How vulnerable are private pensions?
Is there a funding crisis?

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Some interesting statistics(1)

- Median pension plan funded ratios have fallen
  - 108% as of December 2000
  - 84% as of December 2002
  - 79% as of December 2005

- In spite of increasing contributions
  - $3.3 million in 2000
  - $12.7 million in 2002
  - $34.0 million in 2005

(1) Source: Towers Perrin survey of 100 largest capitalization companies trading on the TSX
More interesting statistics

- How much of operating cash flow is contributed to the pension plan?
  - For the median company, 5¢ of every dollar
  - For 10% of the companies, over 40¢ of every dollar

- Median pension expense has also increased, but not so rapidly
  - 0.3% of revenues in 2000
  - 0.5% of revenues in 2002
  - 0.7% of revenues in 2005
A potential hidden time bomb

- Current accounting rules allow for smoothing

- Median sponsor only recognized 77% of costs through the end of 2005

- What happens to the remaining 23%
  - Hope for good news – rising yields or equity markets
  - Drain on future operating income
  - Change in rules may result in it being written off against shareholder’s equity
A potential hidden time bomb

- If deferred costs written off against shareholder’s equity at end of 2005
  - Median equity reduction would have been 6%
  - 10% of companies would have written off over 1/3rd of equity

- This phenomenon is not new
  - Changes to rules will make this more transparent
Plans are becoming large relative to their sponsors

- As of end of 2005, median plan assets amounted to 9% of corporate assets
- For 25% of companies, >22% of corporate assets
- For 10% of companies, >40% of corporate assets
- For this size operating division, how much management attention would be devoted?
- Is commensurate attention to planning happening for pensions? Why not?