

PENSION FUNDS ON ICE

What is the future of the DB model?



Although this is the spring issue, our production schedule means that I'm writing this column during the dark days of February. My Toronto street hasn't been ploughed in ages (a

common occurrence for many here this winter). My husband has been getting exercise pushing hapless drivers stuck in the resulting icy muck outside our house. He tells me there's a trick to getting out of the ice—something that involves finding the right leverage point to rock your car back and forth over and out of the ice—a little leverage and a little momentum, and out you go.

These days leverage is becoming more important for Canadian sponsors of defined benefit (DB) pension plans no matter what the season. Having survived the perfect storm of 2001-2002, they are now coping with a pincer attack—a high Canadian dollar and the dismal performance of global financial markets. Some argue that leverage-based strategies like hedging and other alternatives could just be the kickstart that pension funds need to get back on the road to healthy returns. Or, it could be time to abandon the car and walk.

This issue of *Canadian Investment Review* examines both views. William Robson's article (DB is Dead – Now What? page 20) argues that no amount of momentum will get these plans back on track. He suggests that we put the old DB model on ice and look at new and better ones. Proponents of alternative investments argue that there are new ways to build better DB pension plans that rely on hedging, leverage and a host of new strategies. Peter Klein dissects the anatomy of leverage in his article, "The L-Word" (page 27). He says it's not as scary as you might think and argues that leverage ratios for some risky hedge fund strategies are actually lower than they are for traditional strategies.

Whichever way you slice it, plan sponsors are looking for something to keep their DB funds in positive territory. Whether it's alternatives or a whole new model for the pension promise, the push will come from somewhere. Until then, here's to spring. ■

— Caroline Cakebread

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