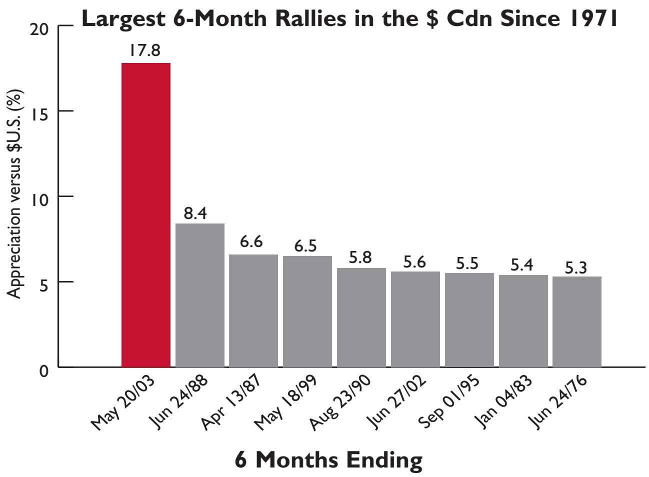
Pension Watch

November 2003

The last edition... of Pension Watch we looked at "Questioning a Retirement Rule of Thumb".
This edition looks at "the New 'Heights' of the Canadian Dollar"

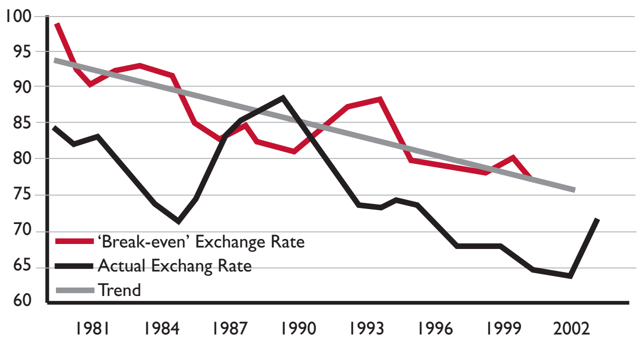
The "New" Heights of the Canadian Dollar

The Canadian dollar remained so weak for so long that it no longer seemed odd that the loonie was worth less than 70 cents U.S., and it may take Canadians some time to adjust to the reality of a stronger currency. The sudden surge in our dollar was due to a convergence of favourable developments: significant weakness in the U.S. dollar, improved prospects for global growth, rising commodity prices, attractive Canadian yields, and Canada's still sizeable trade surplus. Although analysts had expected that the Canadian dollar would (eventually) strengthen, the recent move has been astonishingly swift. As shown in the chart below, this was by far the largest six-month appreciation of the Canadian dollar in the modern era. In fact, the last time that the Canadian dollar rallied by more in half a year was 70 years ago, during the Great Depression. The consequences of this latest move will be significant.



The chart to the right depicts the "break-even" exchange rate for the manufacturing sector - defined as the level that equalizes costs of production in Canada and the U.S. Given Canada's lower rate of productivity growth, the break-even exchange rate has declined for the past two decades. As shown, the Canadian dollar's appreciation has greatly reduced Canada's cost advantage versus the U.S. As a result, industries that rely heavily on exports to the U.S. or that compete against imports from the U.S. - for instance, wood and paper products, furniture, and electrical equipment makers - will be hurt more than others. This change in the competitive landscape will be partly offset by an expected pick-up in U.S. growth. Nonetheless, our dollar's rise will deal a significant blow to Canada's foreign trade. Moreover, the speed of the move could add to the cost of the adjustment, augmenting the job losses that have already started to be reported.

Break-even Exchange Rate: Canadian Manufacturing Sector



For these reasons, the appreciation in the Canadian dollar will detract from the economy's momentum, in effect substituting for the higher interest rates we had expected. In fact, the Bank of Canada is now likely to reduce interest rates in the coming months to mitigate the impact of a stronger dollar. As a result of lower financing costs, borrowers can be counted among the beneficiaries of the dollar's rally.

The stronger Canadian dollar should also lead to a few longer-term benefits. First, by increasing the foreign goods and assets that Canadians can exchange for a given sum, the dollar's appreciation increases the nation's wealth. A second benefit flows from the fact that Canada imports about 70% of its machinery and equipment, paid for in American dollars. By reducing the cost of these imports, and by encouraging more capital-intensive production, the currency's appreciation could help boost labour productivity. This, in turn, will raise Canadians' living standards in the long run.

PERFORMANCE COMPARISON

For The Period: Ending Sept. 30, 2003	3 Months %	1 Year %	3 Year %	5 Year %	10 Year %
ACTIVELY MANAGED FUNDS					
Balanced Fund	3.5	13.7	-1.2	5.9	8.4
Canadian Equity Fund	5.0	19.6	-4.2	8.2	10.2
Overseas Equity Fund (1) (2)	6.2	6.2	N/A	N/A	N/A
U.S. Equity Fund (2)	2.1	4.4	-13.0	-3.3	6.9
Dividend Income Fund (3)	4.8	22.2	8.6	15.6	17.1
Short-Term Bond & Mortgage Fund	1.3	6.4	7.5	6.6	N/A
Bond Fund	1.5	9.0	9.0	7.3	8.6
Canadian Money Market Fund	0.8	3.0	3.6	4.2	4.7
CUMIS FUND					
Retirement Security Fund	5.6 (4)	5.8	6.2	6.6	7.3
PASSIVELY MANAGED FUNDS					
S&P/TSE Composite Index Fund (5)	6.7	22.5	-9.0	7.5	8.4
U.S. Equity Index Fund (2) (6)	2.0	5.3	-13.6	-1.7	N/A
EAFE Equity Index Fund (2) (7)	7..3	7.6	-11.9	-1.8	N/A
Universe Bond Index Fund (8)	1.3	7.9	8.5	6.7	N/A
Conservative Balanced Index Fund (9)	2.8	8.5	-0.3	4.6	N/A
Moderate Balanced Index Fund (10)	4.0	12.0	-3.3	5.8	N/A
Aggressive Balanced Index Fund (11)	5.0	14.5	-6.8	5.6	N/A
INDICES					
Active Balanced Fund Benchmark	3.9	12.5	-3.3	4.9	7.6
S&P/TSX Composite Index	6.7	22.5	-9.0	7.4	8.3
S&P 500	2.0	5.8	-13.3	-1.5	10.2
MSCI EAFE	7.4	7.2	-12.0	-2.0	3.0
ScotiaMcLeod Universe	1.3	8.1	8.5	6.7	8.3
30 Day T-bills	0.8	3.0	3.6	4.2	4.7

(1) *Overseas Equity Fund merged with Euro-Pacific Equity Fund March 9, 2001*
(2) *Subject to Canada Customs and Revenue Agency Foreign Content Limit of 30%*
(3) *Only available under group RSP and DPSP contracts*
(4) *Annualized*
(5) *Fund Inception: October 1999. Performance prior to November 1999 is for TSE 300 Equity Index Fund*
(6) *Fund Inception: January 2000. Performance prior to February 2000 is for Barclays U.S. Equity Index Fund - Canada*
(7) *Fund Inception: June 1999. Performance prior to July 1999 is for EAFE Equity Index Fund B*
(8) *Fund Inception: October 1999. Performance prior to November 1999 is for Universe Bond Index Fund*
(9) *Fund Inception: August 1999. Performance prior to September 1999 is modeled using the benchmark asset mix and index returns*
(10) *Fund Inception: June 1999. Performance prior to July 1999 is modeled using the benchmark asset weights and index returns*
(11) *Fund Inception: August 1999. Performance prior to September 1999 is modeled using the benchmark asset weights and index returns*

NEWS FROM THE GOVERNMENT

Old Age Security

Old Age Security (OAS) benefit rates are unchanged for the October to December 2003 quarter.

Basic OAS benefits, paid to people age 65 and over, are $461.55 per month. The Guaranteed Income Supplement is $548.53. The Spouse's Allowance and the Widowed Spouse's Allowance are increased to $818.85 and $904.03 respectively for the October to December 2003 quarter.

Alberta

The Legislative Assembly passed Bill 30-2, the Adult Interdependent Relationships Act (the Act), on December 3, 2002. The Act and the associated Alberta Interdependent Partner Agreement Regulation (the Regulation) came into force on June 1, 2003.

The most significant change to the Employment Pension Plans Act (EPPA) contained in Bill 30-2 is in the change from "spouse' to "pension partner". This new definition, like the old one, includes a person who, at the time a right to a benefit is determined, was married to that other person and had not been separated from that other person for three or more consecutive years. The significant change comes in the cases where there is no married spouse but there is another person who is in a conjugal relationship with the member. Under the new definition, a person who, immediately preceding the time the benefit is determined, had lived with that other person in a conjugal relationship for at least three years, or in a relationship of some permanence if there is a child of the relationship by birth or adoption, is a pension partner and therefore eligible for the same spousal benefits as if they were married to the member.

Note that this is not as broad as the definition of Adult Interdependent Partner found in some other legislation affected by Bill 30-2. This definition restricts spousal benefits to those in conjugal relationships to be consistent with the Income Tax Act.

The old definition reads:

> "spouse" means, in relation to another person,
>
> (i) a person, who at the relevant time, was married to that other person and had not been living separate and apart from that other person for 3 or more consecutive years,
>
> or
>
> (ii) if there is no person to whom subclause (i) applies, a person of the opposite sex who had lived with that other person in a marriage-like relationship for the 3-year period immediately preceding the relevant time.

The new definition reads:

> "pension partner" means, in relation to another person,
>
> (i) a person who, at the relevant time, was married to that other person and had not been living separate and apart from that other person for 3 or more consecutive years,
>
> or
>
> (ii) if there is no person to whom subclause (i) applies, a person who, immediately preceding the relevant time, had lived with that other person in a conjugal relationship
>
> (a) for a continuous period of at least 3 years
>
> or
>
> (b) of some permanence, if there is a child of the relationship by birth or adoption.

Effective June 1, 2003, "spouse" is replaced with "pension partner" in the EPPA. Pension plan administrators must amend their plan documents by December 31, 2003 to conform to this new definition. They do not have to use the term "pension partner" if they prefer to retain the term "spouse", provided that the term "spouse" is amended to reflect the provisions of "pension partner".

Administrators are required to file the amendment on the next occasion on which they are submitting other amendments or by December 31, 2003 at the latest. The plan must be administered in accordance with the legislation once it is proclaimed, regardless of whether the plan text has been amended.

Ontario

In order to enhance access to information, Financial services Commission of Ontario (FSCO) has introduced the Pension Web Link. Effective September 2, 2003, pension stakeholders are able to access contact information and other details related to most pension plans via FSCO's website, 24 hours a day, seven days a week. No confidential information about plan members or information that could allow for the identification of individual members will be available. The Pension Web Link was developed in consultation with the pension industry, to provide immediate access to frequently requested information.

Information will only be available for Ontario registered pension plans that are active, in the process of being wound-up, frozen (not open to new members or contributions) or are no longer active but represent prior benefits for a currently active pension plan. Information for pension plans with less than five members will not be available due to privacy concerns.

Pension plan members and the general public will be able to access information on specific plans using the plan registration number, plan name or plan sponsor name. it is no longer necessary to submit a Freedom of Information request to obtain this information. The available information will include:

- the plan registration number
- the plan name
- the corporate name and address of the plan sponsor, administrator and custodian
- the effective date, fiscal year-end, plan type, benefit type, and total active membership in the pension plan
- the FSCO staff member assigned to the plan; and
- selected transactions, including plan amendments and filing-related information.

An option to download a file containing selected information on specific registered pension plans will also exist.

FSCO will continue to respond to inquiries and complaints from pension plan members. FSCO does not have data regarding individuals or their entitlements under a specific plan. Therefore, those inquiries should continue to be directed to the Plan Administrator.

The Pension Web Link may be accessed through the Pension section of FSCO's website at **www.fsco.gov.on.ca** .

IF YOU WOULD LIKE EXTRA COPIES FOR EMPLOYEE DISTRIBUTION,

You can visit our web site at www.cumis.com and look for Pension Watch under publications, or please phone, write or fax Neil Craig, National Sale Executive, CUMIS Life Insurance Company
P.O. Box 5065, Burlington, Ontario L7R 4C2 • (905) 631-4844 • 1-800-263-9120 ext. 5028 • Fax (905) 631-4887
PENSION WATCH is produced for CUMIS Life Retirement Clients