Canadian Centre for Policy Alternatives
August 2019

First served

Private pension plan deficits and shareholder repayments in Canada

David Macdonald and Chris Roberts

www.policyalternatives.ca

RESEARCH ANALYSIS SOLUTIONS

CCPA
CANADIAN CENTRE for POLICY ALTERNATIVES
CENTRE CANADIEN de POLITIQUES ALTERNATIVES

C C P A
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

ISBN 978-1-77125-469-4

This report is available free of charge at www.policyalternatives.ca.

PLEASE MAKE A DONATION...

Help us to continue to offer our publications free online.

With your support we can continue to produce high quality research—and make sure it gets into the hands of citizens, journalists, policy makers and progressive organizations. Visit www.policyalternatives.ca or call 613-563-1341 for more information.

The CCPA is an independent policy research organization. This report has been subjected to peer review and meets the research standards of the Centre.

The opinions and recommendations in this report, and any errors, are those of the authors, and do not necessarily reflect the views of the funders of this report.

ABOUT THE AUTHORS

David Macdonald is Senior Economist with the Canadian Centre for Policy Alternatives. Chris Roberts is Director of Social and Economic Policy at the Canadian Labour Congress.

ACKNOWLEDGMENTS

The authors thank Murray Gold, Hugh Mackenzie, Michael Mazzuca, Jim Stanford and an anonymous reader for their comments on an earlier version of this paper.

First served
4 Executive Summary
6 Introduction
7 Methodology
8 Results and analysis
15 Discussion and recommendations
18 **Notes**

First served

Private pension plan deficits
and shareholder repayments in Canada

Executive Summary

The gold standard of retirement security — the defined benefit pension plan — is increasingly scarce in Canada's private sector as employers shift the responsibility for saving onto workers. Corporate Canada claims these pension plans, which provide stable income to workers in retirement, carry too much risk at too high a cost. Yet many of the same companies bemoaning pension liabilities are spending multiple times more on their shareholders — money that could be used to keep pension plans solvent indefinitely.

In our 2017 report, "The Lion's Share," we compared the pension deficits of the 39 companies on the S&P/TSX 60 index that have defined benefit plans to the payouts those same companies provided to shareholders between 2011 and 2016.[1] We found that only nine of the 39 plans were fully funded, but that shareholder payouts had increased from $31.9 billion in 2011 to $46.9 billion in 2016 — more than four times the $10.8 billion it would have cost that year to pay off their combined pension deficits.

This paper expands on and updates that report by comparing the pension deficits of the roughly 90 companies on the larger S&P/TSX Composite Index with defined benefit plans to payouts provided to shareholders, through buybacks or dividends, between 2011 and 2017. The companies examined

in this report, among the biggest publicly traded companies in the country, control 88% of defined benefit plan assets by value in Canada.

We find that, in the aggregate, pension funding ratios have improved since 2011. In 2017, for example, about a third of companies fell into one of our three main solvency categories — over 95% funded, 80% to 95% funded, and less than 80% funded — whereas in 2012 almost half of companies were less than 80% funded. Still, pension funding ratios are more or less flat since 2013 while payments to shareholders have increased, which seriously undercuts corporate complaints about risk.

In 2011, S&P/TSX Composite index companies with defined benefit pensions paid twice as much to their shareholders as it would have cost to wipe out their pension deficits. In 2017, the money these companies shelled out on shareholders — $16 billion in share buybacks and another $50 billion in dividends — was five times the value of their pension deficits ($12 billion). Put another way, these companies could have easily eliminated their pension deficits while still increasing shareholder payouts well above 2011 levels.

Of the 90-odd companies on the index with defined benefit pension plans, two-thirds in any given year paid out more to shareholders than it would have cost to completely pay off their pension deficit. Of the 10 Canadian companies with the largest pension plan deficits, most pay out far more annually to shareholders than the value of a one-time payment to eliminate their pension liability.

Canada's pension rules have left it to companies to decide whether to eliminate their pension deficit, as long as they meet minimum funding obligations. It is time for more co-ordinated pension regulation that considers firms' financial strength rather than simply focusing on the financial status of the pension plan. At present, pension deficits are treated essentially the same, regardless of whether they are sponsored by a financially-healthy firm or a company that desperately needs capital to sustain the business. This paper makes several recommendations that would stabilize private sector pension plans for workers.

As firms continue to push retirement risks onto workers in order to provide ever higher payouts to shareholders, governments must ensure that private sector retirement benefits are delivered to workers as promised. Ultimately, enhancing public options for retirement security in the Canada Pension Plan, Old Age Security and Guaranteed Income Supplement is the simplest and most comprehensive way to ensure a comfortable retirement for all Canadians.

Introduction

In recent decades, companies have moved to shield shareholders from pension-related risks in various ways. By converting defined benefit pension plans to defined contribution arrangements, in which workers must bear investment risk and manage the likelihood of outliving their retirement savings, firms have shifted risk from shareholders to plan members. Corporations have also transferred risk to taxpayers, since tax-funded benefits like the Guaranteed Income Supplement and provincial top-ups will support the retirement income of individuals no longer able to secure a decent pension at work.

Allowing pension benefits to remain underfunded while distributing income to shareholders should be understood as another form of corporate risk-shifting.[2] By redeploying cash to shareholders and away from pension obligations, companies are forcing plan members to assume greater risk, without any additional return to compensate for this exposure.

Pension law rightly prevents companies from selling off pension assets to meet shareholder payouts, and there would be an outcry if any employer attempted to do this. However, there are few obstacles to companies systematically underfunding their pension liabilities in a way that diverts cashflow to shareholders and undercuts the retirement security of workers.

In theory, shareholders are "residual claimants" whose entire stake is on the line in the event of insolvency.[3] In the case of bankruptcy, they are paid only after a firm has satisfied its creditors. In practice, however, firms can pay dividends and undertake share repurchases that pay shareholders ahead of creditors. Alternatively, directors can reward shareholders by using earnings to pay down debt, thereby reducing the ratio of debt to equity and lifting share values in the process.

In fact, shareholders — and corporate executives whose compensation is largely based on equity shares — have an incentive to extract assets from the firm, taking the benefits and leaving others with the risk. In some cases, secured creditors like banks can limit shareholder payouts through restrictive terms or "covenants" inserted into loan agreements. Workers and pension plan members have no such option: they are involuntary creditors of the company.

Defined benefit pension plans offer income predictability and security in retirement, a key advantage for working people. A portion of their wages are exchanged for deferred benefits that employers are obliged by law to fund. But funding rules do not require plans to be fully funded at all times.

Under pension standards legislation in Canada, defined benefit plans must be funded to a specified minimum level. In order to smooth and lessen

the funding burden, sponsors are given the leeway to meet their funding obligations over a specified amortization period. Once this requirement is satisfied, however, the pension plan is forced to compete with other investment priorities — including measures that directly benefit equity owners and executives — for the capital resources of the firm.

Many corporations already exploit the flexibility in pension funding rules to maximize cash available for the business. They do this by adopting questionable actuarial assumptions, such as unreasonably high interest rate expectations and unrealistic mortality assumptions.[4] When a company systematically diverts large amounts of cash to shareholders, despite the presence of a significant pension shortfall (as occurred in the Sears Canada instance), credit risk grows for plan members and taxpayers, and warning lights should go on for regulators.

This study presents evidence of the discrepancy between Canadian corporate payouts to shareholders and accumulated pension shortfalls. It updates and expands on the findings of our 2017 study, "The Lion's Share," and should be read in conjunction with the analysis and recommendations therein.[5] The main takeaway from that report and this one is that, in aggregate, the largest public companies in Canada are routinely distributing cash to shareholders in amounts that far exceed the total amount needed to entirely eliminate their pension deficits.

It is sometimes argued that defined benefit pension funds and their members are major beneficiaries when the companies held by the plans pay dividends. Leaving aside the intrinsic unfairness of this situation for workers, whose retirement benefits are left underfunded and at risk, dividend income accounts for a relatively small share of overall defined benefit pension fund revenue. Moreover, defined benefit plans do not own all publicly traded shares and therefore receive much less than the full benefit of dividend payments, yet their members bear 100% of the risk of pension deficits.

Methodology

This report follows a similar approach to the one taken by Lane Clark & Peacock LLP (LCP) in their annual analysis of the pension plans of companies on the United Kingdom's FTSE index.[6] The most recent LCP report notes that for the first time in at least two decades the FTSE companies reported a net aggregate surplus position for their defined benefit pension plans.

This report covers companies on the S&P/TSX Composite index, which includes the largest 260-odd companies on the Toronto Stock Exchange.[7] Canadian companies owned by foreign parent firms or not listed with the Toronto Stock Exchange are not included. Nor are privately held companies, including wholly owned Canadian subsidiaries of U.S. parents, like Sears Canada Inc., as problematic as that company's pension failure has been for its workers.[8] Despite these omissions, the corporate universe examined in this report captures the bulk (88% by value) of private defined benefit plans in Canada.

Where subsidiaries and parent firms both appear on the S&P/TSX Composite index, only the parent company is included. This report only includes companies with Canadian defined benefit plans, and where possible, non-Canadian plans are excluded. In instances where Canadian and non-Canadian plans are not disaggregated the entire consolidated accounts are included.

Defined benefit plans for executives only are excluded, as these plans are often unregistered and therefore underfunded. Contributions to defined contribution plans, multi-employer plans or other retirement benefits are also excluded.

Data is compiled from company annual reports available on www.sedar.com. All figures in this report are in Canadian dollars and converted from U.S. dollars, where appropriate, at annual rates.[9] This report does not adjust for inflation.

Results and analysis

Companies listed on the S&P/TSX Composite index controlled defined pension plan assets worth $238 billion in 2017 — 88% of the total amount recorded by Statistics Canada that year for all private incorporated businesses ($271 billion). The S&P/TSX Composite number may be slightly overstated given that Canadian and non-Canadian plans are not disaggregated in all company reports; the $238 billion may therefore include assets held in foreign pension plans. The important point is that our dataset captures the bulk of all private defined benefit plan assets in Canada.

A detailed examination of defined benefit pension plans that are open to new employees versus those that are closed is not possible by looking at company annual reports. However, this data is available through Statistics

TABLE 1 Total value of Canadian defined benefit pension plan assets (2017)

S&P/TSX Composite plans	$238 billion
All private, defined benefit plans from incorporated businesses	$271 billion
S&P/TSX Composite as proportion of all private plans	88%

Source Company annual reports, Statistics Canada Table 11-10-0097-01, and authors' calculations.

TABLE 2 Closed versus open registered pension plans (2018)

	All registered pension plans	Incorporated businesses, defined benefit registered pension plans	% within private sector defined benefit plans	% of private sector defined benefit plans vs. total
Compulsory membership	4,866	1,202	14%	25%
Voluntary membership	2,783	467	5%	17%
Closed to new members	4,958	4,691	54%	95%
Other participation	1,178	947	11%	80%
Participation not known	2,848	1,412	16%	50%
Total	**16,633**	**8,719**	**100%**	**52%**

Source Statistics Canada with custom tabulation.

TABLE 3 Number and share of S&P/TSX Composite companies with defined benefit pension plans (2017)

	S&P/TSX Composite companies
Total with a DB pension plan	91
All S&P/TSX Composite companies	251
S&P/TSX Composite companies with defined benefit pension plans	36%

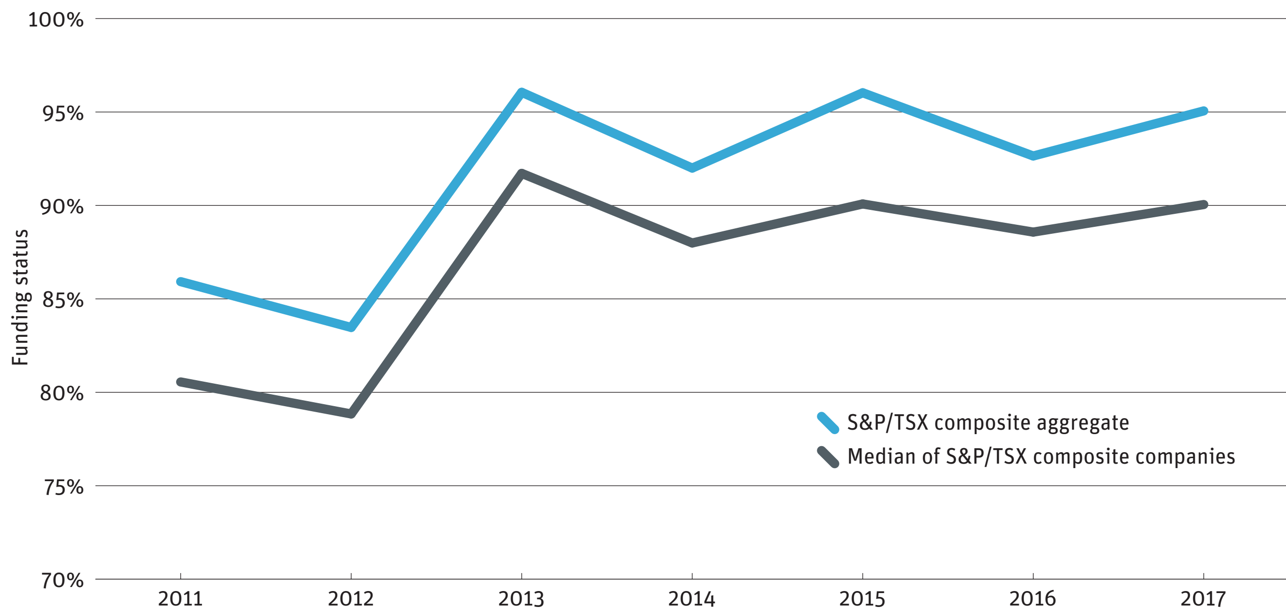
Source Company annual reports and authors' calculations.

Canada's pension survey, as outlined in *Table 2*, albeit delinked from shareholder payouts.[10]

As we can see, of all the registered defined benefit plans administered by incorporated businesses in Canada, half (54%) were already closed to new employees in 2018.[11] The trend of closing defined benefit plans is unique to the private sector. Of all the registered plans that are closed to new members almost all (95%) are defined benefit plans run by either publicly or privately owned incorporated private sector businesses.

In *Table 3* we can see that of the 251 companies on the S&P/TSX Composite index in 2017 with annual reports, 91 reported having at least one defined

FIGURE 1 Funded status of S&P/TSX Composite companies



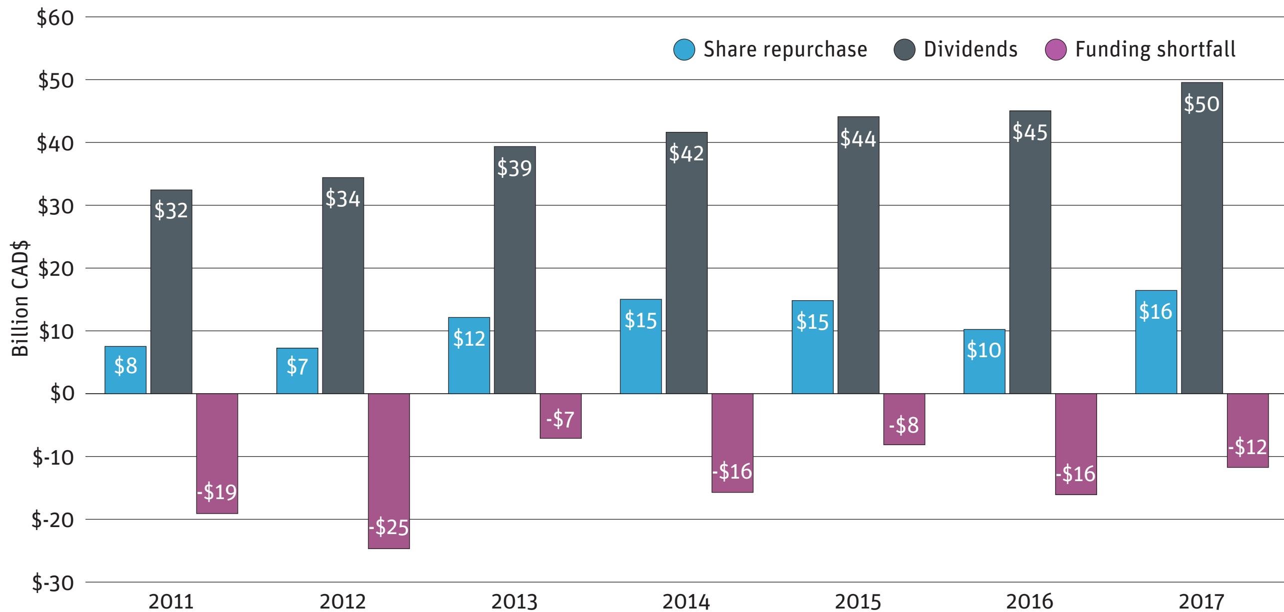
Source Company annual reports and authors' calculations.

benefit pension plan. It is common for companies to maintain several retirement plans that differ by subsidiary. While those plans can include defined contribution plans, executive plans, or other retirement benefits, here we have only included companies that maintain at least one defined benefit plan, which make up 36% of all companies listed on the S&P/TSX Composite.[12]

The funded status of S&P/TSX Composite companies' pension plans improved markedly between 2012 and 2013 but is flat through 2017 (see *Figure 1*). Aggregated, these company pension plans are 95% funded, a level that has been fairly consistent since 2013; the median funding level of approximately 90% is also fairly consistent over the same period, although much improved since 2012. The present low interest rate environment creates a very challenging environment for pension plans in that they need more assets to cover their obligations.[13] Funding ratios of 90% to 95% in such an environment are promising given the challenges.

Despite relatively little improvement in the funded status of S&P/TSX Composite–listed companies, at least since 2013, shareholder payouts via dividends or share buybacks keep getting richer. In fact, companies with allegedly risky (for the companies) defined benefit pension plans are paying out substantially more in shareholder payouts than the total value of their pension deficits.

FIGURE 2 S&P/TSX Composite company pension deficits versus shareholder payouts, 2011–2017 (billions of dollars)



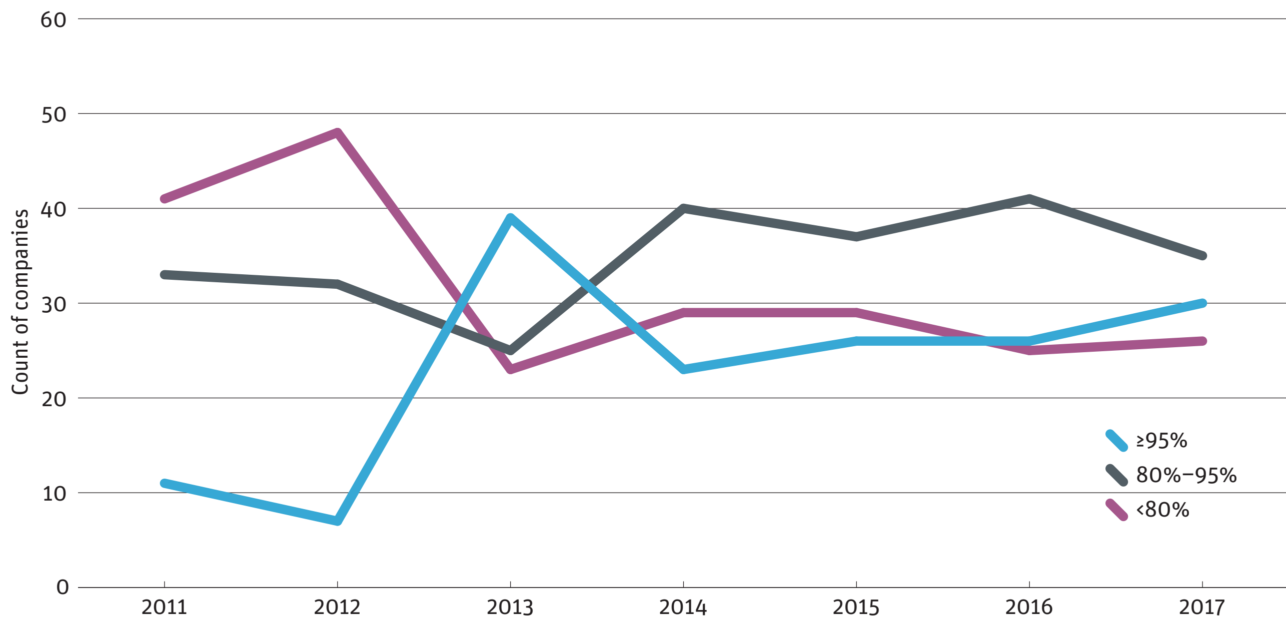
Source Company annual reports and authors' calculations. Data includes only companies on the S&P/TSX Composite index in each year that have defined benefit pension plans in Canada.

This comparison between shareholder payouts and pension deficits is a comparison between flows and stocks. The pension deficit is a stock, if it isn't paid off it persists year after year. Payments to shareholders are flows that recur annually. Those pension deficits, once eliminated, would no longer require sponsors to make special annual payments and would significantly increase the benefit security of plan members. This ratio of shareholder payouts to the total deficit in defined benefit pension plans has been growing. In 2011, S&P/TSX Composite–listed companies with pensions paid out twice as much to shareholders as it would have taken to wipe out their pension deficits. By 2017, companies were paying five time more to shareholders (in share buybacks and dividends) than their total pension deficits (see *Figure 2*).

Figure 2 also shows us that the aggregate pension deficit is decreasing steadily — from $19–$25 billion in 2011 and 2012 to $12 billion in 2017. That $12 billion deficit is heavily concentrated in only a few companies, as we discuss below.

Ongoing large payouts to shareholders via dividends and share buybacks alongside ongoing pension deficits suggest these companies have the capacity

FIGURE 3 S&P/TSX Composite companies by funded status



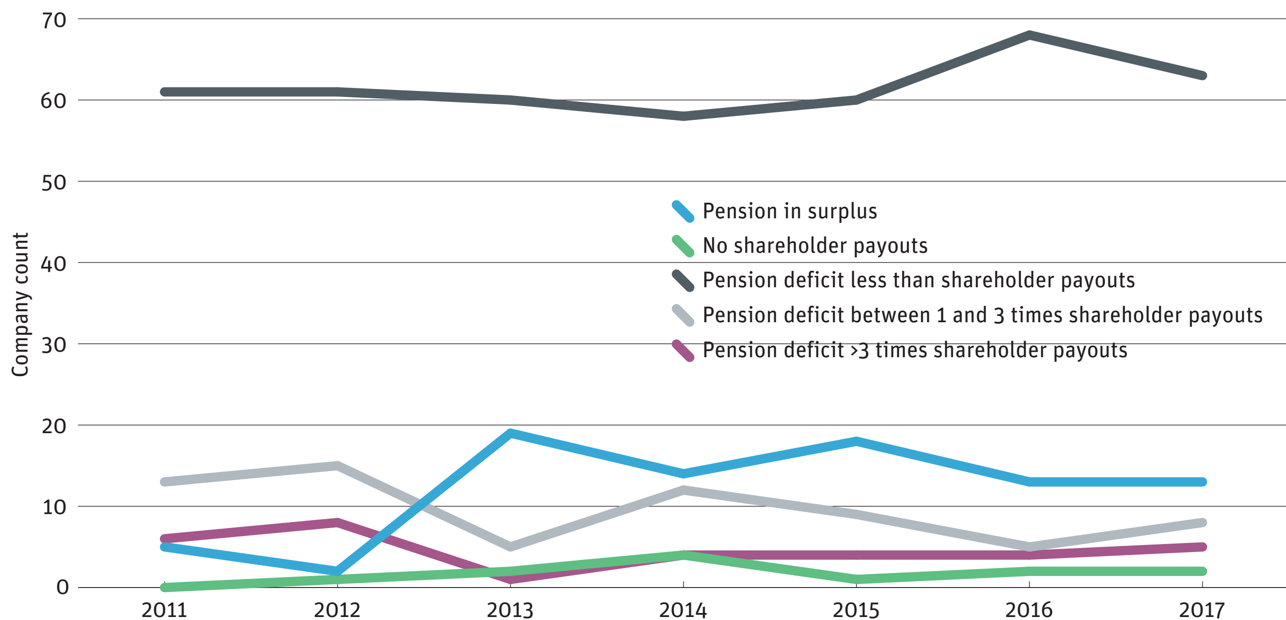
Source Company annual reports and authors' calculations.

to outright eliminate their pension liabilities, in a single year if they wanted to, but that they choose not to. Shareholders are supposed to take on the firm's risk. Instead, that risk is being shouldered by workers whose retirement security is compromised by outstanding pension liability.

Looking at these companies individually we see similar trends. In 2012, there were significantly more companies (48 of 87) holding less than 80% of the assets needed to cover their defined benefit pension liabilities. Only seven companies were more than 95% funded in 2012 (see *Figure 3*). The situation improved markedly in 2013 when roughly a third of companies were funded at 95% of the required assets. That year, companies that were not well-funded (below 80%) accounted for roughly another third of the total, with the difference made up by companies whose plans were between 80% and 95% funded.

As the funding ratios improve for these private sector plans it becomes easier and easier for them to settle lingering pension deficits at very little cost compared to how much money is flowing out of the corporate sector to shareholders. *Figure 4* illustrates the ease with which companies could eliminate their pension deficits by diverting some of these shareholder payments.

FIGURE 4 Ease of eliminating pension deficit with shareholder payments



Source Company annual reports and authors' calculations.

As we can see, of the 90-odd S&P/TSX Composite–listed companies with defined benefit plans, roughly 60 (two-thirds) could readily pay off their entire pension deficit with less than one year's worth of shareholder payments.[14] It's remarkable how consistent this count is over the entire study period. Year after year, companies are producing excess income, and year after year they decide to pay that out to shareholders instead of settling their pension obligations.

Around 10 companies in any given year would require between one and three years' worth of shareholder payments to eliminate their deficits. A further five companies in 2017 would require more than three years' worth of shareholder payments, while two companies with pension deficits paid nothing out to shareholders. Thirteen companies in 2017 had an outright pension surplus. In all, there are very few large companies whose shareholder payments would suffer from eliminating the risk to workers in their pension liabilities.

Pension deficits are highly concentrated in corporate Canada, with the 10 largest plans in 2017 holding 73% of all defined benefit liabilities on the S&P/TSX Composite that year.

TABLE 4 Ten largest pension deficits, millions of dollars (2017)

Company	Shares repurchased	Dividends paid	Pension deficit
Power Corp. of Canada	$64	$1,973	-$1,248
Hydro One Ltd.	$0	$536	-$981
Suncor Energy Inc.	$1,413	$2,124	-$918
Imperial Oil Ltd.	$627	$524	-$915
Bombardier Inc.	$0	$23	-$806
Toronto Dominion Bank	$1,397	$4,211	-$546
Bank of Nova Scotia	$1,009	$3,797	-$513
BCE Inc.	$0	$2,673	-$459
Rogers Communications	$0	$988	-$452
Enbridge Inc.	$0	$3,080	-$414
Total (top 10)	**$4,510**	**$19,929**	**-$7,252**

Source Company annual reports and authors' calculations.

On the top of our list is Power Corporation of Canada, which had a $1.2 billion deficit in its defined benefit plan in 2017, yet paid out $2.0 billion to shareholders that year. Power Corporation's pension deficit has been growing since 2011 when it stood at $721 million, although much of the increase is due to the company's 2013 acquisition of a subsidiary with its own pension liabilities. If Power Corp. wanted to, it could eliminate its pension deficit using only half of its 2017 payment to shareholders.

Bombardier for its part, between 2014 and 2017 paid minimal dividends (for preferred shares) and was losing money. But between mid-2008 and 2014, Bombardier was paying quarterly dividends — reaching $154–$250 million a year from 2011 to 2014 — while maintaining its pension deficit. Currently, the company is not doing well and continues to hold a sizeable pension deficit, creating a serious situation for employees who are counting on the continued existence of Bombardier's pension plan.

Many of the companies further down the list could eliminate their pension deficits with even more ease, as they are producing substantial excess cash that is currently going to pay shareholders. Suncor's pension deficit was sitting at $918 million in 2017, which is down slightly from $1.2 billion in 2011 but still remains substantial. At the same time, the company paid out $3.5 billion to shareholders in 2017, almost four times the value of a one-time payment to eliminate its pension deficit.

Similar situations are evident for the large banks on our list, along with Bell Canada (BCE) and Imperial Oil. In 2017, these companies paid out much more to shareholder through share buybacks and dividends than would have been required to eliminate their pension deficits entirely.

Discussion and recommendations

To date, governments have been complacent in their policy response to corporations shifting pension risks onto workers. In Ontario, where over 40% of Canadian private sector pension plans are registered, the government has introduced a “disclosable events” regime whereby the new Financial Services Regulatory Authority of Ontario expects advance notification of company decisions that pose a material risk to their plans. The policy is reasonable and overdue, given the provincial government’s current role as a backstop when corporate pensions go bankrupt through the Pension Benefits Guarantee Fund.

However, regulations have yet to be developed before the “disclosable events” regime can come into force. While the federal government is considering solvency reserve accounts or similar mechanisms to reduce the risk of ‘overshooting’, thereby increasing sponsors’ incentive to fully-fund plan benefits, this step raises fraught issues regarding the ownership of plan surpluses and the rights of sponsors (rather than workers) to unilaterally unlock excess funding when plans are overfunded.

Federal measures have been weaker. The 2019 federal budget gave courts the power to determine whether a company was effectively bankrupt when a dividend or share buyback was made in the year prior to bankruptcy, or whether these payments to shareholders had the effect of making the company bankrupt. But this would not have prevented Sears Canada’s pre-bankruptcy decision, in 2013, to pay a $500 million dividend while the pension deficit stood at $313 million — a choice that is currently being challenged in court.

In recent years, a small but growing number of firms with defined benefit pension plans have struck deals with insurance companies to take over their retiree liabilities. As corporate profits have risen, plan sponsors could have diverted a greater share of their earnings toward reducing pension deficits, in preparation for annuity buyouts that would de-risk the plans while making good on promises made to workers. Instead, companies have commonly paid shareholders instead, allowing plan members to continue to shoulder the risk of pension losses if the company becomes insolvent.

Current regulations let companies decide whether to eliminate pension funding gaps, as long as they meet minimum funding obligations. It is time to trade this light-touch approach to pensions for a more co-ordinated one that takes into account firms' payouts to executives and shareholders.

Since corporate Canada's capital allocation decisions impact pension regulation and risk management, governments should take into account the financial strength of the plan sponsor, rather than simply focusing on the financial status of the pension plan. At present, all pension deficits are treated essentially the same way, regardless of whether they are sponsored by a financially healthy firm or a company that desperately needs capital to sustain the business. If companies demonstrate additional capacity to pay shareholders, Canadian regulators should make shareholder payouts contingent on more rapid elimination of a pension deficit.

Alternatively, the federal and provincial governments should restrict dividends and share repurchases when the pension plan falls below a specified funding threshold. This would still permit companies to deploy cash flexibly in response to an economic downturn or emerging pension deficit, making necessary investments in fixed capital and product and process innovation to position the firm for renewed growth. Firms would also be able to distribute excess cash to employees or shareholders once pension benefits are fully funded. Such a policy might even induce firms to rapidly reduce pension shortfalls through other means, like debt instruments at record low interest rates.

In Ontario, where taxpayers and the Pension Benefit Guarantee Fund are on the hook for insolvent corporate pensions, the government should consider the extent to which plan sponsors are initiating share buybacks and dividend payments in their risk assessments, and set higher premiums for companies distributing cash to shareholders and not making up pension shortfalls. Otherwise, the government risks "moral hazard" — where companies reward shareholders in the knowledge that pension deficits will ultimately be backstopped by the province.

Employers commonly argue that new pension regulations will simply hasten the closure of active defined benefit plans and, eventually, their abandonment altogether. The share of private sector workers with a defined benefit plan has fallen from over 25% in the early 1990s to under 10% today, and active membership has fallen in absolute terms since 2006.[15] This trend represents a very significant loss for working people.

In practice, jurisdictions in Canada have been moving to relax or eliminate solvency funding requirements. Pension investment restrictions have been

progressively weakened for decades.[16] The federal government has committed to engaging with Canadians on ways to support the sustainability of defined benefit plans, and there are steps the federal and provincial governments can take to preserve and expand their coverage.

However, there is no justification for governments failing to ensure that plan benefits — and especially for plans that are closed — are adequately funded, particularly when corporations are allowed (and can afford) to distribute multiple times the value of their pension shortfalls in dividends and share repurchases. It's a question of fairness — and of finding the political will to correct an inequity in Canada's pension system.

Canadian retirement security policy was structured with private pensions playing an integral role alongside the public Canada Pension Plan and Old Age Security. As the private sector withdraws from its end of the bargain, simply regulating the decline of private sector defined benefit plans won't be enough to insure a comfortable retirement for Canadians.

The data in this report show that most companies with defined benefit pension liabilities could easily eliminate them, despite the current challenging interest rate environment, at little cost to shareholders. Government has the capacity to mandate deficit repayment. Ultimately, however, enhancing public options for retirement security in the Canada Pension Plan, Old Age Security and the Guaranteed Income Supplement is the simplest and most comprehensive way to ensure a comfortable retirement for all Canadians.

Notes

1 David Macdonald, Cole Eisen and Chris Roberts, "The Lion's Share: Pension deficits and shareholder payments among Canada's largest companies," Ottawa: Canadian Centre for Policy Alternatives, November 2017.

2 David F. Bean and Richard A. Bernardi, "Underfunding Pension Obligations while Paying Dividends: Evidence of Risk Transfers," *Critical Perspectives on Accounting* (2000) 11, 515–530. Also see Ellen E. Schultz, *Retirement Heist: How companies plunder and profit from the nest eggs of American workers*, Toronto: Penguin, 2011.

3 J.B. Heaton, "The Social Costs of Dividends and Share Repurchases," forthcoming, *Journal of Business, Entrepreneurship and the Law* (2019);

4 The valuation used in this report is for accounting purposes as published in company annual reports. Accounting valuation provides more limited opportunities for gamesmanship than do funding valuations..

5 Cole Eisen, David Macdonald and Chris Roberts, "The Lion's Share: Pension deficits and shareholder payments among Canada's largest companies," November 2017, Canadian Centre for Policy Alternatives.

6 Lane Clark & Peacock LLP, "Tame for the next stage of the journey: FTSE 100 pension accounting surplus maintained," LCP Accounting for Pensions, May 2019.

7 The S&P/TSX Composite does not contain a set number of companies like the S&P/TSX 60. However, the total number of companies in the composite index is roughly 260 depending on the month.

8 Sophia Harris, "Sears pensioners hope to recoup their losses in $509M lawsuit," CBC News, December 4, 2018.

9 U.S. dollar figures are converted to Canadian dollars using annual average noon rates available from the Bank of Canada website.

10 Company annual reports include consolidated accounts and are not sufficiently detailed to examine issues around plans that are open or closed to new employees as the accounts are often not disaggregated, making detailed analysis impossible.

11 This would exclude executive plans that are generally unregistered.

12 These company defined benefit pension plans were not necessarily open to new or existing employees.

13 On a solvency basis, pension plan liabilities are determined, in part, based on the price of annuities needed to cover the payments to members when they retire. The cost of annuities is inversely related to the long-term interest rate; as interest rates fall, the cost to buy annuities rises and so does the liabilities side of the defined benefit pension funding ratio.

14 The exact number of companies with plans differs from year to year as the index composition changes and companies buy and sell subsidiaries that have defined benefit plans.

15 Statistics Canada, Table 11-10-0106-01.

16 OECD, *Annual Survey of Investment Regulation of Pension Funds*, available at www.oecd.org.

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES