

Executive sweetener

Executive pensions remain a governance challenge.

EDITORIAL



The interest in, and demand for, improved governance in areas such as corporate accountability and transparency is sure to continue in 2005. The heightened focus on governance has been reflected in a number of research papers published by *Canadian Investment Review* (see the Fall and Spring, 2004, and Winter 2003 issues). To date, much of the pension community's efforts to improve governance have focused on the operations and balance sheets of companies whose securities are held in institutional investment portfolios, but what of transparency and accountability within their pension plans?

For instance, while base salaries, bonuses and stock options for corporate officers are now disclosed as a matter of routine, the true cost of supplemental employee retirement plans (SERPs) is often hidden from shareholder view. According to Mercer Human Resource Consulting, more than half of Canadian firms offer a SERP, often as a pension top-up for executives, but only 72% of the TSX 100 companies disclose their existence.

In 2004, executive pensions came under fire by unions and investors' associations such as the Canadian Coalition for Good Governance. Back in March, OMERS in Toronto voted in favor of proposals to improve executive pension benefit disclosure at the National, Laurentian and Toronto-Dominion banks. Other prominent corporations, such as Manulife Financial Corp., Suncor Energy and

BCE, also found themselves under the scrutiny of shareholders demanding more insight into executive retirement benefits.

One aspect of executive pensions that many object to is the practice of awarding additional years of pension contributions as an enticement. For example, a firm might lure a high-profile CEO by promising two years' worth of pension contributions for every year served. There are also adjustments that can be made to award a more lucrative package to executives, such as including bonuses in pensionable earnings, and removing penalties for early retirement.

Some within the pension community see a disconnect between the best practices 'Corporate Canada' is exhorted to follow on its balance sheet, and those practices followed in executive pension compensation structures. Don Wilkinson, a partner at Deloitte & Touche LLP's asset management practice in Toronto, says pension plans should live by the same philosophy of transparency.

Canada's pension industry has a long history of being in the vanguard of change in the world of business: pressing the federal government to rethink its limits on foreign content holdings and institutional income trust investments are just two examples. The transparency of executive pensions is another issue where leadership is needed. ■

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