



May 2013

staff pension plan update

Over and under-funded explained

Understanding how your pension plan works

In past articles of the newsletter, we've used the term funding and referred to "over-funded" and "under-funded." What does it really mean and how does it affect Plan members? Read on to learn more about this important aspect of your Plan.

What does funding mean?

In essence, there needs to be enough money (funds) in the Staff Pension Plan (SPP) to pay Plan benefits to members. If the Plan is over-funded, it means that we have more money in the Plan than is needed to pay benefits. Under-funded is the opposite - we have less money in the Plan than is needed to pay benefits. There are rules set out in the Income Tax Act and B.C. Pension Benefits Standards Act for pension plan funding and the SPP has established a Funding Policy as part of its governance process.

More information on funding can be found in the SPP Funding Policy available in the Plan Governance section of the Plan's website.

How do we know if the Plan is over or under-funded?

It is based on the results of an actuarial valuation. An actuarial valuation is a financial check-up of the plan performed by an actuary. An actuarial valuation is done every three years. The last actuarial valuation for the SPP was on December 31, 2010 and the next one will be on December 31, 2013.

Under-funding

If the Plan is under-funded, future benefits are adjusted to a level that the Plan can afford and still pay the SPP basic benefit for current and future members. Please see the article in the February 2012 *SPP Update* on the Plan's website for more information on the SPP basic benefit.

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COMING SOON:

SPP Pension Fair
Thursday, June 6, 2013

See invitation in this issue

What are future benefits and how are they adjusted?

Future benefits are benefits that are either paid to or earned by members from an effective date on a going-forward (future) basis. This means that adjustments are not made to pension benefits that have already been paid to or earned by Plan members. There are two types of future benefits:

1. Future Indexing

If the SPP does not have enough money to pay Plan benefits, it will adjust future benefits starting with indexing. Indexing refers to inflation or cost-of-living adjustments added to the basic benefit of the Plan's Retired and Deferred members. Each year, this inflation adjustment, as measured by Statistics Canada, is subject to the Plan's ability to pay the increase. How much indexing the Plan can afford to pay is determined by a Benefits Funding Test performed at the same time as the actuarial valuation.

2. Future Benefit Accruals

If there is still not enough money to pay Plan benefits after future indexing has been adjusted, the next benefit to be adjusted is what is called future benefit accruals - that is, how much pension is earned in the future. Every Active Member of the Plan is earning a pension benefit based on a formula using their years of service and earnings history. So reducing future earned benefits would mean the pension formula for future years of service would be changed so that the rate at which benefits are earned is lower. It would not affect pension benefits that have already been earned. Adjusting future benefit accruals would only affect Active members as they are still working and making contributions to the Plan, and therefore, still earning (accruing) benefits.

Key Results from the last Actuarial Valuation

The key result from the December 31, 2010 actuarial valuation was that the Staff Pension Plan is reasonably healthy and basic benefits are well-funded. However, based on the results of the valuation and the Benefits Funding Test, the Plan's actuary recommended that effective January 1, 2012, future indexing should be adjusted to 50% of inflation for the next three years. This recommendation was approved by the SPP Board. Indexing has continued at a 50% level for 2013 and most likely will continue at that level for 2014. See the November 2011 issue of the *SPP Update* on the Plan's website for results of the actuarial valuation as at December 31, 2010.

The results of the next actuarial valuation will be available for the SPP Board's review by mid-2014. In the fall of 2014,

the SPP Board will determine (with the help of the Plan's actuary) the level of indexing the Plan can support for the following years beginning January 2015.

Over-funding

It is possible that at some future date the Plan may be in an over-funded position as set out in the Income Tax rules. Should that happen, the SPP Board has three options to consider:

1. The SPP Board could improve benefits which would increase the amount of money (funds) needed to pay benefits; in effect, "using up" the overfunding; or
2. The SPP Board could make a cash distribution to members. Example: if the Plan was over-funded by \$10 million (e.g., the Plan had \$10 million more than it needed to pay benefits as allowed under the Income Tax Act rules), then \$10 million could be paid out; or
3. The SPP Board could do a combination of Option 1 and Option 2. A scenario like this gives the SPP Board the flexibility to provide rewards in a form that is beneficial for each type of member (i.e. Active versus Deferred versus Retired member)

Based on the results of the last Actuarial Valuation, the Plan is currently not in an over-funded position.

Putting it all together - The Target Benefit

As described in the November 2012 issue of the *SPP Update*, it is anticipated that a new B.C. Pension Benefits Standards Act will become law in 2014. The new act introduces provisions for a new class of pension plan called a Target Benefit Plan.

The UBC SPP should meet all of the design features of a Target Benefit Plan. This means that the Plan is designed to provide a lifetime pension, referred to as the "basic benefit" based on each member's years of service and earnings history. The basic benefit is adjusted for inflation each year after retirement. As discussed in the February 2013 *SPP Update*, contributions to the Plan are fixed. So, the payment of both the basic benefit and inflation adjustments (indexing) is subject to the Plan's ability to pay and payments could be increased or decreased depending if the Plan is over or under-funded.

The primary purpose of the UBC SPP is to provide stable lifetime retirement pensions for its members. The SPP Board and other parties keep this primary purpose in mind in making decisions and carrying out their fiduciary duty to members. ■

Governance Update

The SPP Board is required to provide the UBC Board of Governors with an annual Governance Report and Compliance Checklist under the Pension Board's *Terms of Reference and Governance Policy* effective February 2, 2012. The SPP presented a Quarterly Report, Governance Report and Compliance Checklist to the UBC Board of Governors on April 3, 2013. In summary, the SPP was 100% in compliance with legislation and with internal governance policies. To view the SPP Quarterly and Annual Reports made to the UBC Board of Governors, please visit the Plan Governance section on the Plan's website.

As reported in the February 2013 *SPP Update*, the SPP Board had been working with the Plan's investment consultant, PBI Actuarial Consultants (PBI) Ltd. on a new asset mix policy to help reduce risk in the Plan's investments. The UBC Board of Governors asked the SPP Board and PBI to complete additional work with UBC Investment Management Trust Inc., the Plan's investment manager, in the areas of long bonds and the Plan's discount rate. This work has been completed and on April 3, 2013 the UBC Board of Governors approved the recommended changes to the *Statement of Investment Policies and Procedures*. The table on the right illustrates the Plan's asset mix policy before and after the changes. ■

	Old Asset Mix Policy	New Asset Mix Policy	
Fixed Income	35%	45%	Fixed income includes items like cash, bonds, mortgages, and infrastructure debt.
Public Equities	30%	25%	Public equities are essentially stocks and include Canadian, U.S. and other foreign equities.
Alternatives	35%	30%	Alternative investments include items such as real estate and private equities.
Total	100%	100%	

What is Governance?

Visit the Plan Governance section of the Plan's website to learn more about governance and the fiduciary responsibilities of the SPP Board.

Guide to reading your SPP Annual Statement: For Active and Deferred Members

Active and Deferred members of the SPP will receive their 2012 Annual Statement with this issue of the *Staff Pension Plan Update*. The Plan is required by pension regulations to produce an annual statement for members, which provides a summary of information such as your contributions, benefits and personal pension data.

We are happy to provide a guide to help you read your annual member statement, which is available on the Library page on the Plan's website. If you have any questions regarding this guide, please e-mail them to spp@hr.ubc.ca ■

Did you join the Plan in 2013?

Members who joined the Plan in 2013 will receive their first statement in 2014 since statements are calculated as of December 31 of the prior year.

Deferred Members Age 55 and Over

Deferred members age 55 and over will receive a retirement package instead of an annual statement as they are eligible to start their pension immediately.

If you are approaching retirement and have not received a retirement package, please send us an e-mail at spp@hr.ubc.ca and include your current address, phone number, and e-mail address with your request for a retirement package.

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Staff Pension Plan 2012 Year in Review

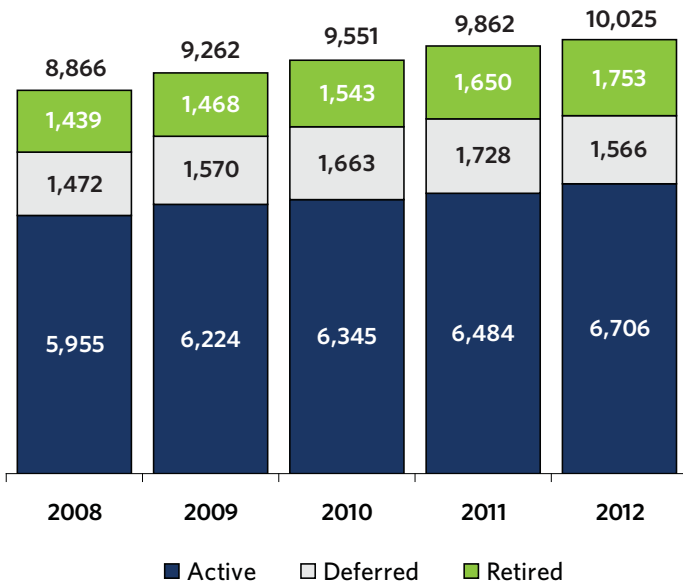
Have you ever wondered -

How many members are there in the pension plan? When are retirees typically starting their pension? How much money is contributed into the Plan by members, UBC and its related employers? How well did the investment funds perform in 2012? There is a report that answers all these questions and more.

We are pleased to provide our members an online report, *SPP Year in Review*, which provides a summary and highlights for the Plan in 2012, membership and financial statistics, and a review of the Plan's investment performance. Below is a snapshot of some of the information from the 2012 SPP Year in Review:

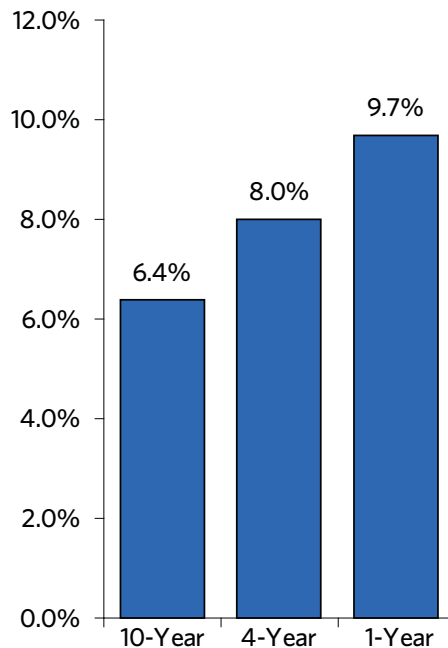
Number of Members

as at December 31



SPP Fund Rate of Return

as at December 31



View the **SPP Year in Review** at
www.pensions.ubc.ca/staff

This newsletter has been compiled by the Staff and Pension Board Members of the University of British Columbia Staff Pension Plan from information provided to them. If there is any inconsistency between the contents of this newsletter and the pension plan trust or legislation, the trust and legislation will prevail. If you wish to contact a SPP Board Director, contact information is available on the Plan's website.

Staff Pension Plan 2013 PENSION FAIR



**Thursday, June 6, 2013
11:30 a.m. to 1:15 p.m.**

**UBC First Nations Longhouse
Great Hall
1985 West Mall**

**RSVP is not required -
join us on the day
of the event!**

The Staff Pension Plan (SPP) Fair is a great opportunity for you to learn more about your pension plan and gain some pension knowledge. We look forward to meeting you and answering your questions. Light refreshments will be served.

Off-campus members will be reimbursed for parking or bus expenses. Don't forget to also enter for your chance to win a door prize.



a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

SPP Pension Fair: Here's your opportunity to learn more about your pension plan.

Are you a new UBC staff employee or a new SPP member?

Visit the **New Member table** to learn more about the SPP and find out what you should know about your pension plan. You can also sign up for an information session or workshop.



Working past age 65 or thinking about it?

Visit the **UBC HR Retirement and Survivor Benefits table** to learn about the program and what choices you'll need to make about your pension if you decide to work past age 65. Did you know that your medical, dental, and extended health benefits may change?



Approaching Retirement?

Visit the **Retirement table** and ask us about your retirement options. Speak with the **Service Canada** representative and ask them about government administered pension plans such as the **Canada Pension Plan** and **Old Age Security**.



Have you used myPension?

Visit our **myPension table** to learn how to use this customized online tool to generate your own pension estimates for retirement income planning.



Interested in how and where your pension funds are invested?

Representatives from **UBC Investment Management Trust (IMANT)** will be available to answer questions regarding the SPP funds and other UBC investment related topics.