

Note 24: Employee Compensation – Pension and Other Employee Future Benefits

Pension and Other Employee Future Benefit Plans

We have a number of arrangements in Canada, the United States and the United Kingdom that provide pension and other employee future benefits to our retired and current employees.

Pension arrangements include defined benefit statutory pension plans, as well as supplemental arrangements that provide pension benefits in excess of statutory limits. Generally, under these plans we provide retirement benefits based on an employee's years of service and average annual earnings over a period of time prior to retirement. We are responsible for ensuring that the statutory pension plans have sufficient assets to pay the pension benefits upon retirement of employees. Voluntary contributions can be made by employees but are not required.

We also provide defined contribution pension plans to employees in some of our subsidiaries. Under these plans, we are responsible for contributing a predetermined amount to a participant's retirement savings, based on a percentage of that employee's salary.

We recognize the cost of our pension plans in employee compensation expense as the employees work for us.

We also provide other employee future benefits, including health and dental care benefits and life insurance, for current and retired employees.

Pension and Other Employee Future Benefit Liabilities

We have two types of benefit liabilities: defined benefit pension liabilities and other employee future benefit liabilities. These benefit liabilities represent the amount of pension and other employee future benefits that our employees and retirees have earned as at year end.

Our actuaries perform valuations of our benefit liabilities for pension and other employee future benefits as at October 31 of each year for our Canadian plans (September 30 for our U.S. plans), using the projected benefit method prorated on service, based on management's assumptions about discount rates, rate of compensation increase, retirement age, mortality and health care cost trend rates. The discount rate is determined by management with reference to market conditions at year end. Other assumptions are determined with reference to long-term expectations.

Components of the change in our benefit liabilities year over year and our pension and other employee future benefit expense are as follows:

Benefits earned by employees represent benefits earned in the current year. They are determined with reference to the current workforce and the amount of benefits to which employees will be entitled upon retirement, based on the provisions of our benefit plans.

Interest cost on benefit liabilities represents the increase in the liabilities that results from the passage of time.

Actuarial gains or losses may arise in two ways. First, each year our actuaries recalculate the benefit liabilities and compare them to those estimated as at the previous year end. Any differences that result from changes in assumptions or from plan experience being different

from management's expectations at the previous year end are considered actuarial gains or losses. Secondly, actuarial gains and losses arise when there are differences between expected and actual returns on plan assets.

At the beginning of each year, we determine whether the unrecognized actuarial gain or loss is more than 10% of the greater of our plan asset or benefit liability balances. Any unrecognized actuarial gain or loss in excess of this 10% threshold is recognized in expense over the remaining service period of active employees. Amounts below the 10% threshold are not recognized in income.

Plan amendments are changes in our benefit liabilities as a result of changes to provisions of the plans. These amounts are recognized in expense over the remaining service period of active employees.

Expected return on assets represents management's best estimate of the long-term rate of return on plan assets applied to the fair value of plan assets. We establish our estimate of the expected rate of return on plan assets based on the plan's target asset allocation and estimated rates of return for each asset class. Estimated rates of return are based on expected returns from fixed income securities, which take into consideration bond yields. An equity risk premium is then applied to estimate equity returns. Returns from other asset classes are set to reflect the relative risks of these classes as compared to fixed income and equity assets. Differences between expected and actual returns on assets are included in our actuarial gain or loss balance, as described above.

Settlements occur when benefit liabilities for plan participants are settled, usually through lump sum cash payments, and as a result we no longer have a liability to provide them with benefit payments in the future.

Funding of Pension and Other Employee Future Benefit Plans

Our statutory pension plans in Canada, the United States and the United Kingdom are funded by us and the assets in these plans are used to pay benefits to retirees.

Our supplementary pension plans in Canada are partially funded, while in the United States the plan is unfunded. Our other employee future benefit plans in the United States and Canada are partially funded. Pension and benefit payments related to these plans are either paid through the respective plan or paid directly by us.

We measure the fair value of plan assets as at October 31 for our Canadian plans (September 30 for our U.S. plans). In addition to actuarial valuations for accounting purposes, we are required to prepare valuations for determining our pension contributions (our "funding valuation"). The most recent funding valuation for our main Canadian plan was performed as at October 31, 2008. We are required to file a funding valuation for that plan with OSFI at least every three years. An annual funding valuation is required for our U.S. statutory plan. The most recent valuation was performed as at January 1, 2008.

The benefit liability and the fair value of plan assets in respect of plans that are not fully funded are as follows:

(Canadian \$ in millions)	Pension benefit plans			Other employee future benefit plans		
	2008	2007	2006	2008	2007	2006
Accrued benefit liability	\$ 3,407	\$ 832	\$ 955	\$ 705	\$ 908	\$ 952
Fair value of plan assets	3,234	706	729	71	68	68
Unfunded benefit liability	\$ 173	\$ 126	\$ 226	\$ 634	\$ 840	\$ 884

Asset Allocations

The investment policy for the main Canadian pension plan assets is to have a diversified mix of quality investments that are expected to provide a superior real rate of return over the long term, while limiting

performance volatility. Plan assets are rebalanced within ranges around target allocations. Allocations as at the end of each year and the target allocations for October 31 are as follows:

	Pension benefit plans (1)				Other employee future benefit plans			
	Target 2008	Actual 2008	Actual 2007	Actual 2006	Target 2008	Actual 2008	Actual 2007	Actual 2006
Equities	53%	45%	45%	43%	65%	65%	73%	65%
Fixed income investments	35%	44%	38%	41%	35%	35%	27%	33%
Other	12%	11%	17%	16%	–	–	–	2%

(1) Excludes the Canadian supplementary plan, whose assets are fully invested in fixed income investments.

Pension and Other Employee Future Benefit Expenses

Pension and other employee future benefit expenses are determined as follows:

(Canadian \$ in millions, except as noted)	Pension benefit plans			Other employee future benefit plans		
	2008	2007	2006	2008	2007	2006
Annual Benefits Expense						
Benefits earned by employees	\$ 141	\$ 149	\$ 137	\$ 19	\$ 22	\$ 18
Interest cost on accrued benefit liability	236	217	208	51	49	46
Actuarial loss recognized in expense	10	59	82	12	18	14
Amortization of plan amendment costs	14	11	6	(8)	(7)	(7)
Expected return on plan assets	(298)	(277)	(253)	(6)	(5)	(5)
Annual benefits expense	103	159	180	68	77	66
Canada and Quebec pension plan expense	56	52	49	–	–	–
Defined contribution expense	9	13	10	–	–	–
Total annual pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	\$ 168	\$ 224	\$ 239	\$ 68	\$ 77	\$ 66

The impact on annual benefits expense if we had recognized all costs and benefits as they arose

Total annual pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	\$ 168	\$ 224	\$ 239	\$ 68	\$ 77	\$ 66
(Excess) shortfall of actual returns over expected returns on plan assets	1,422	(157)	(231)	20	(6)	(1)
(Excess) shortfall of actuarial (gains) losses amortized over actuarial (gains) losses arising	(842)	(328)	37	(276)	(78)	44
(Excess) shortfall of plan amendment costs amortized over plan amendment costs arising	(14)	44	(6)	8	(1)	7
Total pro forma annual pension and other employee future benefit expenses if we had recognized all costs and benefits during the year	\$ 734	\$(217)	\$ 39	\$(180)	\$ (8)	\$ 116

Weighted-average assumptions used to determine benefit expenses

Estimated average service period of active employees (in years)	11	11	10	12	12	12
Discount rate at beginning of year	5.6%	5.1%	5.3%	5.5%	5.3%	5.5%
Expected long-term rate of return on plan assets	6.6%	6.6%	6.6%	8.0%	8.0%	8.0%
Rate of compensation increase	3.9%	3.8%	3.8%	3.9%	3.8%	3.8%
Assumed overall health care cost trend rate	n/a	n/a	n/a	7.1%(1)	7.5%(1)	7.7%(1)

(1) Trending to 4.5% in 2013 and remaining at that level thereafter.

n/a – not applicable

Changes in the estimated financial positions of our pension benefit plans and other employee future benefit plans are as follows:

(Canadian \$ in millions, except as noted)	Pension benefit plans			Other employee future benefit plans		
	2008	2007	2006	2008	2007	2006
Benefit liability						
Benefit liability at beginning of year	\$ 4,082	\$ 4,248	\$ 4,013	\$ 908	\$ 952	\$ 852
Opening adjustment for the inclusion of the United Kingdom plan	101	–	–	–	–	–
Benefits earned by employees	141	149	137	19	22	18
Interest cost on accrued benefit liability	236	217	208	51	49	46
Benefits paid to pensioners and employees	(228)	(218)	(202)	(26)	(32)	(18)
Voluntary employee contributions	7	6	6	–	–	–
(Gain) loss on the benefit liability arising from changes in assumptions	(832)	(269)	121	(264)	(60)	58
Plan settlement	(6)	–	–	–	–	–
Plan amendments (b)	–	55	–	–	(8)	–
Other, primarily foreign exchange	133	(106)	(35)	17	(15)	(4)
Benefit liability at end of year	\$ 3,634	\$ 4,082	\$ 4,248	\$ 705	\$ 908	\$ 952
Weighted-average assumptions used to determine the benefit liability						
Discount rate at end of year	7.3%	5.6%	5.1%	7.3%	5.5%	5.3%
Rate of compensation increase	3.7%	3.9%	3.8%	3.7%	3.9%	3.8%
Assumed overall health care cost trend rate	n/a	n/a	n/a	7.4%(1)	7.1%(2)	7.5%(2)
Fair value of plan assets						
Fair value of plan assets at beginning of year	\$ 4,533	\$ 4,339	\$ 3,881	\$ 68	\$ 68	\$ 66
Opening adjustment for the inclusion of the United Kingdom plan	80	–	–	–	–	–
Actual return on plan assets	(1,124)	434	484	(14)	11	6
Employer contributions	105	58	194	26	32	18
Voluntary employee contributions	7	6	6	–	–	–
Benefits paid to pensioners and employees	(228)	(218)	(202)	(26)	(32)	(18)
Settlement payments	(6)	–	–	–	–	–
Other, primarily foreign exchange	109	(86)	(24)	17	(11)	(4)
Fair value of plan assets at end of year	\$ 3,476	\$ 4,533	\$ 4,339	\$ 71	\$ 68	\$ 68
Plan funded status						
Unrecognized actuarial loss (gain) (a)	\$ (158)	\$ 451	\$ 91	\$ (634)	\$ (840)	\$ (884)
Unrecognized cost (benefit) of plan amendments (b)	1,129	537	1,034	(41)	211	299
Unrecognized cost (benefit) of plan amendments (b)	103	95	50	(38)	(46)	(45)
Net benefit asset (liability) at end of year	\$ 1,074	\$ 1,083	\$ 1,175	\$ (713)	\$ (675)	\$ (630)
Recorded in:						
Other assets	\$ 1,121	\$ 1,094	\$ 1,195	\$ –	\$ –	\$ –
Other liabilities	(47)	(11)	(20)	(713)	(675)	(630)
Net benefit asset (liability) at end of year	\$ 1,074	\$ 1,083	\$ 1,175	\$ (713)	\$ (675)	\$ (630)

The plans paid \$3 million for the year ended October 31, 2008 (\$3 million in 2007; \$3 million in 2006) to us and certain of our subsidiaries for investment management, record-keeping, custodial and administrative services rendered on the same terms that we offer to our customers for these services. The plans did not hold any of our shares directly as at October 31, 2008, 2007 and 2006.

(1) Trending to 4.4% in 2018 and remaining at that level thereafter.

(2) Trending to 4.5% in 2013 and remaining at that level thereafter.

n/a – not applicable

(a) A continuity of our actuarial losses (gains) is as follows:

(Canadian \$ in millions)	Pension benefit plans			Other employee future benefit plans		
	2008	2007	2006	2008	2007	2006
Unrecognized actuarial loss at beginning of year	\$ 537	\$ 1,034	\$ 1,234	\$ 211	\$ 299	\$ 256
(Gain) loss on the benefit liability arising from changes in assumptions	(832)	(269)	121	(264)	(60)	58
Shortage (excess) of actual returns over expected returns on plan assets	1,422	(157)	(231)	20	(6)	(1)
Recognition in expense of a portion of the unrecognized actuarial loss	(10)	(59)	(82)	(12)	(18)	(14)
Impact of foreign exchange and other	12	(12)	(8)	4	(4)	–
Unrecognized actuarial loss (gain) at end of year	\$ 1,129	\$ 537	\$ 1,034	\$ (41)	\$ 211	\$ 299

(b) A continuity of the unrecognized cost (benefit) of plan amendments is as follows:

(Canadian \$ in millions)	Pension benefit plans			Other employee future benefit plans		
	2008	2007	2006	2008	2007	2006
Unrecognized cost (benefit) of plan amendments at beginning of year	\$ 95	\$ 50	\$ 57	\$ (46)	\$ (45)	\$ (52)
Opening adjustment for the inclusion of the United Kingdom plan	21	–	–	–	–	–
Cost (benefit) of plan amendments initiated during the year	–	55	–	–	(8)	–
Recognition in expense of a portion of the unrecognized cost (benefit) of plan amendments	(14)	(11)	(6)	8	7	7
Impact of foreign exchange and other	1	1	(1)	–	–	–
Unrecognized cost (benefit) of plan amendments at end of year	\$ 103	\$ 95	\$ 50	\$ (38)	\$ (46)	\$ (45)

Sensitivity of Assumptions

Key weighted-average economic assumptions used in measuring the pension benefit liability, the other employee future benefit liability and related expenses are outlined in the adjoining table. The sensitivity analysis provided in the table should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in other key variables.

Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

(Canadian \$ in millions, except as noted)	Pension		Other employee future benefits	
	Benefit liability	Benefit expense	Benefit liability	Benefit expense
Discount rate (%)	7.3	5.6	7.3	5.5
Impact of: 1% increase (\$)	(379)	(14)	(82)	(3)
1% decrease (\$)	461	16	97	4
Rate of compensation increase (%)	3.7	3.9	3.7	3.9
Impact of: 0.25% increase (\$)	28	5	1	–
0.25% decrease (\$)	(22)	(5)	(1)	–
Expected rate of return on assets (%)	n/a	6.6	n/a	8.0
Impact of: 1% increase (\$)	n/a	(45)	n/a	(1)
1% decrease (\$)	n/a	45	n/a	1
Assumed overall health care cost trend rate (%)	n/a	n/a	7.4(1)	7.1(2)
Impact of: 1% increase (\$)	n/a	n/a	86	12
1% decrease (\$)	n/a	n/a	(70)	(9)

(1) Trending to 4.4% in 2018 and remaining at that level thereafter.

(2) Trending to 4.5% in 2013 and remaining at that level thereafter.

n/a – not applicable

Cash Flows

Cash payments made by the Bank during the year in connection with our employee future benefit plans are as follows:

(Canadian \$ in millions)	Pension benefit plans			Other employee future benefit plans		
	2008	2007	2006	2008	2007	2006
Contributions to defined benefit plans	\$ 90	\$ 37	\$ 179	\$ –	\$ –	\$ –
Contributions to defined contribution plans	9	13	10	–	–	–
Benefits paid directly to pensioners	15	21	15	26	32	18
Total	\$ 114	\$ 71	\$ 204	\$ 26	\$ 32	\$ 18

Our best estimate of the amounts we expect to contribute for the year ended October 31, 2009 is \$307 million to our pension benefit plans and \$35 million to our other employee future benefit plans.

Certain comparative figures have been reclassified to conform with the current year's presentation.

Estimated Future Benefit Payments

Estimated future benefit payments in the next five years and thereafter are as follows:

(Canadian \$ in millions)	Pension benefit plans	Other employee future benefit plans
2009	\$ 223	\$ 35
2010	234	38
2011	248	41
2012	263	43
2013	275	45
2014–2018	1,586	279