NOVEMBER 2008

STAFF PENSION PLAN UPDATE

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

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Dear Plan Members:

This newsletter features articles on the results of the 2008 Actuarial Valuation, Economic Update, Proposed Changes to the Staff Pension Plan and Pension versus Commuted Value.

Valuation Results

The Plan's Actuary has written a report on the results of the 2008 Actuarial Valuation of the Plan. You will be pleased to read that the Plan passed the benefits/funding test, which means we will continue to pay full pension benefits, including pre and post retirement indexing. The next Actuarial Valuation will be performed as of January 1, 2011. See pages 2-3 for the actuary's report on the 2008 Valuation.

Proposed Changes

The Pension Board recently completed work on the Proposed Changes to the SPP and has made a recommendation to the University. The University will be presenting the Proposed Changes to the Board of Governors for their approval. See page 5 for a list of the Proposed Changes.

Pension vs. Commuted Value

When you retire from the University, you may elect to take a lifetime pension from the Plan or you may transfer the lump sum value of your pension out of the Plan. To help you with this decision, we have prepared two articles. The article on pages 6 and 7, Pension versus Commuted Value provides you with a summary of the two options. To read the full article "Pension versus Commuted Value: To Transfer or Not to Transfer?" visit the Staff Pension Plan website at www.pensions.ubc.ca/staff/library.html

Election

Packages for the 2008 SPP Election were mailed to members on October 31, 2008. The deadline for casting ballots is midnight Thursday, November 27, 2008, with results being announced on December 5, 2008. Let your voice be heard by exercising your vote!

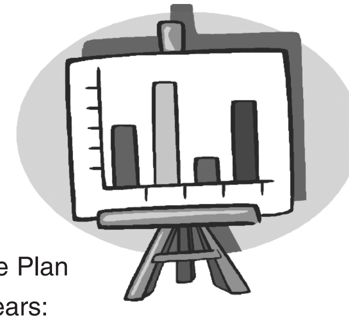
On behalf of the administrative staff and directors of the Pension Board, I extend best wishes to you and your family for a safe and happy holiday season.

On behalf of the Board,

Brian Evans

Brian Evans
CHAIR

What's inside



Summary of Actuarial Valuation

The Pension Plan is Ready for Change

The UBC Staff Pension Plan (the "Plan") had its triennial check-up and the long-term funding of the Plan is ready to support the Proposed Changes to the Plan. These changes are designed to improve equity among members and enhance the security of Plan benefits. The Proposed Changes are listed on page 5 of the newsletter.

UBC Staff Pension Plan

The Plan was established January 1, 1972, and is a defined benefit pension plan with fixed contributions from the University and the Plan members. The management of the Plan is the responsibility of the Pension Board. The Pension Administration Office in Human Resources provides administration services. The Plan's assets at the end of 2007 were held by RBC Dexia Investor Services and are managed by the UBC Investment Management Trust.

An actuarial valuation of the Plan is conducted every three years:

- Last valuation – January 1, 2005
- This valuation – January 1, 2008
- Next valuation – by January 1, 2011

What the valuation does:

- Tells us the degree to which the Plan is well funded
- Tells us whether we should be distributing funds to members as benefit improvements or cash distributions if the funding is more than we need
- Tells us whether we need to reduce benefits, in the event the funding is too low
- Enables us to keep our regulatory filings up-to-date with the pension authorities

Results

Actuarial Valuation Results	at January 1, 2005	at January 1, 2008
Funding Position		
Actuarial value of assets	$ 626,246,000	$ 793,309,000
Actuarial unbiased liability	$ 475,411,000	$ 620,532,000
Contingency reserve *(assets minus liability)*	$ 150,835,000	$ 172,777,000
Ongoing Costs		
(shown as a % of the total regular pay for all active Plan members)		
Total contribution rate	12.3%	12.4%
Estimated cost of benefits earned in current year	11.4%	12.4%
Contribution margin *(contribution rate minus cost of benefits earned)*	0.9%	0.0%

What the results mean:

The results are "best estimates" based on long-term assumptions.

- Actual assets will vary with investment returns. The liability and the estimated cost of benefits will change with investment expectations and other factors such as salary increases and inflation.
- University plus member contributions to the Plan are fixed at the total contribution rate shown.
- Since we can't predict the future accurately, we need safety margins. The contingency reserve and the contribution margin provide these.

The table on page 2 shows that the Plan is fully funded and has good safety margins.

Benefits / Funding Test

The Plan has a long-term benefits/funding policy under which we apply tests to see whether our funding is sufficient to cope over the foreseeable future of the Plan. The benefits/funding policy calls for the Plan to retain a contingency reserve to protect it against adverse experience such as investment losses and drops in the outlook for future investment returns.

- The first test in the funding policy is to check whether we have enough money to sustain current benefit levels 25 years into the future, including full cost-of-living adjustments for pensioners. The Plan passed this test comfortably. If it did not, benefits would have to be reduced until the next valuation.
- The second test is to see whether the contingency reserve falls within the range which it is prudent to keep in reserve as a buffer against future adverse conditions. It is within that range. (If it was not, we would have had to use the extra funds for the benefit of members, e.g. by improving benefits or distributing the excess funds.)

In summary, the results show that the Plan is appropriately funded at present, with full funding and good, but not excessive, safety margins.

In addition, the financial position of the Plan is able to support the Proposed Changes to the Plan. A benefits/funding test performed on the Plan with the Proposed Changes revealed results similar to those under the current Plan design.

Note

This summary was simplified for presentation. It is for general information purposes only. Members can arrange access to the full valuation report by request from the Pension Administration Office.

Economic Update by UBC IMANT

As of October 24, 2008, the Canadian market as represented by the S&P/TSX was down by -32.8% year to date (YTD). The U.S. market, as represented by the S&P 500, was down by 23.1% YTD in Canadian dollars. The relative out performance of the U.S. compared to Canada was mainly due to the decline on the Canadian dollar of 22.4% over the same period. We estimate that the SPP assets are down by 16% YTD as of October 24, 2008.

What caused the market meltdown?

Irresponsible lending practices caused the extraordinary financial crisis encircling the global economy, at present. More specifically, banks set the stage for the crisis through excessive lending practices. A sizable portion of customers managed to obtain loans beyond their means. Some had difficulty paying the interest, let alone returning the principal on their loans. Investment banks, like the now defunct Lehman Brothers succeeded in globalizing the whole matter through issuing securities, backed by these dicey loans, and selling these to investors worldwide. Rating agencies such as S&P, Moodys etc. converted these dicey loan backed securities into AAA securities by requiring issuers to add on default insurance from reputable insurance companies like AIG. Regulators were asleep at the switch, failed to connect the dots, and did not realize the massive risk created in the system. Investors like pension funds bought these securities on good faith of AAA ratings. The Chapter 11 bankruptcy of Lehman Brothers brought the entire house of cards down. Credit, which is the life blood of the global economy dried up. Banks would not lend to each other, as they were unsure how much risk the other bank was carrying. Bank stocks started collapsing. The panic spread to other sectors and the entire market came tumbling down.

Is the worst behind us?

A slew of synchronized measures and bailout packages by governments and central banks finally seem to have put breaks on diminishing stock market values across the globe. Inter-bank lending has started to thaw. The injection of billions of dollars of national wealth will prevent further bank failures, liquidity situation will ease and markets will tend to show some signs of stability. But this crisis is going to be around for months, maybe years. The next phase seems to be a slowdown in global economic growth, which will have its own victims. Therefore, it is too early to say that the worst is behind us.

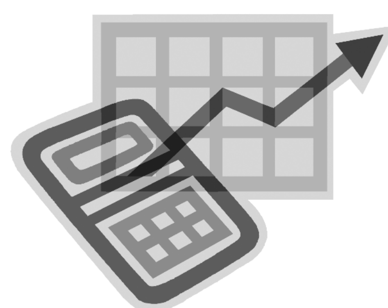
What is the impact on SPP?

The SPP is a long-term investor. Market fluctuations, even extreme events, as happened this year will not derail the Plan from meeting its objectives. Markets are shaped by human emotions and have a tendency to go from one extreme (euphoria) to another extreme (doom and gloom). The Plan remains fully funded. The best strategy for long term investors is to remain fully invested and ride out the storm. It is also an opportunity to re-balance the portfolio, to benefit from the relative value created in certain sectors of the economy, by the downturn. UBC IMANT proposes to do exactly the same.

Proposed Changes Update

The following Proposed Changes to the UBC Staff Pension Plan will be presented to the UBC Board of Governors, for their approval, in November 2008. The Proposed Changes will be effective July 1, 2009.

- **Pension Formula:** The new formula will be 1.8% of your best 3 years average salary times your years of pensionable service. The new formula applies to service on and after July 1, 2009.
- **Member Required Contributions:** 6.5% of pensionable earnings.
- **Normal Form:** Simplification from two to one Normal Form for all members regardless of marital status. This applies to service on and after July 1, 2009. The Normal Form will be Single Life with a minimum guarantee of 10 years.
- **Termination Lump Sum Payment:** Commencing July 1, 2009 the minimum lump sum payment on termination will change from 2 times member contributions to 1.5 times member contributions. The reduction in the minimum lump sum payment allows for a higher pension formula.
- **Minimum Benefits:** There is no longer a minimum guaranteed interest on member contributions. Instead, there is a minimum benefit of 2 times member contributions prior to July 1, 2009 and 1.5 times member contributions after July 1, 2009. This change is being made for the long-term sustainability of pension benefits.
- **Eligibility Rules:** The eligibility rules for paid staff employees will change from 24 months to 12 months in which 35% of the YMPE has been earned.
- **Compulsory Membership:** The criteria of attaining age 30 for compulsory membership will be removed for new employees hired on or after July 1, 2009. Membership becomes compulsory on completing three years of service.
- **Disabled Member Contributions:** Plan Members who go on Income Replacement Plan [IRP] benefits on or after July 1, 2009 will be required to make member and employer contributions to the Plan in order to accrue pension service. Previously no contributions were required. This change has been made to ensure the long-term sustainability of pension benefits and to be fair to all members. Members who are on IRP prior to July 1, 2009 will not be affected by this change.
- **Indexing:** The method of calculating indexing will be changed to mimic the CPP indexing basis. This change simplifies communications as pensions will then be indexed at the same rate as CPP benefits.
- **Grandparenting Provision:** To ensure no loss of retirement benefits under the new flat benefit formula a grandparenting provision will apply to every person who is a Plan Member on June 30th, 2009. This will ensure at least the same dollar amount of pension at normal retirement as the old pension formula.



Pension vs. Commuted Value: To Transfer or Not To Transfer?

The University of British Columbia Staff Pension Plan (the “Plan” or “SPP”) is designed to provide you with support in retirement. It will not be, and should not be viewed as, your only source of retirement income. Once you’ve been in the Plan for several years, however, your UBC pension can make a substantial contribution to your retirement security.

When you leave employment with UBC, you have choices to make with respect to your Plan benefits. This article examines the choice between drawing a monthly pension from the Plan and transferring the lump sum commuted value of your benefit out of the Plan.

Pension Option

Electing the Pension Option means you choose to leave your money in the Plan and receive a monthly pension payment from the Plan for the rest of your life.

When you leave UBC, you will receive a package outlining all your pension options, including the monthly pension income you can expect. If you have questions about early or postponed retirement, how cost of living adjustments work, or the death benefits, you can contact the Pension Administration Office to discuss your personal situation.

Commuted Value Option

The commuted value is the amount of money invested today which would, under prescribed assumptions, grow to be exactly sufficient to provide the pension under the Pension Option above. Basically, if you get the assumed investment return, die when expected, and inflation is as assumed, then the lump sum commuted value will reproduce your SPP pension.

In general, a commuted value payment must be transferred to a locked-in registered vehicle, the transfer does not affect your RRSP contribution room, and the amount transferred is not considered taxable income.

Assumptions

The two options are theoretically equivalent. However, the commuted value is based on certain assumptions and selecting the Commuted Value Option means you take on the associated risks, and opportunities.

The following table gives you an idea of how actual experience may differ from assumptions, which could affect your choice:

Assumption	Pension Option may be better if:	Commuted Value Option may be better if:
Mortality	You expect to live longer than the average person	You expect to die sooner than the average person
Retirement age	You want to retire at the age assumed in the commuted value calculation	You want to retire at an age different from that assumed in the commuted value calculation
Inflation	Inflation is higher than assumed	Inflation is lower than assumed
Investment return	You’re not sure if you can consistently earn the investment return assumed in the commuted value calculation	You’re confident that you can achieve consistent investment returns higher than those assumed in the commuted value calculation

Plan Funding Status

If you take the Pension Option, you are not, however, totally risk or opportunity free.

The Plan has a unique design – contributions to the Plan (both from members and from the University and other participating employers) are fixed. This means the level of your pension and your associated rights and benefits are variable, and depend on the status of Plan funding.

If you choose the Pension Option, you would be included in any cutback and in any future benefit increase. There has not been a benefit cutback or a cash distribution in the 36 year history of the Plan.

If you choose the Commuted Value Option, the funds you withdraw are your responsibility as you are no longer a member of the Plan. You are not eligible for any future benefit adjustments (either decrease or increase).

The Commuted Value Option has Tax Advantages…

The primary advantage of investment through a registered vehicle is effective elimination of tax on investment income. Therefore, the longer money stays in the registered vehicle, the longer tax-sheltered compounding works in the investor's favour. For employees who do not immediately need their SPP benefit for retirement income and whose objective is wealth accumulation through tax-deferral, the Commuted Value Option may offer a tax advantage.

…And Disadvantages

On the other hand, if the commuted value is greater than the amount that can be transferred to another registered vehicle, the excess is immediately taxable upon settlement of the Commuted Value Option. In this situation, any advantage of tax-deferral through transfer of the commuted value to an RRSP will be offset by the loss of tax-deferral on the excess funds. Be sure to pay attention to whether or not your options are affected by this limit.

Locking-In

Generally, most of the commuted value would be "locked-in" under pension standards legislation. This means that, after transfer to an RRSP or other registered vehicle, it must ultimately be used to provide retirement income, it remains subject to minimum spousal pension rules, and some investment restrictions may apply.

Making Your Decision

This article addresses only some of the considerations you will need to ponder as you choose between the Pension Option (leaving your benefit in the Plan and receiving a pension at a future retirement date) and the Commuted Value Option (transferring your benefit out of the Plan and taking personal responsibility for your ultimate retirement income).

There are, of course, other considerations that hinge upon your personal situation: financial considerations, tax considerations, family and lifestyle considerations, personal objectives, and so on. You will want to make your SPP benefit decision(s) in the context of your overall personal financial and tax situation.

Please view the full article on the Staff Pension Plan website at www.pensions.ubc.ca/staff/ or call the Pension Administration at (604) 822-8100, for a copy.

This article is for informational purposes only. It is summary in nature and does not constitute professional advice in any way.

Christmas to New Year Closure

The Pension Administration Office will be closed from December 25, 2008 to January 1, 2009, inclusive. In case of a Pensions emergency during the closure, the general phone line **(604) 822-8100** will be monitored daily.