

# STAFF PENSION PLAN UPDATE

Newsletter published by the Pension Board for members and beneficiaries of The University of British Columbia Staff Pension Plan.

MAY 2009



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### Dear Plan Members:

You will not be surprised to learn that, given the state of the financial markets, 2008 was not a good year for pension plans. The UBC Staff Pension Plan had a negative gross rate of return of 18.1%. For an interesting perspective on the current state of the markets, check the chart on page 2 which sets today's markets in the context of markets since 1825.

The SPP Board continues to monitor the pension fund and the state of the markets. Our approach to navigating through this challenging period is to make timely and balanced decisions and responses carried out after careful thought.

The UBC Investment Management Trust (IMANT) report, beginning on page 2, gives information on how it has handled the SPP funds over the last year to minimize the impact of the market downturn. The report includes a breakdown of returns by asset class and manager, asset mix, and changes in fund managers. If you have questions about the SPP and its investments, feel free to contact the Pension Administration Office – or ask your questions in person at the annual Pension Fair on May 29.

This issue of the SPP Update also provides information to give you a clearer understanding of how the new pension benefits formula, effective July 1, 2009, will affect your pension. Turn to pages 6-7 for some examples of how your pension will be calculated after the new formula comes into effect. As always, the SPP website has detailed information on the new plan benefit and contribution formulas, and updated information will be added before the new formulas come into effect on July 1.

Finally, we hope to see you at the Staff Pension Fair on Friday, May 29th. It's a great opportunity to ask members of the SPP Board, IMANT and the pension administration staff questions about your pension plan.

On behalf of the Board,

A handwritten signature in cursive script that reads 'Brian Evans'.

Brian Evans  
CHAIR

This material has been compiled by the Staff and Pension Board Members of The University of British Columbia Staff Pension Plan from information provided to them and is believed to be correct. If there is any inconsistency between the contents of this newsletter and the pension plan trust or legislation, the trust and legislation will prevail.

# UBC Investment Management Trust (IMANT) Report

## 2008: Falling markets, falling returns

The UBC Staff Pension Plan (SPP) posted a gross return of negative 18.1% in 2008. The returns are a reflection of the global markets during a year in which the plummeting markets combined in a large-impact, hard-to-predict, and rare event beyond the realm of normal expectations.

### The markets

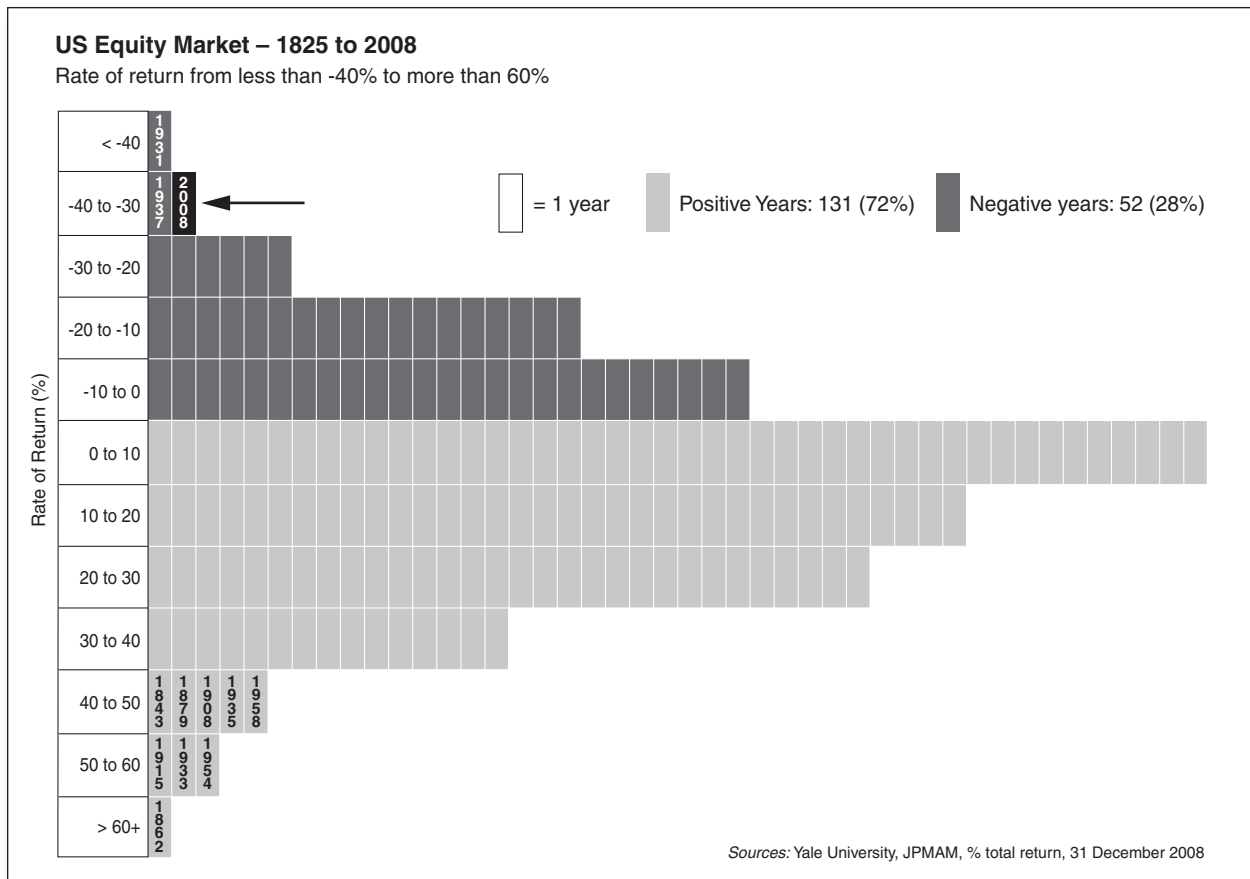
As the following chart shows, 2008 was truly an outlier year as far as market performance is concerned. The chart shows the performance of the US equity market from 1825 to 2008. Each square represents one year. The outliers – the years of lowest and highest returns – are labelled.

There were many years of low returns and even more years of higher ones. However, there were only two years in which US equity markets were lower than in 2008 – 1931 and 1937. The US equity market is only one example of market performance – all asset classes performed poorly.

### The economy

The Canadian economy contracted by -3.4% on an annualized basis in the fourth quarter of 2008. In the US, that figure was -6.2%. Global growth figures for 2009 and 2010 are being revised downward continuously. As of March 31, 2009 the TSX (Toronto Stock Exchange) had declined another -3.0% since December year end. The performance of the S&P 500 (Standard and Poor index fund of stocks from the largest 500 companies in the U.S.) was even worse, declining -9.1%.

On the other hand, the continued decline in energy prices has provided mild relief for the sluggish global economy and governments are taking measures, such as cutting interest rates and providing fiscal stimulus, to drive economic activities and encourage consumption.



## How UBC Investment Management Trust (IMANT) is managing the SPP fund

As discussed in our last economic update, 2009 will likely be a year of volatility, with global recession competing with 'a wait and see' response from investors. The market will take time to bottom out and will likely involve a series of ups and downs.

### In the meantime, how is the SPP doing?

Jay Parker, Plan Administrator, says that at the last pension plan actuarial valuation, conducted as of January 1, 2008, the plan was fully funded and had an adequate contingency reserve (see the November 2008 SPP Update for more information). The next regular valuation will be conducted as of January 1, 2011.

Mr. Parker says that in the meantime, the Pension Board is working with UBC IMANT and the Plan's actuary to monitor the markets and the state of the fund's assets and liabilities. The terms of the SPP are that if there are not sufficient funds, benefits will be reduced, beginning with reducing future indexing of pensions. It is most likely that the Pension Board will not make any decisions until the results of the next actuarial valuation are known in 2011. For now, the Pension Board will monitor the situation and if markets decline further, action may be taken sooner.

The articles on the following pages give more information on the ways in which IMANT has been managing the fund to minimize the impact of last year's declining markets.

## The Fund's Asset Mix

*The assets of the Fund belong to the SPP members, however, the IMANT Board of Directors and staff are responsible for determining the asset mix, investment manager selection and allocations as well as monitoring investment performance and investment alternatives. IMANT regularly reports to UBC's Board of Governors and updates the SPP Board of Directors as required.*

The SPP fund maintained a basic asset mix of 70% equity assets to 30% fixed income in 2008. The equity assets were made up of about 61% of public market equity and 39% alternative assets, such as real estate, hedge funds, and private equity, at the beginning of the year. By December 31, 2008 this ratio had shifted to 52% public market equity and 48% alternative investments.

This shift in asset mix was due both to the decline in the value of public market equities and additional investments by IMANT in alternative investments.

This diversified asset mix helped the portfolio perform better than the public market equities. For example, the return for the TSX was -33%, the S&P 500 was -22.6% (in Canadian dollars), and International Equities was -30% (in Canadian dollars). The SPP total portfolio returned -18.1% for the year.

The following table highlights the changes that were made to the asset mix during the year. It shows the asset mix approved by the IMANT Board, the actual asset mix at December 31, 2008, and for comparison purposes, the December 31, 2007 asset mix.

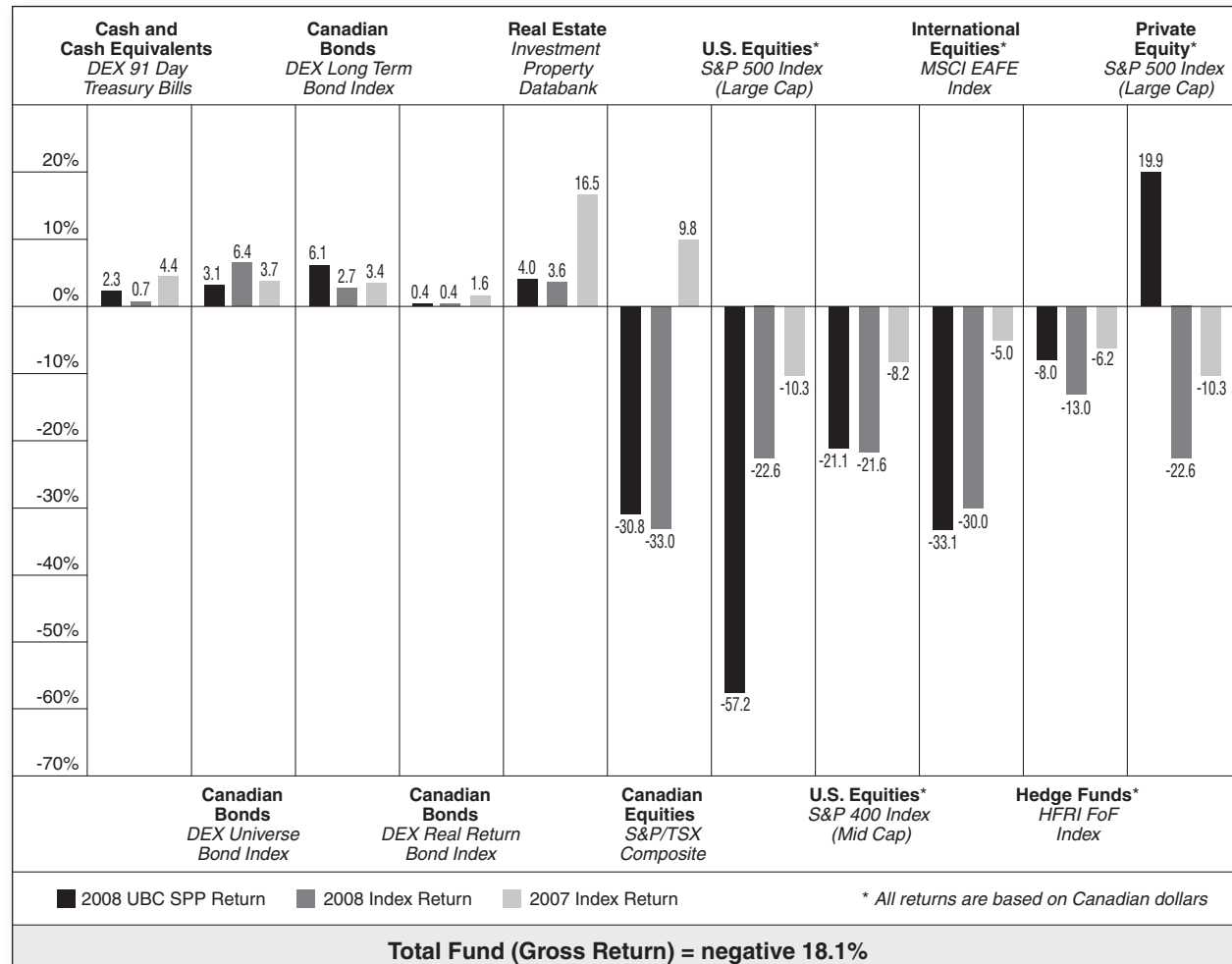
	Asset Class	Approved Asset Mix	Asset Mix Dec. 31, 2008	Asset Mix Dec. 31, 2007
<b>Fixed Income</b>	Bonds – Universe (Including Cash)	25.0%	16.2%	20.9%
	Bonds – Long Bonds	5.0%	6.3%	4.8%
	Bonds – Real Return Bonds	5.0%	5.8%	4.7%
	<b>Total Fixed Income</b>	<b>35.0%</b>	<b>28.3%</b>	<b>30.5%</b>
<b>Equity and Alternatives</b>	Canadian Equity	15.0%	12.0%	17.6%
	U.S. Equity	12.5%	13.5%	10.3%
	EAFE/Global – Equity	12.5%	12.0%	14.7%
	Real Estate/Infrastructure	10.0%	14.6%	12.4%
	Hedge Funds	10.0%	10.0%	10.0%
	Private Equity	5.0%	9.6%	4.5%
	<b>Total Equity and Alternatives</b>	<b>65.0%</b>	<b>71.7%</b>	<b>69.5%</b>
<b>Total Fund</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>

## 2008 Rates of Return

The following table highlights the returns of the major capital markets by asset class (the benchmark indexes) as well as SPP asset class returns. Capital markets are medium- to long-term investment markets of debt and equity securities including financial institutions such as banks, insurance companies, and stock exchanges. The performance of the Fund's investment managers is measured against these benchmark indexes. The

investment managers' goal is to meet or exceed the relevant index. The 2007 market returns are also included for comparison purposes.

Currency hedging played a major role in 2008 as the Canadian dollar declined by 20% against the U.S. dollar. This can be seen as a negative in the U.S. Equities column and as a positive effect in the Private Equity column.



## Directors of UBC IMANT *(as of December 31, 2008)*

**Peter W. Webster**, CHAIR  
President and Chair,  
Petwyn Investments Ltd.

**Philip A. Falls**  
President and Chief Executive Officer,  
UBC IMANT

**Nicole Byres**  
Partner, Clark Wilson

**Maureen Howe**  
Corporate Director

**Bill Levine**  
UBC Board of Governors Member  
Director, Western Corporate Enterprises Inc.

**Tracey McVicar**  
Managing Director,  
CAI Capital Management

**Daniel F. Muzyka**  
Dean, RBC Financial Group  
Professor of Entrepreneurship,  
Sauder School of Business

**Dale Parker**  
Corporate Director, Chair,  
Translink Board

**Andrew Saxton**  
Chairman,  
King George Financial Corporation

**Bob Wallis**  
Vice President, Chief Financial  
Officer and Partner, Kal Tire

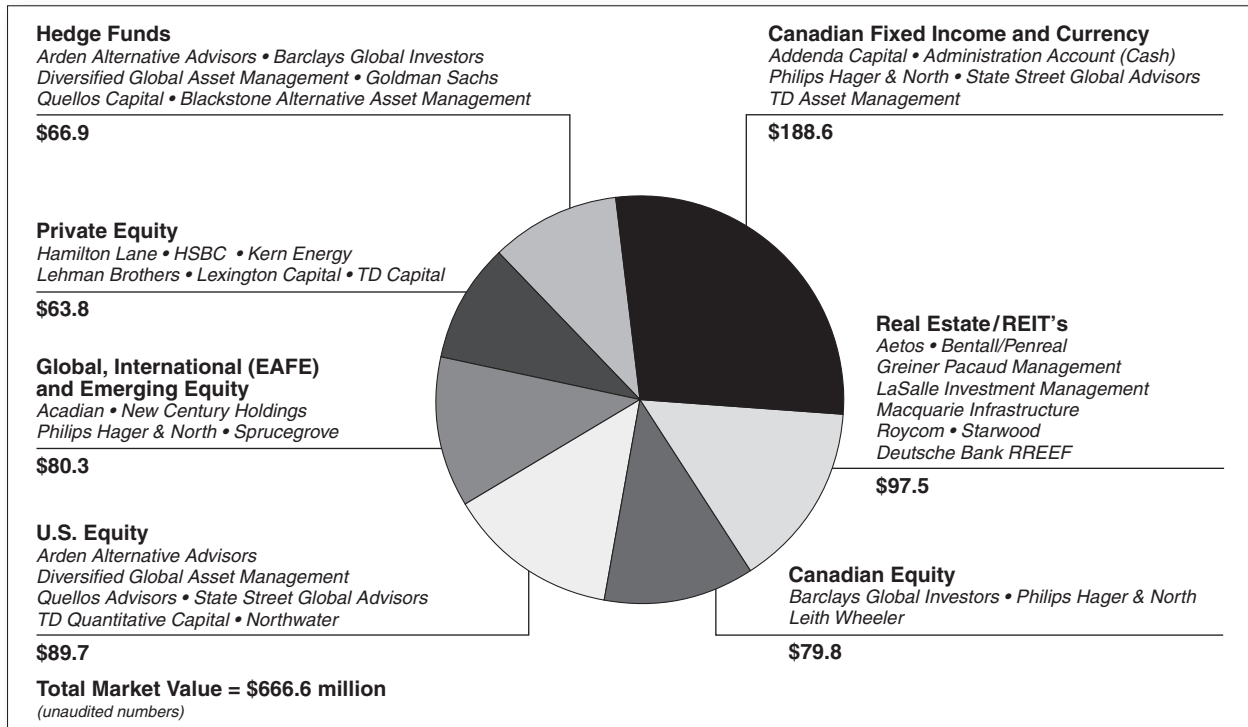
## Fund Managers

In the normal course of business, fund managers may be terminated or hired, and the assets they manage may be increased or reduced. In 2008, UBC IMANT terminated the BGI Currency mandate as it was not adding value.

Two fund managers, Cypress and Acuity, were terminated to provide funds for investments in

alternate investments in private equity and real estate as per the long-term plan approved in 2004.

The following chart shows the managers retained by the SPP as at December 31, 2008, listed by asset class and the value, in millions of dollars, of each.



The SPP's audited financial statements for 2008 will be posted on the SPP website as soon as they are available, likely at the end of April, 2009. Go to [www.pensions.ubc.ca/staff/](http://www.pensions.ubc.ca/staff/). Under *Quickfinds* on the right, click on *Library*. A link to the summarized financial statements appears under *Library – Recent*.

## Staff of UBC IMANT (as of December 31, 2008)

**Philip A. Falls**  
President and Chief  
Executive Officer

**Roger Polishak**  
Director, Manager Relations  
and Investment Operations

**Sharon Siu**  
Associate, Analytics and Research

**Sikander Khawaja**  
Director, Investments  
(joined UBC IMANT September 2008)

**Susan Bibbs**  
Administration Manager

# Making the transition: How your pension benefits will

The following two examples show how the new benefit formula affects the pension benefits of two fictional SPP members earning \$40,000 and \$60,000 per year.

**Beginning July 1, 2009, your pension benefits will be calculated using one formula for service to June 30, 2009, and a different formula for service from that date forward.**

**For service to June 30, 2009, your pension benefits will be calculated using the following formula:**

*2.0% of best 3-year average earnings x years of pensionable service*

**less**

*0.7% of your average annual basic salary up to the average maximum CPP contributory earnings x years of pensionable service*

**For service beginning July 1, 2009, your pension benefits will be calculated using this formula:**

*1.8% of best 3-year average earnings x years of pensionable service*

## The contribution formula

Your contribution rate will be 6.5% of your pensionable earnings beginning July 1, 2009. Contribution amounts resulting from this formula are given by salary level on the SPP website ([www.pensions.ubc.ca/staff](http://www.pensions.ubc.ca/staff)). Under Quickfind on the right, click on Changes to the Plan, scroll down to *What the changes mean to you in dollars*, and follow the link in the last paragraph.

### 1. Amery became an SPP member July 1, 1994 and retires, at age 65, on July 1, 2024.

- Amery's best 3-year average earnings at July 1, 2009 were \$40,000
- Assume that Amery's best 3-year average earnings after July 1, 2009 are also \$40,000
- Assume that the average YMPE is the current YMPE of \$46,300
- Amery's 3-year best average earnings for all years are below the YMPE.

### 2. Casey also became an SPP member July 1, 1994 and will retire at age 65 on July 1, 2024.

- Casey's best 3-year average earnings at July 1, 2009 were \$60,000
- Assume Casey's best 3-year average earnings after July 1, 2009 are also \$60,000
- Assume that the average YMPE is the current YMPE of \$46,300

# be calculated beginning July 1, 2009

Old Formula (If pension benefit formula hadn't changed July 1, 2009)	New Formula (Effective July 1, 2009)
<p><i>2.0% of best 3-year average earnings x years of pensionable service</i></p> <p>2.0% x \$40,000 x 30 = \$ 24,000</p> <p><b>less</b></p> <p><i>0.7% of your average annual basic salary up to the average maximum CPP contributory earnings x years of pensionable service</i></p> <p>0.7% x \$40,000 x 30 = \$ <u>(8,400)</u> \$ 15,600</p> <p><b>Total annual pension benefits \$ 15,600</b></p>	<p><i>2.0% of best 3-year average earnings x years of pensionable service before July 1, 2009</i></p> <p>2.0% x \$40,000 x 15 = \$ 12,000</p> <p><b>less</b></p> <p><i>0.7% of your average annual basic salary up to the average maximum CPP contributory earnings x years of pensionable service before July 1, 2009</i></p> <p>0.7% x \$40,000 x 15 = \$ <u>(4,200)</u> \$ 7,800</p> <p><b>plus</b></p> <p><i>1.8% of best 3-year average earnings x years of pensionable service after July 1, 2009</i></p> <p>1.8% x \$40,000 x 15 = \$ <u>10,800</u></p> <p><b>Total annual pension benefits \$ 18,600</b></p>
<p><i>2.0% of best 3-year average earnings x years of pensionable service</i></p> <p>2.0% x \$60,000 x 30 = \$ 36,000</p> <p><b>less</b></p> <p><i>0.7% of your average annual basic salary up to the average maximum CPP contributory earnings x years of pensionable service</i></p> <p>0.7% x \$46,300 x 30 = \$ <u>(9,723)</u> \$ 26,277</p> <p><b>Total annual pension benefits \$ 26,277</b></p>	<p><i>2.0% of best 3-year average earnings x years of pensionable service before July 1, 2009</i></p> <p>2.0% x \$60,000 x 15 = \$ 18,000</p> <p><b>less</b></p> <p><i>0.7% of your average annual basic salary up to the average maximum CPP contributory earnings x years of pensionable service before July 1, 2009</i></p> <p>0.7% x \$46,300 x 15 = \$ <u>(4,862)</u> \$ 13,138</p> <p><b>plus</b></p> <p><i>1.8% of best 3-year average earnings x years of pensionable service after July 1, 2009</i></p> <p>1.8% x \$60,000 x 15 = \$ <u>16,200</u></p> <p><b>Total annual pension benefits \$ 29,338</b></p>

## Member accounts credited

For 2008, members' required contribution accounts will be credited with a return of 4%.

## Membership Statistics

In 2008, the UBC Staff Pension Plan membership grew to:

	2008	2007
Active members	5,955	5,677
Deferred members	1,472	1,424
Retirees	1,439	1,387
Total members	8,866	8,488

## Plan Expenses

Operating and Investment expenses in 2008 were: 0.17% and 0.29% respectively as compared to 0.14% and 0.38% respectively in 2007.

## Plan Advisors

<b>Actuary</b>	Aon Consulting
<b>Auditors</b>	Deloitte & Touche LLP
<b>Communication</b>	Mercer (Canada) Ltd.
<b>Custodian</b>	RBC Dexia Investor Services
<b>Solicitor</b>	Lawson Lundell LLP

**MORE INFORMATION** on the global markets and economy, and the implications for the SPP is given in the **Economic Update** section of the February 2009 and November 2008 issues of the SPP Update. Go to [www.pensions.ubc.ca/staff/](http://www.pensions.ubc.ca/staff/). Under *Quickfinds* on the right, click on *Library*. Links to these issues appears under *Library – Recent and Library – Archives*.

**Staff Pension Plan Members:  
YOU ARE INVITED  
TO LEARN MORE AT OUR ANNUAL**

# Pension Fair (Open House)

**Friday, May 29, 2009, 11:30 a.m. to 1:15 p.m.**

**Location:** Arbutus Room – Ponderosa Centre, 2071 West Mall (at University Blvd.)

- Pension Board Directors, Pension office staff, IMANT (Investment Management Trust) staff and a representative from HRSDC (Human Resources and Social Development Canada), previously known as CPP, will be available to answer your questions.
- Off-campus members will be reimbursed for parking or bus expenses.
- Snacks will be served.

