Statement on the Desjardins Group Pension Plan

Background

Different reports have come to light in recent weeks, particularly in the media, regarding the situation of pension plans in Québec, including that of Desjardins Group. We feel the moment has come to take stock of the issue.

In recent years, we have shown untiring diligence in our management of the Desjardins Group Pension Plan (DGPP). You will no doubt recall the momentous impact of the 2008 financial market collapse on all pension plans in Canada, including that of Desjardins Group. In such a situation, we had to react quickly.

Supported by a think tank of experts, in recent years Desjardins Group has taken various measures to reinforce and consolidate the plan's financial health.

Accordingly, we have aligned our risk management practices with the new market conditions and adopted an investment policy based on liability-driven principles—namely, our current and future obligations to plan participants. The age at which an employee can retire without a reduction was also revised from 57 to 62. Furthermore, on January 1, 2010, special contributions amounting to $150 million annually were proposed. Together, these measures have been designed to ensure the long-term stability of the DGPP while taking into account both our employees' financial security and Desjardins Group's needs for labour.

Decline in the capital markets

In recent months, capital markets have experienced a new downward trend: a sharp, steady decline that has significantly impacted the financial position of Canada's pension plans. Additionally, the global investment markets' poor performance in conjunction with current low interest rates has markedly and suddenly increased the value of the liabilities used in the plan's solvency testing.

As a result of these conditions, in recent months our plan's solvency ratio has been under pressure. Last December, our solvency ratio stood at 71.2%, representing a solvency deficit of $2.3 billion.

The solvency deficit is calculated on the hypothetical assumption that the plan will terminate on a given date. This is a sort of "snapshot" taken at a specific time based on the plan's assumed termination.

However, it must be remembered that the most important indicator used to guide pension plan management is the capitalization ratio. This reflects the plan's long-term ability to meet its financial obligations vis-à-vis its participants. As at December 31, 2010, the DGPP capitalization ratio stood at 86%. The special contributions put forth in 2010, and which will extend over a period of 15 years, will further strengthen the plan's funding.

New initiatives under discussion

That being said, pressure from the new financial market conditions means we must now update the solutions proposed in recent years. Thus, with the support of the think tank, various initiatives are currently being discussed with an eye to further adjusting our plan.

Discussions are also ongoing with the Québec government about extending the various regulatory relief measures, including the possibility of absorbing the solvency deficit over ten years rather than five years. We feel strongly that these discussions will have a positive outcome that will not only benefit Desjardins, but all private pension funds in Québec.

In light of these talks and our ongoing reflection, we will soon issue the first measures designed to strengthen the DGPP. The proposed measures will set out to balance the plan's funding and ensure its sustainability. They will also protect the financial security of our employees and retirees, as well as enable better control of the risks and costs in today's volatile market conditions.

As we have in the past, we will continue to manage the DGPP prudently and responsibly, in compliance with our cooperative values. Your support and contributions will be crucial to the success of this group effort.

Jacques Dignard
Senior Vice-President,
People and Culture,
Desjardins Group

Raymond Laurin
Senior Vice-President
Finance and Treasury and Chief Financial Officer,
Desjardins Group

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