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CANADA Benefits ACROSS BORDERS

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INSIDE

DECEMBER 2009 vol. 1 no 2.

CASE STUDY

BALANCING ACT

Bombardier combines pragmatism and tradition in designing and managing global benefits.

BY RICHARD STOLZ

IT'S IMPOSSIBLE to know what Joseph-Armand Bombardier, the pioneering inventor of the snowmobile (born more than a century ago), would think about the extraordinary evolution of the company he founded in 1942.

No doubt he would take pride in its rapid growth and diversification from niche recreational equipment maker to global manufacturer of aerospace and train transportation equipment, with more than 55,000 employees and nearly US$20 billion in revenue. Also, he would likely be pleased to know that even in today's cloudy economic climate, employees say that a hint of paternalism—in the best sense of the term—has survived the generations.

"The company is very interested in the health and welfare of its employees," says one U.S.-based Bombardier veteran. That concept is not officially embedded in the Montreal-based company's global employee benefits policy, however. As Étienne Brodeur, the company's senior director of compensation, pensions and benefits, explains, Bombardier's benefits strategy simply boils down to doing what it takes to attract and retain the employees it needs. "We want packages that are competitive, on a local basis."

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YVES BEAULIEU

ÉTIENNE BRODEUR
Senior director of compensation, pensions and benefits, Bombardier

NORTH OF THE BORDER

IFRS: COMING TO A PLAN NEAR YOU

International Financial Reporting Standards (IFRS) are more than just a technical accounting exercise.

BY RON STOKES AND KATHRYN GARDINER

ALREADY IN USE in European countries, IFRS is coming to Canada's publicly accountable enterprises, and pension plans are no exception. Senior leaders and management need to understand exactly what this change will mean for their organizations so they are ready when regulators flip the proverbial switch. Asking key questions now is an important step towards getting your IFRS transition right.

What is IFRS and why are we adopting it?

From the European Union to the Pacific Rim, much of the world is already applying these standards in the hopes of establishing a single, global accounting language capable of providing greater transparency.

Once in place, these global standards will provide an even playing field on which companies can compare themselves to international competitors with streamlined, apples-to-apples, oranges-to-oranges simplicity.

Over 100 countries—a significant portion of the world's capital markets—have already adopted this universal accounting language. In Canada, IFRS will replace the Canadian generally accepted accounting principles (GAAP).

Why the rush around IFRS?

The final countdown to IFRS is already on in Canada. Some 4,500 publicly accountable enterprises nationwide will need to prepare their first set of annual IFRS financial statements for the year ending Dec. 31, 2011.

While Canadian GAAP is applicable for 2010 calendar year ends, entities must prepare IFRS financial statements for 2010 to serve as comparative amounts in 2011. Subsequent IFRS financial statements making the balance sheet as at Jan. 1, 2010, will be the first date of transition to IFRS.

Successfully implementing such an enterprise-wide change will take focus, planning, time and resources. The earlier the planning, the more manageable the switch will be.

What's happening in the U.S.?

Although the U.S. Securities Exchange Commission (SEC) supports the movement towards one set of global accounting standards, it won't happen in the U.S. right away.

Instead, the SEC has plotted out several milestones towards an eventual transition to IFRS. We expect the SEC to decide in 2011 whether to proceed with mandatory adoption of IFRS. The U.S. conversion timeline is likely to extend beyond 2014.

How will IFRS affect current Canadian accounting standards for pension plans?

Pension plans will continue to prepare their financial statements

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SOUTH OF THE BORDER

RETIREE MEDICAL FUNDING—YOU MAY BE STUCK WITH IT!

Although the future of the U.S. healthcare system is in flux, employers should be aware of the implications for their retiree benefits programs, and plan accordingly.

BY JAY FUNDLING AND KARIN LANDRY

MANY U.S. EMPLOYERS provide retiree benefits for their employees. These benefits provide medical and life insurance coverage for retirees and their dependents, usually requiring contributions from the retiree, and a subsidy from the parent company. Employers

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And with a presence in more than 60 countries, that's a lot of packages.

But their competitiveness doesn't mean writing a blank cheque, Brodeur quickly adds. "We are aiming at the median," he says.

And how is that accomplished across borders? The task keeps Brodeur and his team fully challenged. International micromanagement is not how it works, Brodeur says. "We have not been very dogmatic; we don't develop a policy at the head office and tell everybody else they need to go with it."

Recognizing needs

"Bombardier has always been great about recognizing the geographical- or company-sector needs," says Joan Schuttler, the Wichita, Kan.-based director of U.S. compensation and benefits with Bombardier Aerospace (BA), which employs about 2,800 of BA's 26,000 global employees. (A large majority—17,000 of BA's employee population—are based in Canada.) That means most routine decisions involving benefits at the local level do not require extensive front-end involvement from corporate headquarters in Montreal. But they do like to be kept informed. "It is expected," Brodeur says, "that Joan would bring up to the management of Aerospace in Canada recommendations as to what should happen" on meaningful prospective changes, such as a change in a 401(k) matching formula. If there are budget implications for a proposed benefit change—as is generally the case—approval (or rejection) might be part and parcel of the budget process, Brodeur says. Naturally, the proposed change would also need to satisfy the test that the new benefit structure would be in line with the market.

Bombardier's transportation group, which has about the same number of employees in the U.S. as BA, reports to its head office in Berlin, then ultimately to Brodeur. Schuttler and her counterpart who directs benefits for Bombardier's transportation group in the U.S. both sit on a committee governing a 401(k) plan but otherwise operate independently—although the same 401(k) provider is used for reasons of efficiency and governance. Although a formal decision-making structure technically guides the process by which benefits changes are proposed and resolved, "we all work together," Brodeur says.

Major benefits decisions across borders require approval from Bombardier's corporate board's compensation committee. That was the case at the beginning of 2008 when BA's U.S. employees were given the opportunity to switch their retirement plan from the existing defined benefit (DB) pension plan to a generous 401(k) plan—one that all new U.S.-based employees must join because the DB plan is no longer open to new employees.

Brodeur advises as to what is likely to be approved to divisional benefits leaders like Schuttler, before they get too far along in building a formal request action requiring board approval. "If it makes sense to me," says Brodeur, "if they are willing to bear the cost [at the local division level] and it doesn't violate our principles, I accept it" and relay the proposal to the board for its approval.

HR Council

Some cross-border benefits decisions not requiring board approval might be within the purview of Bombardier's HR Council. Its members, in addition to Brodeur, include the senior vice-president, HR, with Bombardier, the vice-presidents of HR for the transportation and aerospace divisions, as well as their heads of organizational development. The group meets three or four times a year, and "pension and benefits issues are on each agenda for overall governance and approval of changes," Brodeur says. In contrast to most cross-border employee benefits decisions, those involving DB pensions do involve more intensive scrutiny from executives in Montreal, Brodeur says. "We take great interest in defined benefit promises."

And Bombardier's finance department also doesn't like surprises when it comes to benefit expenses. Unlike defined contribution (DC) plans, whose expense levels generally fall within budget parameters, DB plans have the potential to play havoc with budgets. "It's very annoying to our business units," Brodeur says, "when you budget X and something happens—interest rates go down or investments go down and you need to account for more than you budgeted." As a result, "we govern pensions very centrally," he says.

Bombardier's largest DB plans are in Canada, the U.K., the U.S., Germany, Belgium, Switzerland and Sweden. While interest in DB plans is waning in many of Bombardier's locations, it remains strong in the U.K. market because many workers on the transportation side, for example, are former employees of British Rail, he explains.

> **International micromanagement is not how it works, Brodeur says. "We have not been very dogmatic; we don't develop a policy at the head office and tell everybody else they need to go with it."**

Making the switch

In the U.S., when BA's employees were given the opportunity in 2008 to shift to a generous 401(k) plan, nearly half (46%) made the switch, Schuttler says. What they switched to—the "401(k) plus" plan—matches 100% of the first 6% of employee contributions. In addition, employees—whether they put any of their own money into the plan or not—receive an additional amount ranging between 2% and 4% of their salaries, depending upon their age and years of service. The original 401(k) matched the first 6% of contributions at 50%, for a total of 3%."

Although Bombardier's head office has been interested in reining in its DB promises wherever practical (as noted, the BA U.S. pension was closed to new employees), "part of the impetus for this change came from employees themselves," says Schuttler.

"Being an aircraft company," she says "we have a number of pilots, many of whom saw their former airline pensions dramatically change as those airlines went out of business." To them, the enhanced 401(k) may have seemed like a more secure benefit. And Schuttler is confident that the lack of DB options for new employees will not conflict with her benefits strategy's goal of attracting great employees. That strategy is entirely U.S.-centric, she says. "As far as the U.S. employees are concerned, they do not see anything [Canadian] about their benefits at all."

BA's U.S. employees are employed by three distinct corporations: Learjet Inc., the manufacturer; Bombardier Aerospace Corp., including Flexjet, the fractional ownership entity; and Bombardier Services Group, which supports regional jets through service centres. Brodeur says they try to be as consistent among them as they can, but also try to be competitive within each market, based on the distinct labour markets those companies recruit from.

Despite her basic U.S. focus, Schuttler says she is always on the lookout for ideas from her Bombardier colleagues in Canada and around the globe. Prior to the retirement plan overhaul in 2008, Schuttler attended a conference with her counterparts from other Bombardier units around the world. "It opens your eyes to see how other people are doing things differently, the obstacles they had and overcame." On her frequent trips to Montreal, Schuttler routinely interacts with Jean Letourneau, director of pensions and benefits with BA. Letourneau, a seven-year Bombardier veteran, had a long pension consulting career before joining the company.

> **Although a formal decision-making structure technically guides the process by which benefits changes are proposed and resolved, "we all work together."**

Like Schuttler, Letourneau has overseen a big shift in BA's retirement benefit lineup, which represents an move away from the classic DB model—but hardly an abandonment of it. As in the U.S., BA's Canadian employees were permitted to remain in the old DB plan, itself a hybrid DB/DC plan, or to join a generous DC plan. But unlike in the U.S., new BA employees in Canada are also permitted to choose the hybrid DB option.

Canada in the middle

As in the U.S., BA's retirement plan choices are geared around the critical employee demographics. "In Canada, we were in between the more DC-tilting U.S. approach and the 'full DB' posture in the U.K.," Letourneau says. "Most of our plans are based on 100% matching," he explains. But match levels can go as high as 150%, based on plan participants' proximity to retirement and personal contribution levels, he adds.

Even when Bombardier employees live in close proximity to the border of another country, such as those who work at a transportation group facility in Plattsburg, N.Y., relatively close to Canada, there is no effort to design some kind of blended U.S.-Canada benefits structure. "The U.S. is the U.S.," no matter how close to Canada it is, Brodeur says. Also, because much of Bombardier's growth has been through acquisition, existing employee benefits programs typically are not subject to immediate changes or incorporation into larger Bombardier plans within that country. "We acquire companies, then we work with them and fold them in over time."

Design issues aside, some benefits challenges span borders. "We are very concerned with OPEB (other post-employment benefits) liabilities," Brodeur says, although OPEBs remain a larger concern for Bombardier in Canada than in the U.S., accounting impact of unfunded OPEB liabilities with ever-rising healthcare costs attracts lots of attention from management.

Adding to the pressure is the Canadian accounting profession's ongoing shift to the International Financial Reporting Standards (IFRS), which is expected to shine an even brighter spotlight on retirement benefits in general. "We have a full team responsible for IFRS implementation, and it has passed on to us the task of making sure that we are organized to provide all the numbers it requires," Brodeur says.

Beyond accounting issues, the fundamental cost of current employee benefits expenditures throughout Bombardier's global enterprises in the present economic climate, naturally, is a matter of attention in Montreal. Still, "we have not had a gun pointed to our head saying, 'Kill all those benefits. They are too expensive,'" Brodeur says. And so, in keeping with Bombardier's non-dogmatic approach to managing benefits throughout the global enterprise, benefits leaders like Schuttler, Letourneau and others are left to review employee cost-sharing formulas and basic offerings for appropriateness in light of their units' strategic benefits goals and available financial resources. B

Ricard Stolz is a freelance writer based in Rockville, Md.

BOMBARDIER AT A GLANCE

Bombardier describes itself as a company that produces products and services that "help people and goods get where they need to go" by "engineering ingenious and sustainable solutions to today's mobility challenges and opportunities."

The 67-year-old company does so with approximately 55,000 employees, almost evenly split between the company's transportation and aerospace groups. Of that 55,000 total, about 20,000 are based in Canada, 5,000 in the U.S. and the rest are scattered around the globe.

Bombardier Aerospace's product line includes Learjet, Challenger and Global corporate jets, as well as a series of commercial aircraft, amphibious planes and the Flexjet fractional ownership program.

Bombardier's transportation businesses manufacture a host of rail vehicles including commuter trains, high-speed trains, automated people movers and locomotives. The transportation division also provides a variety of services to rail and other transportation systems.