy & Market Development for Group Retirement Services.**

Jean-Michel is known for his admirable leadership skills, ability to anticipate trends, and innovative approach. Since joining Sun Life in 2013, his numerous accomplishments have helped develop the company’s service offer and position Sun Life as an industry leader.

In his new role, Jean-Michel is focused on developing innovative solutions to boost the financial resiliency of group plan members and the value proposition employers offer their employees.

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thrive in the future, thanks to their increasingly sophisticated asset allocation strategies.

“They need a much more holistic view of exposure. For public assets, there is a lot of market data at hand, but with private investments, it’s a much more complex problem to solve. The underlying exposures are not as transparent.”

Whatever the coming decades bring, Bennett says he’s focused on his job and relishing the challenge. “I don’t spend a lot of time predicting the future, I just try and build resilient portfolios. Volatility is something to keep an eye on, but these are also opportunities — potentially career-making opportunities. My concern . . . over the next several years is to capitalize on some of these opportunities, to bring new tools to bear, to get people engaged and to make investments in areas that are seeing this level of change.”

**Michael McKiernan is a freelance writer.**

“Benefits Canada *has been an invaluable resource for the pension community in Canada through current and timely articles within the magazine to well-run, content-rich events hosted by a first class team. Kudos!*

– Simon Cabral, director of global pensions, Scotiabank

“There has been so much evolution in benefits in the last decades, moving from programmatic offerings to solutions assisting organizations in meeting the needs of employees and their families. Thanks to Benefits Canada for contributing to these changes!

– Christine Bourassa, senior director, WTW



## KEY TAKEAWAYS

- Legislative changes in the 1980s and 1990s set up a golden age for Canadian pensions in which they transformed their structures and made their marks on the world stage as sophisticated asset owners.
- The case for alternative assets recently received a boost as market volatility, workplace disruption and higher inflation signaled the start of a new era for institutional investors, but new investment strategies may be required to meet these challenges.
- Following their relatively recent emergence, ESG factors will play an increasingly important role in institutional investors’ portfolio construction.

## BEST WISHES

to

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on your 45th Anniversary.**

**All the best for the next 45 years!**

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L'Association canadienne des administrateurs de régimes de retraite



# REAL ESTATE

Real estate investing can be an effective hedge against inflation, and subsectors allow pension plans to target exciting niches within the residential, commercial, and industrial markets. We asked six expert panellists to discuss opportunities and risks within this important asset class.

**Six expert panellists discuss opportunities and risks in global real estate investing**

# ROUNDTABLE



**Samuel Sahn**

Managing partner  
and portfolio manager  
Hazelview Investments



**Mike Bessell**

European investment strategist and  
head of global strategic analytics  
Invesco Real Estate

**Aymeric De Seresin**

Director, European real estate,  
Fidelity International



**MEET OUR  
EXPERT  
PANELLISTS**



**Corrado Russo**

Managing partner and head  
of global securities  
Hazelview Investments

**Kim Politzer**

Director of research,  
European real estate,  
Fidelity International



**Michael Peck**

Senior vice-president and head of  
Canadian institutional investments  
Invesco Canada



**Interest rates are still near historic lows in some markets and at 40-year highs in others. In an uncertain inflationary environment, should plan sponsors be taking a closer look at real estate?**

**Michael Peck:** This has been part of virtually every client conversation we've had in the last six months to a year. Defined benefit plans are susceptible to inflation, regardless of whether or not they link their benefits to an inflation index. One reason is that pension benefits are tied to salary increases, because a lot of the formulas take the best five years or the last five years of earnings, and salaries tend to go up in a higher-inflation environment. Against that backdrop, real estate can deliver consistent real (inflation-adjusted) returns in different rate environments. Our research shows that, since the previous peak of interest rates, quarterly income returns on U.S. real estate have averaged just under 4% annualized, which is really good. More importantly, from a diversification perspective, real estate returns have been



**If inflation is impacting the growth equation and interest rates are impacting the yield equation, then putting those together creates a smoothing effect."**

— Corrado Russo

strongly correlated to inflation relative to other asset classes—and, in a lot of environments, this correlation increases as inflation rises. So, it's a good offset.

**Corrado Russo:** To take Michael's point further, interest rates and inflation impact on real estate are negatively correlated, so, while both affect the value of real estate, they do so in opposite directions. If inflation is impacting the growth equation and interest rates are impacting the yield equation, then putting those together creates a smoothing effect. I think it's an opportune time to buy real estate. And, with historically low rates in some markets and 40-year highs in others, it's more important than ever to have a diversified global portfolio.

**Samuel Sahn:** I'd add that the contractual nature of real estate serves as a hedge to rising inflation.

In most lease terms, there are annual contractual rent step-ups built in that mirror inflation. As a result, as inflation rises, building owners can pass through higher expenses in the form of higher rent. That's a meaningful reason for why real estate as an asset class performs well in an inflationary environment.

**Mike Bessell:** As well as being a strong inflation hedge, real estate provides diversification benefits against other asset classes—and it's important to think granularly about real estate, rather than lumping it all together as one single asset class. Whatever happens

to the inflation picture, demand for real estate in specific regions and subsectors remains strong, especially when it's supported by structural tailwinds such as long lead times to construct new assets or a limited amount of space in certain markets. For plan sponsors, using real estate for diversification against other asset classes is a good strategy, and so is diversification within real estate through exposure to various regions and subsectors.



**I think real estate has a strong role to play in pension plans. If you already have real estate, hold your nerve."**

— Kim Politzer

**Kim Politzer:** For all the reasons others have cited—including diversification of income streams against other asset classes and within the asset class, and the natural inflation hedge that comes with the lease structure—I think real estate has a strong role to play in pension plans. If you already have real estate, hold your nerve. If you don't, given the time it takes to transact, now is a good time to start moving into a market that may see some repricing over the next 12 to 18 months.

**Have recent world events led to niche opportunities within the commercial real estate sector?**

**Bessell:** I don't think COVID created new opportunities, but it accelerated existing trends, such as working from home and online retail. It was also a short-term shock that slightly reversed urbanization and dramatically slowed global travel. But, in most of those instances, we're now bouncing back to pre-COVID trends with, for example, residential rents in places like New York above pre-pandemic levels, and a strong rebound in overnight hotel stays.

**Sahn:** COVID accentuated the attractiveness of data centres and cell towers in the technology space, and U.S. single-family rentals and manufactured housing in the residential space, and it further shone a positive light on the emerging self-storage sector. Senior housing is needs oriented, with defensive characteristics that can grow through volatility in the economic cycle. While there hasn't been a sea change per se, the pandemic opened institutional investors' eyes to these opportunities.

**Russo:** On the private side, nothing really changed. We had a V-shaped recovery in demand for assets and are getting back to normal. But world events created a significant opportunity to buy public real estate at 15%, 20%, or 25% discounts before prices revert to the mean. If there has ever been a time to focus on public real estate, it's now.



**Politzer:** COVID taught us to think more about how occupants use space and, therefore, how critical it is to their business activities. In certain niche sectors, such as life sciences, people need to be physically in a building. (You can't do Biosafety Level 3 laboratory work in your bedroom.) Tenants in those buildings happily paid their rent through the pandemic because the building is fundamental to what they do.

**Are there any particularly promising niche subsectors plan sponsors should know about?**

**Russo:** One neat opportunity that takes advantage of the growth of e-commerce has been to buy older last-mile industrials, fix them up by digging down to increase the ceiling height and pouring reinforced concrete, improve the turning radius for trucks outside the building, and create value in properties seen to be obsolete and abandoned.

**Sahn:** Kim mentioned life sciences. It was a growing sector before COVID, and it has taken five steps forward since the start of the pandemic. These are purpose-built buildings for pharmaceutical and biotech companies benefiting from government, venture capital, endowment, and institutional investment. Meanwhile, hybrid work has caused an explosion in demand for virtual storage space, resulting in global cloud service providers needing more physical space. Combined with the implementation of 5G technology, this is leading to more demand for technology-oriented real estate such as data centres.

**Bessell:** We've been doing a lot of work on medical offices, senior care, and life sciences. Interestingly, in the last six months, we've seen venture capital falling away quite sharply from life sciences, which is a concern. But life sciences can bring about a huge spectrum of opportunities—from a long sale and lease back to a pharmaceutical giant to running what's effectively a WeWork facility with Bunsen burners for people in lab coats. It's the smaller end that's particularly vulnerable when venture capital funding dries up.

**Politzer:** There's an interesting opportunity in data centres, particularly in Europe because of shortages of power on the grid. A lot of underutilized, old, secondary corporate data centres offer huge potential because you can't find the power to build new data centres. But this is not a straightforward real estate play; you need to work in partnership with data centre operators to deliver it.

**Aymeric De Seresin:**

Finding enough opportunities in true niche sectors to deliver meaningful exposure can be challenging. There is simply no secondary market. Either you buy the land and build from scratch, or there is almost no chance to buy this kind of asset. Also, there's the question of whether "life sciences" refers to the tenant or the property. If you buy a warehouse or office building occupied by a pharmaceutical company and the tenant leaves, you don't have a life sciences asset anymore—you have basic logistics or office real estate.



**... life sciences can bring about a huge spectrum of opportunities—from a long sale and lease back to a pharmaceutical giant to running what's effectively a WeWork facility with Bunsen burners for people in lab coats."**

— Mike Bessell

**Bessell:** These can be very niche markets with thin volumes, and specialized life sciences and data centre funds are driving intense competition for the handful of available assets. That can mean higher pricing than the property's attributes would attract in other parts of the market. These are niche markets for a reason, and they require a specialist's expertise.

**Do you think the trend toward businesses adopting a hybrid workspace model will continue, or will traditional office setups make a comeback?**



**Bessell:** It will vary massively by market. Dynamics are very different in a North American city with long commutes and space at home to set up a permanent workstation versus a much more space-constrained city like Hong Kong or Tokyo, where multiple generations of a family may live in a small residential unit and there's a compelling reason to go back to the office. Dynamics also vary across cultures, industries, and even cities within countries.

**Politzer:** A lot of people were quick to write off the office at the beginning of COVID, but corporates value their office space because it helps create a cohesive workforce and drives synergies from creating together. What's less clear is whether corporates will decide they need less, different, or more flexible space. But we're continuing to see strong demand for the best-quality



office spaces, including green offices and buildings with nice cafeterias, roof gardens, and atria to enhance social interactions. The quality of office spaces is a priority for workers as well, especially younger generations, who consider it when they think about moving jobs or staying in a job.

**De Seresin:** Hybrid work accelerated another trend already in motion before COVID, which is more focus from occupiers on better locations. Everything already established as a strength in terms of location—for example, a good public transportation network and a lively environment to attract young workers—is even more in demand. Now, there are two markets: the winners in prime locations and the losers outside those areas. So, the fundamentals of the market are shifting and portfolios are being reshaped accordingly.

**Bessell:** I agree we're seeing a bifurcation between the best and worst locations, and tenants moving to better locations may take less space but often pay more to have a higher-quality building. Do we need more traditional offices where everyone sits at a designated desk for eight hours a day? Probably not. But do we continue to need a corporate office building used differently, where people split their working week between tasks they do at home and tasks that require interaction? Absolutely.

### Are institutional investors paying too much attention to new builds and overlooking opportunities in renovating existing office buildings?

**De Seresin:** We're about to launch a climate impact solution that emphasizes renovating assets rather than developing brand new buildings. We see that as, by far, the more attractive opportunity. We need to upgrade existing stock because of hybrid working and the changing needs of occupiers. But also, most corporates in Europe are targeting net zero carbon ahead of the legislation, and how will they achieve that if they cannot occupy net zero



**The liquidity question isn't just a real estate question; it's applicable to all private market investments. But remember, illiquidity is a premium source of returns; you accept illiquidity with the expectation that you'll be compensated for it in the long run."**

— Michael Peck

carbon real estate? We believe this is the next revolution in our industry: moving the massive amount of existing stock toward net zero carbon, with a continued focus on winning locations.

**Bessell:** The concept of embedded carbon has permeated the real estate industry and is tipping investors

from new builds to renovations. In Europe, we're already used to working with existing structures in the protected centres of cities like London and Paris. We probably still have an underprovision of space that will drive development of new structures, but it's also important to invest in the thought and planning required to renovate existing structures.

**Peck:** Taking an existing asset, refurbishing it, and giving it strong environmental, social, and governance (ESG) credentials does something great for the environment and the city—and also for the bottom line that benefits investors. It can hit plan sponsors' ESG criteria and deliver solid returns.

**Russo:** Work-from-home trends will curb demand over the next five to 10 years, so limiting new supply is better for the industry and for rents. Also, I would love to see North America have more heritage buildings that last so our kids can enjoy buildings with history and character.

### What about retail real estate, which was already in a tough spot before the pandemic?

**Russo:** "Retail" is a very broad term that includes superregional fashion-oriented malls, regional malls focused on entertainment or services, grocery-anchored shopping centres, outlet centres, and street retail. Each has different dynamics. Superregional fashion-oriented malls were already in decline pre-COVID. COVID accelerated that decline, and I think they'll continue to suffer. Some landlords repositioned pre-COVID, but many became entertainment venues and were hit hard by COVID. On the flip side, everyone loves grocery-anchored shopping centres. Pre-COVID, they provided stable income. In COVID, they demonstrated their resiliency. Demand will remain, especially because this asset class provides some inflation protection. Overall, it's going to be about how retailers reinvent themselves.

**Sahn:** The pandemic really turned retail around. In the five years leading up to the pandemic, retail was experiencing a secular decline as retailers around the world were not reinvesting in their own businesses. Overnight, the pandemic forced retailers to change, investing in operations, technology, and delivery systems just to survive the next few months. Overleveraged retailers were pushed into bankruptcy, but the strong survived, thrived, and gained market share. Those able to successfully navigate the pandemic could think about opening new stores and concepts to take advantage of vacancies and lower rents in the best centres. We think retail real estate is on a stronger footing today than it was pre-pandemic, with retail spending at, or above, pre-COVID levels in most markets. Necessity-based retail, in particular, is thriving. Also, globally, hardly any new supply of retail centres is being developed.



**Politzer:** We were skeptical about retail from 2017 onward. I agree, it's looking more attractive, but investors need to make sure an asset has been properly repriced to reflect lower rents. Also, retailers still face challenges, given talk about a recession and slowing consumer sentiment indexes across Europe and now in America. That said, retail is the glue that holds communities together. For some niche investors, there may be an opportunity to deliver the "S" in ESG by partnering with local governments to deliver community retail.

**We hear a lot about investments in digital sales fulfillment centres. Could this be a bubble?**

**Sahn:** In my view, it isn't a bubble. Market rents continue to rise because demand for industrial space that caters to e-commerce is strong. In fact, e-commerce retailers need an average of three times as much space as bricks-and-mortar retailers. They also need to be



**Market rents continue to rise because demand for industrial space that caters to e-commerce is strong. In fact, e-commerce retailers need an average of three times as much space as bricks-and-mortar retailers."**

— Samuel Sahn

**Politzer:** It's definitely not a bubble. There was a huge reaction earlier this year when Amazon announced they weren't going to need more space, and that, in fact, they were going to sublet space. But if you look at projections for online sales, by the end of 2023 or early 2024, we're expected to be back at peak levels reached in 2020 and 2021 in lockdown. So, this is a

in last-mile locations to compete with Amazon's same-day or next-day delivery. Prologis, the largest owner of industrial facilities in the world, has mark-to-market embedded in its portfolio approaching 50%. I don't think that's a referendum on the value of traditional shopping centres—there's room for both—but there's clearly robust demand for industrial facilities.

pause rather than a radical reshaping of the industry. Companies took on space to deal with a huge surge in demand. That's fallen back. But in a couple of years, we'll be back at those levels of demand. Their space is going to be full, and they're going to be looking for more space again. Reinforcing that is the transition from "just in time" to "just in case" inventory because of supply chain disruptions. That said, some that bought in the last 12 to 18 months overpaid for the risks they're taking in the sector. There will be lessons learned from that, particularly in Europe, where we're already seeing softening yields in the industrial logistics sector.

**Bessell:** Estimates indicate that parcel delivery costs are about 10% of the e-commerce value chain, and last-mile delivery costs make up about half of that. So, a more efficient distribution centre offers direct profitability gains to the retailer. Some irrational exuberance may come from an assumption that, if Amazon can pay four times the going rate on a logistics facility, then everyone else will, too. But when we strip out those one-offs, the rest is well underpinned because it's so tightly connected to profitability.

**De Seresin:** Another strong fundamental that suggests the trend will continue in Western Europe, specifically, is the lack of warehouse stock—and it will be hard to grow that stock because it's very difficult to get planning approval to build new warehouses in Europe. This will help rental growth in this category and increase the capital value of existing stock for years to come.

**What advice do you have for plan sponsors that are concerned about liquidity in real estate investing?**

**Peck:** The liquidity question isn't just a real estate question; it's applicable to all private market investments. But remember, illiquidity is a premium source of returns; you accept illiquidity with the expectation that you'll be compensated for it in the long run. That said, plan sponsors need to look carefully at their overall liquidity needs as they increase allocations to private markets in general. And, there's a continuum of liquidity in real estate from open-end real estate funds to closed-end real estate funds all the way to direct investment in





properties. If liquidity is a concern, stick to core, big liquid markets.

**Russo:** I agree—and remember, if it's okay for your plan to take illiquidity risk in real estate because you're a long-term investor with a 10- or 20-year horizon, you also have time to ride out volatility. If you look at the average rolling 10-year returns of real estate investment trusts (REITs) versus private real estate, you get to the same place—but having public and private in your real estate portfolio helps balance liquidity and volatility. Also, when an asset class collapses—as equities did this year—liquidity in a component of your real estate portfolio allows you to reset and maintain an appropriate asset allocation for your plan.

**Many large public sector pension plans are investing in making properties more sustainable. Is this an effective strategy for raising portfolios' values?**

**Bessell:** This is rapidly transitioning to a defensive strategy to protect portfolio values. We're moving from a green premium to a brown discount, particularly in Europe, where we're seeing increasing stringency on the energy performance certification you need to lease a building.

**De Seresin:** Most investors, including us, are starting to discount any future risk of capital expenditure improvements. We have to figure out when an asset will be stranded in terms of CO<sup>2</sup> emissions. The spread in value will widen rapidly, so



**Soon, there will be many assets in need of quick refurbishment, and a lot of players in the market won't be able to do this."**

— Aymeric De Seresin

our strategy is to maintain our properties to the highest level of sustainability. Soon, there will be many assets in need of quick refurbishment, and a lot of players in the market won't be able to do this. We'll happily take that asset and do what needs to be done.

**Politzer:** All the big valuation houses are employing ESG specialists to ensure they're incorporating the green premium or brown discount into valuations and properly capturing how much it will cost to bring assets up to standard. The other point is, it's not just about delivering performance; it's about attracting new investors—in particular, millennials.



**Overall, what's your biggest piece of advice for plan sponsors investing in real estate in the 2020s?**

**Russo:** Specialty subsectors—such as data centres, life sciences, and self-storage—need to become part of your core plan. Also, there are four real estate quadrants: private equity, private debt, public equity, and public debt. A balanced strategy can take advantage of inefficiently priced quadrants at any point in the cycle while addressing risk, liquidity, income, capital appreciation, and inflation protection simultaneously.

**Sahn:** There has been a proliferation of new company and fund formation in the private world, and there's about \$350 billion in private capital on the sidelines waiting to invest in commercial and residential real estate around the world.

The next decade will be about identifying long-term demand and supply trends in all the investable subsectors, and finding the best global opportunities for risk-adjusted growth.

**Peck:** To mitigate risk, plan sponsors need to partner with an experienced manager. Real estate investing is complex. You have to do the transaction analytics, get proper valuations, have a closing and due diligence team, and know asset managers have a plan to grow the building's revenue stream. Choose a manager that understands tax considerations when buying global real estate and has boots on the ground—because real estate is a local business. Also, don't lose sight of why real estate is in your pension fund portfolio, whether it's as a source of income, capital appreciation, or inflation hedging.

**De Seresin:** Yes, look at a manager's presence and knowledge. Across our portfolio, we collected 97% of total rents during COVID because we have asset managers speaking to tenants in every country where we invest, and we understand and underwrite risk.

**Bessell:** We're in a stock-picking market. There are winners and losers in each sector, and that makes it critical to have managers with intense local knowledge that can find niche opportunities and maximize value.

**Politzer:** Diversify globally and choose managers that have delivered stable income returns through active asset selection and management despite all the disruptions of the last five to seven years. Sustainability will be a big theme over the next 10 years as plans put in place their own net zero carbon targets. Plan sponsors should challenge managers to help them deliver those targets.



### Fidelity Canada Institutional

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INVESTMENTS

### Hazelview Investments

Hazelview Investments has been an active investor, owner, and manager of global real estate investments since 1999 and remains committed to creating value for people and places. Hazelview employs a global investment and asset management team of more than 80 people in its offices in Toronto, New York, Hong Kong and Hamburg and manages 11.6 billion (CAD) in real estate assets.

[hazelview.com](https://www.hazelview.com)



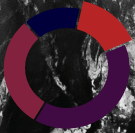
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# Canadian Investment Review



## **GETTING TO KNOW**

### ***François Quinty***

**JOB TITLE:** Director of investment management, Via Rail Canada

**JOINED VIA RAIL:** 2003

**PREVIOUS ROLE:** Investment analyst, Via Rail

**WHAT KEEPS HIM UP AT NIGHT:**

How high can long bond rates go? That's the question. Being so exposed to fixed income, it's what I read the most about.

**OUTSIDE OF THE OFFICE, HE**

**CAN BE FOUND:** Hiking, spending time with family and keeping up with the news

# VIA RAIL CANADA RESTRUCTURING FIXED INCOME ALLOCATIONS IN RESPONSE TO CHALLENGING MARKETS

BY GIDEON SCANLON

The Adirondack 46ers isn't for the faint of heart — joining the club requires hiking 250 kilometres to reach the top of the 46 highest peaks in New York state.

“What did it take? Perseverance, training and an ability to remain focused on an objective that is far away,” says François Quinty, director of investment management at Via Rail Canada Inc., who joined the exclusive club as a young man. “I wouldn't try it now — I've become too lazy.”

While Quinty's hikes may be less ambitious these days, he's still reliant on training, perseverance and focusing on distant goals in his professional life. After all, he's responsible for managing Via Rail's pension plans, including one closed defined benefit plan, one open DB plan, two defined contribution pensions and a hybrid plan. Across these five plans, about two-quarters of the 9,000 members have already retired. “Unlike many going-concern plans, we tend to focus on minimizing risk rather than maximizing returns due to our maturity profile.”

Dealing with the DB plans' maturity — and the risk it poses to the company — has occupied much of Quinty's 19 years with the rail transport giant, which — like *Benefits Canada* — is celebrating its 45th anniversary this year. “If you look at the size of the plan relative to the operating business, we're one of the most exposed plans in Canada, with the DB plans representing 10-times our annual employee compensation.”

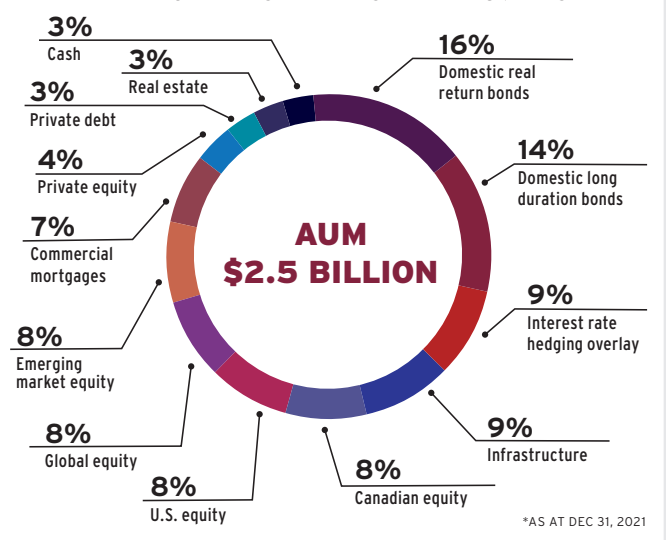
In 2008, Quinty made his first big move, raising the DB plans' fixed income allocation from 35 per cent to 40 per cent, replacing half of the nominal bonds with long duration bonds and eliminating global bonds entirely. “From 2012 to 2017, we progressively increased our fixed income allocation, completed the transfer from universe to long bonds and introduced a bond overlay, based on a number of milestones.”

Quinty credits the strategy with making a meaningful difference, allowing the plans to boast a solvency ratio above 100 per cent for the past five years. “Half of our assets are now in fixed income — investment grade and Canadian only. We make use of duration extensions with repurchase agreements and have a small allocation to commercial mortgages. We have a bond overlay in place with a target of 18 per cent synthetic exposure and we have a sizable allocation to commercial mortgages.”

In 2020, as a response to the chaos caused by the coronavirus pandemic, Quinty and his team once again reduced the portfolio's fixed income allocation, lowering the duration of real return bonds and eliminating long bonds. In 2022, in response to very different markets, they placed commercial mortgages and real return bonds back in.

“This year's correction, in terms of long duration fixed income, was pretty brutal, so we're reducing our equity exposure to the minimum we can have and remain in compliance. Despite this, our funding position has continued to grow.”

VIA RAIL CANADA'S DB PLANS BY THE NUMBERS\*



One of the challenges of the job, says Quinty, is holding asset managers to account. Indeed, when a firm's service is truly wanting, he has to force himself to take a direct approach. “At times, I've had to call more senior individuals to shake the organization. It isn't something I enjoy.”

He much prefers working with his team, though it also has its challenges. “Keeping people motivated at a plan that's closed and shrinking is a challenge, especially when there are limited opportunities to move forward within the organization.”

To engage his three-person team, Quinty allows them to directly manage the real return bonds allocation, valued at about \$360 million. “I know they're likely to eventually move on to achieve their career goals, so it's important to give them the chance to hone their skills.”

Another way he keeps the team engaged is by providing them with limited autonomy in investment decisions, as well as free rein to voice their opinions during regular meetings about the plans' overall strategy. “We're now reflecting on how to restructure our fixed income allocation. We plan to de-risk further given our strong solvency.”

Quinty credits some of his success in managing a small team of ambitious investors to Chris Caswell, Via Rail's former director of investment management who, 19 years ago, hired him as an investment analyst. “The No. 1 reason why people move on from a job is because of a bad boss — I was lucky to have such a good one.”

Gideon Scanlon is the editor of the *Canadian Investment Review*: [gideon.scanlon@contexgroup.ca](mailto:gideon.scanlon@contexgroup.ca).



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## EXPLORING THE PRIVATE REAL ESTATE OPPORTUNITY

Aaron Pittman, senior vice-president and head of Canadian institutional investments at Equiton



“The hunt for alpha has pushed the most sophisticated segment of the market into the alternative space—and many of Canada’s largest pension plans, including the Maple 8, are setting the tone by making significant allocations to real estate,” says Aaron Pittman, senior vice-president and head of Canadian institutional investments at Equiton. In this article, he explains why multi-family residential buildings in Canada represent an especially good institutional investing opportunity.

### ► How can an allocation to private real estate benefit institutional portfolios?

Private real estate provides diversification benefits because of its very low correlation to traditional asset classes. Beyond this, it serves as an effective hedge against inflation and is an effective capital preservation tool. In fact, the MSCI/REALPAC Canada Quarterly Property Fund Index – Residential, hasn’t had a single negative calendar-year return in over three decades. Private real estate is also less volatile than public real estate investment trusts (REITs); it generates a predictable income stream, which offers liability matching potential, and delivers potential capital appreciation. Essentially, private real estate behaves like an absolute return asset class, with Sharpe ratios that compare favourably to other, more traditional asset classes.

### ► Why does Equiton focus on multi-family residential buildings in Canada?

Among the G7, Canada has the lowest average housing supply per capita. To simply catch up to the average, we would have to add 1.5 to 2 million dwellings. At the same time, Canada expects to welcome 1.3 million new immigrants over the next three years, with only 600,000 new housing completions (assuming a mean reversion to pre-2020 housing start levels) in the same time period. And while the adage suggests location,

location, location, for the newly settled it’s often about jobs, jobs, jobs—and labour market strength and family reunification tend to intersect in the larger urban centres where we tend to own properties. Multi-family residential buildings are also positioned to benefit from workers’ return to downtown office towers and empty nesters’ desire to downsize, while the younger generation is staying put in rental units because they’ve postponed starting families.

### ► Why does Equiton choose to manage the properties it owns?

Equiton was founded by, and is run by, real estate professionals who realized an opportunity existed to bring our expertise to the market. Real estate investment is our singular pursuit. We have extensive knowledge of the communities where we purchase assets and often live and work within them. That’s important because the relationships we’ve built, along with our reputation as a fair buyer, make it possible for us to acquire a number of our properties off-market.

We select assets according to the strictest investment criteria, but we understand there’s a human element: what we call “assets,” our tenants call “home.” Having a resident manager onsite in every property lets us develop relationships with tenants.

*Essentially, private real estate behaves like an absolute return asset class, with Sharpe ratios that compare favourably to other, more traditional asset classes.*

It also helps us uncover opportunities to increase value—for example, through renovation or repurposing livable space. Managing properties gives us a different perspective, improves tenants’ living experience and enables us to assemble an institutional-quality investment portfolio for our investors.

### ► How does Equiton mitigate the impact of rising interest rates?

We generally arrange 10-year fixed mortgages, which are staggered with respect to term to maturity—so that, proportionately, only a fraction will come due at any one time. This mitigates the immediate impact of rising interest rates. Also, as an institutional buyer, we have the leverage and scale to negotiate better terms; and, on acquisition, our professional teams can maximize operational efficiency. So even in an inflationary and rising-interest-rate environment, we can lift our operating revenue and net operating income. And this keeps our debt servicing ratios and interest coverage ratios very manageable.

 To learn more about Equiton’s real estate investment strategy, visit: [equiton.com/institutional-investors](https://equiton.com/institutional-investors).



# Q&A

with PwC Canada's  
Lisa Rosen



BY SADIE JANES

## ***The firm's benefits, pension and well-being leader discusses DEI strategies, destigmatizing mental illness and improving her sewing skills***

### **Q What new programs or initiatives are you looking to implement?**

**A** This year, we launched a reimagined benefits program that included a variety of diversity, equity and inclusion-focused benefits. In the coming year, we're looking to further link our DEI strategy with our well-being strategy, which means ensuring people feel safe to be their full selves at work. We're working with our employee resource groups to really understand the health and well-being challenges specific to different communities so we can provide culturally relevant resources for them.

### **Q What programs do you consider most successful or you're most proud of?**

**A** Our well-being programs are crucial at PwC and, on a personal level, I'm really passionate about destigmatizing mental illness and creating a culture of psychological safety and well-being. We have a mental-health first-aid program we run for staff and those with people management responsibilities. Personally, I've been speaking publicly about mental illness and my own experience for many years and every time I facilitate or attend one of the sessions it's incredibly meaningful. When people come back and tell us how it's given them courage to be more open with their colleagues, we know it's been successful.

### **Q What top challenges do you face in your role?**

**A** We have a really diverse workforce so meeting the needs of everyone can be a challenge. PwC Canada has a fairly young population, but we also have a lot of tenured staff and all different types of family structures. We're always looking at how we can offer benefits and retirement plans that are flexible to meet the needs of each personal situation, but we also need to be innovative and look forward to

the workforce of the future. The plans also have to be in line with our values, which I think is most important. We know people want to work for organizations that reflect their values and the benefits and well-being strategy is one way we can influence the culture of our organization and create an atmosphere of inclusion and belonging.

### **Q What key human resources issues do you expect in the coming year?**

**A** As it is right now, retaining staff and finding talent will likely continue to be a challenge for everyone. Our people strategy focuses on enabling meaningful connections, work and rewards — I think that really sums up what people are looking for in an employer. Also, weaving our DEI strategy into everything we do is very important and will continue to be a priority in the coming years.

### **Q What do you like to do in your free time? What are your hobbies?**

**A** I love to sew. I've been sewing for over a decade, so I spend my free time making clothes, bags and quilts. I also enjoy playing video games with my two kids. During the coronavirus pandemic, we really got into the Nintendo Switch.

### **Q What's your favourite employee benefit and why?**

**A** Our most popular benefit is our well-being and lifestyle benefit. As part of reimagining our benefits plan, we expanded the list of eligible items people can use and expanded it to their dependants. Many employees use it for things like gyms and yoga, but they also use it for personal interests. Pet care has been quite popular. Personally, I like to use it for sewing classes to learn new techniques.

**Sadie Janes is an associate editor at Benefits Canada: [sadie.janes@contexgroup.ca](mailto:sadie.janes@contexgroup.ca).**

#### **CAREER CRIB SHEET**

##### **2020 – Present**

Senior manager, benefits, pension and well-being, PwC Canada

##### **2017 – 2020**

Manager, compensation and benefits, PwC Canada

##### **2015 – 2017**

Human capital manager, national tax, PwC Canada

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