STAFF PENSION PLAN UPDATE

NOVEMBER 2010

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

Dear Plan Members:

During the last half of 2010, the Pension Board has been working on several initiatives to enhance the security for retirement benefits and prepare for the upcoming Actuarial Valuation. This issue of the *Staff Pension Plan Update* highlights our progress on several of these initiatives, with a focus on what it means for the Plan and members in the near future.

Preparing for the 2011 Actuarial Valuation

We are approaching the 2011 Actuarial Valuation, which commences on January 1st. Learn about the potential impact of the valuation and how it may affect future pension benefits on page 2.

Qualified Experts Retained to Align Plan Assets and Liabilities

The Pension Board has retained qualified experts to advise on the Plan's investments and review the alignment of assets and liabilities. Read more about this initiative on page 3.

Reminder: Amendment of the Commuted Value Lump Sum Option Effective January 1, 2011

Effective January 1, 2011, the Commuted Value Lump Sum option will no longer be available for members age 55 and over. Page 3 provides a summary of this important change.

Canada Pension Plan Changes now in Effect

Several changes to the Canada Pension Plan have recently become law, including changes to early and late retirement rules, removal of the work cessation test for CPP before age 65, and the increase in general low earnings dropout. Read more about these changes on page 4.

I also recommend you visit our website at **www.pensions.ubc.ca/staff** for up-to-date information about the Staff Pension Plan and the resources available to you as a Plan member.

On behalf of the Pension Office staff and the Directors of the Pension Board, please accept our warm wishes to you and your family for a safe and happy holiday season.

Brian Evans

Brian Evans, CHAIR

2010 SPP Election

Packages for the 2010 SPP Election were mailed to members on October 28, 2010. The deadline for casting ballots is midnight, Thursday, November 25, 2010, with results being announced on December 2, 2010. More information is available on the SPP website. We encourage you to take time to exercise your vote in this year's election.

Correspondence should be addressed to:

Pension Administration Office
#235 – 2075 Wesbrook Mall
Vancouver, B.C. V6T 1Z1

Tel: 604-822-8100
Fax: 604-822-9471
E-mail: spp@hr.ubc.ca
Website: www.pensions.ubc.ca/staff

What's inside

Preparing for the 2011 Actuarial Valuation

The Pension Plan's Triennial Check-up

Once again, the valuation of the UBC Staff Pension Plan is approaching. An actuarial valuation of the Plan must be completed every three years and the upcoming review will be conducted as of January 1, 2011. The valuation will be completed by the firm Aon Hewitt.

The purpose of the actuarial valuation is to:

- Evaluate the present financial status of the Plan
- Assess the ability of the Plan to support benefits over the long term
- Comply with regulatory requirements for actuarial valuations and filings with pension authorities
- Confirm the level of indexing for future years, until the next valuation

UBC Staff Pension Plan

Established January 1, 1972, the Plan is a defined benefit pension plan with fixed contributions from the University and from Plan members, and variable indexing provisions to cover increases in the cost of living.

The Pension Board oversees the stewardship of the Plan and the Pension Administration Office in Human Resources provides administration services. The Plan's assets are held by RBC Dexia Investor Services and are managed by the UBC Investment Management Trust (IMANT).

Holiday Closure

The Pension Administration Office will be closed from noon on December 24, 2010 to January 3, 2011 inclusive. The office will reopen on January 4. If you have an urgent pension inquiry during the holiday closure, please leave a message at 604-822-8119. These messages will be monitored daily over the holiday period.

Lump sum payments for December will be mailed on December 24 to members who have requested that payments be mailed to them. Members who prefer to pick up their payments will be contacted prior to December 24, if their payment is ready. Please note that if you did request pick up and have not claimed your cheque by closing (noon) on December 24, the cheque will be put in the mail.

Financial Status of the Plan in 2008

The January 1, 2008 actuarial valuation confirmed the Plan's healthy position with a 28% margin of assets over the actuary's best estimate of Plan liabilities. In addition, tests on the Plan's financial status over the long term revealed that, based on the valuation assumptions, the Plan could support indexing at 100% of the Consumer Price Index (CPI). The 2008 actuarial projections which took into account the July 1, 2009 Plan changes, revealed that this projected position would likely be maintained.

However, like most other pension plans, the Plan's assets experienced a substantial loss late in 2008 and have moderately recovered since then. While the Plan's design incorporates prudent margins and has weathered the recent financial crisis faring better than many other pension plans, the upcoming actuarial valuation will likely reveal a less rosy picture than in 2008.

Impact of the Actuarial Valuation

The actuarial valuation determines the level of indexing that the Plan can support for the years following the valuation. In the event of a funding shortfall, future indexing may be reduced.

The January 1, 2008 valuation supported indexing of pensions at 100% of CPI. This level of indexing was applied to members' pensions at the beginning of 2009 and 2010; it will be applied again on January 1, 2011.

It is uncertain whether there will be indexing or other Plan adjustments on January 1, 2012 as this will depend on the results of the upcoming actuarial valuation. The Pension Board expects the valuation report will be presented at the September 2011 meeting; the Board will review the actuarial valuation and the Actuary's recommendations. Members can expect to receive detailed information regarding the valuation in the November 2011 SPP newsletter.

Note

This summary is simplified for presentation. It is for general information purposes only. Members can arrange access to the full 2008 valuation report by request from the Pension Administration Office. The 2011 valuation report will be available after September 30, 2011.

Aligning Plan Assets and Liabilities

The pension fund has had good returns on investments over the long term. The Plan's average rate of return has been 6.4% for the last 15 years. That said, recent results have been volatile, with performances ranging from as high as 14.5% and 12.7% in 2003 and 2006 respectively (and some very good years in the late 1990s) to a negative low of -18.8% in 2008.

With the provincial regulators now requiring the Staff Pension Plan (SPP) to comply with certain funding rules, referred to as solvency rules, the fluctuations of the Plan's investments should be minimized to balance potential short-term risk with longer term performance.

This article describes the steps that the Pension Board has recently taken.

Strengthening the level of expert counsel and advice

The Pension Board currently retains an actuary and legal counsel to provide expert advice. The investment manager, UBC IMANT, retains external investment managers and other experts as it requires. The ability of the Plan to provide pensions in the future depends on maintaining a balance between the Plan's assets and liabilities. To ensure prudent management of Plan assets and liabilities, the Pension Board decided to retain additional expertise.

The Pension Board retained the consulting firm of Satanove & Flood Consulting Ltd. (SFCL) to help them select an Investment Consultant. Working with the Pension Board and SPP staff, SFCL identified several qualified firms, developed a Request for Proposal, and facilitated the interview and selection process. As a result of the search, the Pension Board retained PBI Actuarial Consultants Ltd., a highly qualified firm with considerable expertise in pension plans like the SPP.

Managing Pension Plan Assets and Liabilities

Following their selection, PBI has been working with both the Pension Board and the University to develop an investment program that achieves the objectives of the Pension Board. Essentially, the Pension Board wants to ensure greater certainty that the basic plan benefit can always be provided to members. Although investments in high-risk assets such as equities and hedge funds are expected to earn more than safer securities such as government bonds over the long term, investing in these higher risk investments can also lead to substantial shortfalls in the short term. Future shortfalls similar to the one suffered as a result of the Financial Crisis in 2008 can potentially threaten the basic pension benefit.

PBI is also helping the Pension Board balance the primary objective of earning as much income as possible over the long term with a secondary objective of minimizing the chance that pensions might have to be reduced over the short term. We will report to you further on this important initiative in a future newsletter.

Reminder: Amendment of the Commuted Value Lump Sum Option Effective January 1, 2011

As reported in the February and May 2010 issues of the *Staff Pension Plan Update*, the UBC Board of Governors approved the Pension Board's recommendation to remove the commuted value lump sum option for members age 55 and over. This change is effective for members who retire on or after January 1, 2011. The other remaining pension options will continue unchanged.

In today's low interest rate environment, providing the commuted value lump sum option has become a concern. Inflated lump sum amounts are being paid by the Plan, with the largest amounts paid to retiring members. Due to the plan design and the University's fixed contributions, these payments have a direct impact on the Plan's liabilities with higher costs implicitly borne by the remaining members.

Given the Pension Board's mandate to provide retirement security and income for all members, the Pension Board agreed to remove the commuted value option for members 55 and over. This change will help improve the financial position of the Plan and provide increased security for member pensions with full indexing.

For additional details about this important change, a comprehensive guide including frequently-asked questions and answers is available under the QuickFind menu on the SPP website.

Canada Pension Plan Changes now in Effect

This article is being reprinted with permission of Sun Life Financial – Group Retirement Services. If you have any questions regarding the CPP changes, please contact Human Resources Development Canada at 1-800-277-9914 or visit their website at www.hrsdc.gc.ca.

Several changes to the **Canada Pension Plan (CPP)** that were previously announced have now become law. These changes do not impact anyone currently receiving a CPP pension or who will start their CPP pension in 2010.

Here's an overview of the changes, many of which will be gradually phased in.

Changes to early and late retirement rules

Currently, CPP benefits are reduced by 6 per cent for each year you begin your pension before age 65 and increase by 6 per cent for each year that you begin your pension after age 65. These increases or reductions are designed to reflect the shorter (or longer) payout times associated with beginning your pension after or before the normal retirement age of 65.

Under the new rules, pensions will now be reduced by 7.2 per cent (versus the current 6 per cent) for each year you begin your pension before age 65. It is being phased in over a five year time period beginning in 2012, and will allow many people to take advantage of the phased in retirement provisions before the full impact of these greater reductions take effect.

The pension increase for delaying your CPP start date until after age 65 goes from 6 per cent a year to 8.4 per cent a year, phased in over three years beginning in 2011. This means that someone who delays starting their CPP benefits until age 70 (the maximum age you can begin) will receive a pension that's 42 per cent higher than they would receive at age 65.

Removal of work cessation test for CPP before age 65

Currently, to apply for CPP benefits from age 60 to 64, you must have either stopped working before your CPP retirement pension begins, or have earnings less than the current monthly maximum CPP retirement pension benefit.

Under the new rules that take effect in 2012, you can start receiving your CPP benefits after age 60 without any requirement to stop working or significantly curtail work. In addition, if you are under age 65, both you and your employer will continue to contribute to the CPP to grow your pension while you are receiving benefits. These continued contributions are optional after age 65. These new rules are designed for people who want to ease into retirement but still want to maintain a certain level of income.

Increase in general low earnings dropout

When the government calculates your CPP benefits, they adjust the calculation to allow for a "dropout" of certain periods of low or no income. In addition, they apply other dropout provisions such as for child rearing and for periods spent receiving a CPP disability benefit. When these periods are excluded there is the potential to increase your monthly CPP benefit up to the maximum amount.

Currently, the general dropout provision is 15 per cent of the years where your earnings are low or nil. For example, if you take your benefits at age 65, your CPP benefit calculation will drop almost seven years of low or zero earnings.

Under the new rules, the general dropout provision will increase to 16 per cent in 2012 and 17 per cent in 2014. This will allow a maximum of almost 7.5 years of low or zero earnings to be dropped in the CPP benefit calculation for years 2012 to 2013 and 8 years of low or zero earnings to be dropped starting in 2014.

These changes may increase your CPP benefit, especially if you have multiple years of low or no income because you immigrated to Canada and entered the workforce late, spent extended time in school, cared for family members or any other reason.