# STAFF PENSION PLAN UPDATE

FEBRUARY 2010

**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:

It was an eventful year in 2009 for the Staff Pension Plan (SPP) that reflected changes to the Plan as well as some recovery for the Plan's assets. Plan improvements will continue into 2010 as the Pension Board works on implementing some cost reduction strategies.

Pensioners will see a 0.4% Cost of Living Adjustment (COLA) increase on their 2010 pension payments. If you retired in 2009, you will receive a prorated cost of living increase based on your retirement date. Effective January 1, 2010, the SPP's approach for calculating the COLA will align with the method and timing of the Canada Pension Plan (CPP) indexing.

I am also pleased to announce that our Plan Administrator, Jay Parker, has been reappointed to the Pension Board by the University for another four-year term commencing on January 1, 2010. Jay's reappointment ensures continuity and we greatly appreciate his ongoing contributions to the administration of the Plan.

**Economic Update**

UBC IMANT has updated the status of the Plan's assets. The article on page 2 provides a summary of 2009 market activity.

**Amendment of Commuted Value Lump Sum Option for Members Age 55 and Older**

The UBC Board of Governors has approved the Pension Board's recommendation to remove the Commuted Value Lump Sum Option for members age 55 and older. This change, recommended by the Pension Board to improve the financial position of the Plan and so provide increased security for member pensions with full indexing, is effective for members who retire on or after January 1, 2011. Refer to pages 3 and 4 for details and related questions and answers.

**Getting to Know Government Administered Pension Plans**

Two important sources of retirement income are the government administered pension programs, Old Age Security (OAS) and the Canada Pension Plan (CPP). A helpful article on page 5 through 7 examines these two programs including some of the proposed changes to CPP. The article also describes when and how you can apply for these programs to ensure you receive timely payments.

**The Staff Pension Plan and Working Past Age 65**

Did you know that your UBC medical, dental, and extended health benefits will change if you elect your pension and continue to work past age 65? Refer to the article on page 7 to see how this applies to you.

**RRSP Information for 2010**

March 1, 2010 is the deadline for RRSP contributions for the 2009 tax year. Your RRSP contribution room for 2009 is 18% of your gross income (before taxes and deductions) to a maximum of $21,000, less your 2008 Pension Adjustment. For more information, read the article on page 8.

**Mark Your Calendars**

The Annual SPP Pension Fair will be held on Thursday, May 27, 2010. Stay tuned for the next issue of the Staff Pension Plan Update for details.

We have also posted the 2010 orientation and workshop dates on the SPP website; go to the 'Workshops' page under the 'Quickfind' menu to confirm these dates. You will also notice the new University branding on our website. Please visit **www.pensions.ubc.ca/staff** to view the new look as well as to read the latest news and information about the Plan.

On behalf of the Board,

Brian Evans

Brian Evans, CHAIR



### What's inside

# Economic Update by UBC IMANT

*The UBC IMANT Board of Directors and staff are responsible for determining the Plan's asset mix, investment manager selection, and allocations, in addition to monitoring investment performance and investment alternatives. UBC IMANT reports to UBC's Board of Governors on an ongoing basis and reports to the SPP Board of Directors as required.*

## Plan Assets Start to Recover in 2009

Global equity markets have significantly improved over the last three quarters of 2009 compared to the declines through early March 2009 and the market collapse experienced in late 2008.

In local currencies, the major markets generated returns in excess of 20%: the Canadian market was up 27%, the U.S. market 21%, and the foreign markets 26%. For Canadian investors, these returns were influenced by the strong appreciation of the Canadian dollar relative to the US dollar, and world currencies with 16 – 18% increases driven in part by higher oil and commodity prices as economies recovered, particularly in emerging markets.

As confidence improved and credit markets continued to rebound, the fixed income markets also had a strong year with the Canadian index up approximately 7.0%. As the availability of credit and the balance sheets of the banks improved, corporate debt experienced a significant rebound with returns in excess of 17%.

The public market returns for the Staff Pension Plan were generally aligned with overall market returns. Total returns were, however, impacted by slower recoveries in the non-public investments of the Fund, private equity and real estate. While these long-term investments were slower to depreciate in value as a result of the market fall in late 2008, their appreciation in value relative to the public markets has also been slower. In recent quarters, the private equity investments are showing small but positive appreciation. Real estate investments, particularly the global allocations, continue to experience pressure primarily driven by refinancing issues for the real estate debt. Unlike the housing market in Canada, non-residential real estate globally is expected to recover at a slower pace.

The Plan's total fund return for 2009 will be available at the end of April after the Audit and Financial Statements have been completed, and will be posted at that time on the SPP website.

## Where Do We Go From Here

While the positive returns seen through 2009 were significant, equity markets are still well below the highs, reached in 2007 and 2008. As government stimulus packages wind up, there are concerns about what will drive ongoing economic growth. While consumer confidence levels improved in Canada, they are still weak in the US.

With government and personal debt levels at historically high levels, increases in taxes will be required to address the governments' debts. This will be a challenge for consumers given high unemployment rates and employer pressures to minimize wage increases. In addition, global warming policy initiatives will at some point be implemented resulting in rising costs for developed nations. Bankruptcies in the US are not expected to peak until the last half of 2010, and given that most companies have already been downsized, the only way to improve revenues will be through increased consumer spending and improved confidence. The Canadian real estate market in many urban centers is back to 2008 levels. In contrast, the US housing market has not recovered and until widespread improvement occurs, any significant recovery in the US will be slow.

While the Bank of Canada wants to avoid interest rate increases into mid-2010, recent announcements hint at concerns about personal debt levels as credit balances for home purchases have increased in response to the extended period of very low rates, a situation similar to the US 2 years ago. Interest rates were increasing in some countries late in 2009, as others started to worry about credit and inflation issues (i.e. Australia).

# Amendment of Commuted Value Lump Sum Option for Members Age 55 and Older

*The UBC Board of Governors approved the Pension Board's recommendation to remove the Commuted Value (lump sum) option for members age 55 and older. This change is effective for members who retire on or after January 1, 2011.*

Given today's low interest rate environment, providing the commuted value lump sum option has become an increasing concern for the Pension Board. Over-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, all possible cost reducing options were carefully considered. On the advice of the Plan's Actuary and Legal Counsel, the Pension Board recommended the removal of the commuted value lump sum option, which is affected by external factors beyond members' control, like the timing of interest rate changes. The remaining pension options will continue unchanged.

The 2008 Financial Statements of the Staff Pension Plan reported that the Plan's assets had decreased from \$812.9 million at the end of 2007 to \$643.6 million at the end of 2008, for a loss of \$169.3 million. Although the Plan's assets have since recovered to \$713 million as at November 30, 2009, the Plan must ensure that there are greater assets than liabilities to continue paying indexed pensions. Every three years, an actuarial valuation is completed by the Plan's Actuary to determine the Plan's ability to pay pension benefits. As the next Actuarial Valuation will be conducted as of January 1, 2011, it was important to recommend the implementation of this change by then.

The Pension Board is appointed by the UBC Board of Governors (BOG) and elected by its members to make recommendations to the University regarding amendments including compliance requirements and benefit improvements. Recommendations are only brought forth to the BOG after careful consideration by the Pension Board and feedback from the Plan's Actuary and Legal Counsel, and are recommended in the best interest of the Plan and its members. In this case, this change was recommended as it would help improve the financial position of the Plan and so provide increased security for member pensions with full indexing.

The following Questions and Answers will help members understand the impact of this change.

## Question and Answers

**Q:** ***What is the Commuted Value Lump Sum Option?***

When members leave employment with UBC, they have several options for receiving their pension benefits, one of which is known as the Commuted Value Lump Sum option. The commuted value is the lump sum present value of the pension benefits that an employee is entitled to under the Plan. The value is calculated by an Actuary in accordance with the B.C. Pension Benefits Standards Act and takes into account several variables such as life expectancies and interest rates at the time.

For members who select this lump sum option at retirement and/or when they leave the University, it is required that part of the lump sum must be transferred to a locked-in retirement vehicle approved by pension legislation, such as a locked-in RRSP, and the other non-locked in portion can be received as a taxable payment. A portion of this taxable payment may be transferred to a non-locked-in RRSP.

The choice between electing a pension option, lump sum, or combination of the two, can be difficult. Members, especially those approaching retirement, are encouraged to learn about the pros and cons of these options before making any decisions. For informational purposes only, an article, *Pension vs. Commuted Value: To Transfer or Not to Transfer* written by the Plan's Actuary was previously featured in the November 2008 newsletter. The full article can viewed on the Staff Pension Plan website at: **www.pensions.ubc.ca/staff/publications/articles/commutedvalue.pdf**.

**Q: *Did the Pension Board consider making this change apply only to new members?***

A reduction in the Plan's liabilities must occur before the Actuarial Valuation on January 1, 2011. The removal of the CV option for new plan members would not have an immediate impact on the Plan's liabilities: in fact it would take fifty or more years for the change to be fully implemented. This long transition time would not help reduce Plan liabilities and in the long run would end up costing the Plan greater administrative and communication expenses.

**Q: *Are there any exceptions?***

There is an exception for members age 55 and older who either have small pensions or have a minimum refund benefit based on a Plan specified multiple of the member's contributions with interest that is higher than the commuted value (see next question).

If the member's annual pension unreduced and in the Normal Form, is less than 10% of the YMPE (equal to $393.33 per month in 2010 dollars), then the member has the option of a lump sum payment in settlement of their benefit.

If you are approaching retirement and are unsure if either of these exceptions would apply to your pension, please contact the Pension Administration Office at **spp@hr.ubc.ca**.


**Q: *What happens if a member's contribution refund is greater than their lump sum commuted value?***

Members will receive a monthly pension equal in value to the commuted value and the difference between the commuted value and contribution refund will be paid as a lump sum. For example, a member with a contribution refund of $400,000 and a commuted value of $350,000 would receive a monthly pension with a value of $350,000 and $50,000 would be paid as a lump sum.

**Q: *For members who considered taking the CV option on retirement, what are their options now?***

Members concerned about the removal of this option should review all the options available to them. If you are approaching retirement and need to know more about the pension options available to you, please contact **Margaret Leathley** at **(604) 822-8119** or by e-mail at **margaret.leathley@ubc.ca**.

**Q: *Where can I find additional information?***

A complete list of Q & As regarding the removal of the Commuted Value Lump Sum option for members age 55 and older is available at **www.pensions.ubc.ca/staff/cv_option_amendment.html**.

**The Globe and Mail recently published a 7-part series on current financial issues regarding retirement.** Part 4 of this series included an article about a former UBC Staff Pension Plan member who took the commuted lump sum value of his pension. To obtain a copy of this helpful article, please send an e-mail to **spp@hr.ubc.ca** with "Globe & Mail Article" in the subject line.

# Getting to Know Government Administered Pension Plans

*Two important sources of retirement income are the government administered pension programs, Old Age Security (OAS) and the Canada Pension Plan (CPP). This article examines these two programs, including some of the proposed changes to CPP, and looks at the critical issue of when to start these pensions.*

## Old Age Security

OAS is a universal program that provides income to Canadians who reach age 65. Eligibility depends only on the period of residency in Canada. The eligibility rules are complex; generally at least 10 years of residency is required for any benefit. Unlike CPP, OAS is available only at age 65 or later, and deferring OAS beyond age 65 does not increase the amount of pension.

The maximum OAS payment in 2010, for new or ongoing recipients, is $516.96 per month. The maximum amount is available to those who have been resident in Canada for 40 or more years; for retirees who have fewer than 40 years of residency in Canada, the pension is reduced pro-rata. The rules applicable to individuals who have moved in and out of Canada or retire outside of Canada are complex, and may affect the amount of OAS pension. For details of your own situation, you can contact Service Canada.

OAS benefits are adjusted for inflation four times per year. No death benefits are payable on the death of an OAS pensioner or on death before payments start. If there is a spouse, the spouse's OAS benefit will be calculated and paid when the spouse reaches age 65, based on the spouse's period of residence in Canada.

***For information about OAS or CPP, contact Service Canada:***

**http://www.servicecanada.gc.ca/eng/audiences/seniors/index.shtml**

**1-800-277-9914**
*(Canada & US)*

**1-613-957-1954**
*(Outside Canada & US)*
*(collect calls accepted)*

OAS is funded from government tax revenue and administered by Human Resources & Skills Development Canada (HRSDC). The federal government has long recognized that the cost of OAS will rise dramatically as the baby boomer generation retires. A mechanism is in place to control the future cost of OAS – the OAS clawback. Canadians who meet the age and residency tests still qualify for OAS, but if their income exceeds a certain level, some or all of their OAS is "clawed back" when they complete their annual income tax return.

In 2010, the OAS clawback begins at an income of $66,733 at a rate of 15 cents for each dollar of income above that level. OAS is fully clawed back at an income of $108,090. The clawback thresholds are normally adjusted each year for inflation. If necessary, the federal government can control the cost of OAS by simply adjusting the clawback. Because the cost of OAS is expected to increase sharply and the benefit is paid from tax revenue (and is not pre-funded), some financial planners exclude OAS when they create retirement plans for their clients.

### Starting your OAS pension

To receive your OAS pension, you must make application to HRSDC through Service Canada. HRSDC then determines the amount of your payment, which is typically deposited directly to your bank account.

Depending on your income level, some or all of your OAS will be taxed when you file your income tax return.

Because OAS is not payable before age 65, nor are larger OAS benefits available if you start after age 65, the natural starting age for OAS is 65. Although some seniors may have income at a level that would lead to their entire OAS being clawed back, all seniors are advised to apply for and receive their OAS in the event that their future income or the clawback mechanism changes.

## Canada Pension Plan

CPP is a government-administered employment-based retirement program funded by employees and employers. The federal government administers CPP, but does not pay for any of the cost of the pensions.

Employees and employers currently each contribute 4.95% of an employee's contributory earnings (with a combined rate of 9.9% for the self-employed), where contributory earnings are earnings between a base level of $3,500 and a maximum annual amount (referred to as the Year's Maximum Pensionable Earnings, or "YMPE"). The YMPE in 2010 is equal to $47,200, and will be adjusted for wage inflation each year. The adequacy of the CPP contribution rate is assessed by the CPP's actuary every five years; if required, the rate is adjusted.

CPP provides retirement benefits that may start as early as age 60. CPP also provides survivor benefits on death before or after retirement, and provides pre-retirement income to disabled contributors.

The rules applicable to CPP, including the contribution rates, are established jointly by the federal and provincial governments. From time to time, the actuarial review leads to changes in the CPP; this article outlines some proposed changes.

CPP provides a maximum retirement income at age 65 equal to 25% of pre-retirement pensionable earnings. The calculation of "pre-retirement pensionable earnings" is complex: for individuals who have earned at least the YMPE in each year from age 18 up to retirement, pre-retirement pensionable earnings are equal to the average YMPE in the five years before retirement. For 2010 retirees, the maximum CPP pension at age 65 is $934.17 per month.

For retirees who have not earned the YMPE in each year before retirement, the pension is reduced proportionately to the extent that the average earnings over the working period fall short of the average YMPE. A number of the low-earning years are dropped from the calculation, which is beneficial to individuals who were studying, travelling or unemployed for a portion of the period. Currently, 15% of the low-earning years may be dropped from the calculation. It is proposed that the drop-out percentage will increase to 16% in 2012, which will allow up to 7.5 years to be dropped, and to 17% in 2014, which will allow up to 8 years to be dropped. You can contact Service Canada for details of your own situation, including your pensionable earnings each year and the years that may be dropped.

CPP benefits may be started as early as age 60, and benefits may be deferred up to age 70. In starting CPP before or after age 65, the initial part of the calculation is as described above, equal to 25% of pre-retirement pensionable earnings, adjusted for years of low earnings, subject to the earnings drop out. On retirement before age 65, the pension is currently reduced by 0.5% for each month that the retirement date precedes age 65. For instance, for an individual with maximum earnings, the pension at age 60 is 70% of the maximum pension, because the reduction is 60 months (before age 65) x 0.5% = 30%.

## Proposed changes to the CPP

When the early retirement reduction percentage of 0.5% per year was introduced, it was intended to be "actuarially equivalent", which means that an individual starting a pension at age 60 is expected to receive a larger number of smaller pension payments that are equivalent in value to the pension the individual would have received had the pension started at age 65. Proposed changes reflecting evolving economic and demographic conditions will gradually increase the early pension reduction, starting in 2012, from 0.5% per month for each month that the pension is taken before age 65, to 0.6% per month in 2016.

If CPP benefits are deferred beyond age 65, the pension is currently increased by 0.5% for each month that the retirement date is beyond age 65. For example, for an individual with maximum earnings, the pension at age 68 is 118% of the maximum pension, because the enhancement is 36 months x 0.5% = 18%. The adjustment for deferred pensions is proposed to be gradually increased over a period of three years, starting in 2011, from 0.5% per month for each month that the pension is taken after an individual's 65th birthday up to age 70, to 0.7% per month.

Another proposed change in the CPP is the elimination of the requirement to either stop work or reduce earnings to receive CPP benefits before age 65. This change would not affect anyone who takes their CPP retirement pension before 2012. There has never been a requirement to stop working to receive CPP benefits at or after age 65.

### Starting your CPP pension

To receive your CPP pension, you must make application to HRSDC through Service Canada. HRSDC then determines the amount of your payment.

Choosing a start date for your CPP needs some consideration, because the amounts vary according to the age when benefits start. One simple approach is to consider the "breakeven age" – the age at which the total amount that you would receive as a result of retiring early (or late) would be equal to the total amount that you would receive by retiring at age 65. For instance, if you are choosing between starting your CPP at 65 or starting at a later date, if you die before the breakeven age, you will receive more pension by starting your pension at age 65; if you live to an advanced age, you will do better with the larger pension starting after age 65.

With the current deferred retirement enhancement, and ignoring wage and price inflation, the breakeven age is 86. An individual contemplating starting their CPP at age 65 would consider the advantage of receiving payments immediately (a bird in the hand is worth two in the bush), which would deliver more benefits in total in the event of early death, while the potential for a long life span would favour choosing a larger pension that starts later than age 65. The breakeven approach must be used with caution, as there are many other factors that should be recognized:

- The initial amount of CPP at age 65 is based on a wage index. The initial pension on retirement after age 65 will not only be increased by the 0.5% per month adjustment, but will reflect any increases in the wage index after age 65. Consequently, the initial amount at deferred retirement could be even higher than simply the percentage-per-month amount.
- Pension payments are adjusted for price inflation, so the benefits starting at age 65 have additional value when these adjustments are included.
- The breakeven calculation does not take into account the potential earnings that could be generated from earlier payments, nor the tax on those payments or the investment earnings.
- For individuals who continue to work after age 65, CPP benefits can commence. CPP contributions stop (provided UBC payroll is notified), which is a considerable savings that could generate additional investment earnings in (for instance) a tax-free savings account.

Perhaps the most important factor to consider in deciding when to start CPP is income tax. Near the top of the list of advice on financial planning is the advice to use all non-tax-sheltered sources of income first, and defer all tax-sheltered income until needed. If you receive CPP early but do not need it, then you may be paying a higher rate of income tax on it than if you defer. To some extent, CPP is a tax-sheltered retirement income vehicle, where deferral is often the best strategy.

Retirement planning may be complex, requiring a review of all assets and potential income sources, and income needs in retirement. Although CPP is sometimes excluded by financial planners in advising their clients because of uncertainty about its long-term sustainability, CPP is generally believed by actuaries to be viable over the long term. In developing a plan, it should be recognized that CPP benefits can be split between spouses, which helps reduce income taxes.

*This article was prepared by Satanove & Flood Consulting Ltd.*

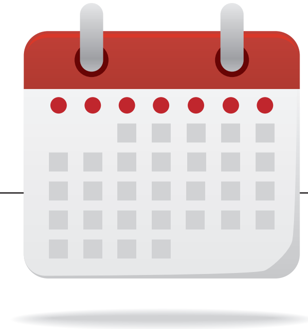
## The Staff Pension Plan and Working Past Age 65

As UBC employees, members may work past age 65 and defer starting their pension until age 71, at which time they are required to select a pension option. Two options are available with regards to pension if members decide to work past age 65:

1. They may continue making contributions and accrue pension until the age of 71, at which point they must elect to start their pension benefit.
2. They may elect to stop making contributions and begin their pension at age 65 or the first of a later month.

There are benefit changes if either option is selected; and in particular, there are changes to medical, dental, and extended health benefits for members who select the second option. Members are encouraged to visit the HR Benefits page on *Benefits When Working Past Normal Retirement Date* at **www.hr.ubc.ca/benefits/pastnormalretirement/index.html** regarding the changes.

# RRSP Information for 2010



March 1, 2010 is the deadline for RRSP contributions for the 2009 tax year. Information on how much you can contribute follows.

## To find your contribution limit

The maximum amount you can contribute to an RRSP each year is shown on the Canada Revenue Agency (CRA) Notice of Assessment that you receive after you file your income tax return. You can also find your contribution limit by calling the CRA at **1-800-267-6999** or by using the My Account option on the CRA website **(http://www.cra-arc.gc.ca)**. You will need a Government of Canada epass, which you can obtain on this website.

## Contribution room

Your RRSP contribution room for 2009 is 18% of your gross income (before taxes and deductions) to a maximum of $21,000, less your 2008 Pension Adjustment. However, if you did not use all of your RRSP contribution room in any year since the 1991 tax year, you can carry that amount forward indefinitely to use in future years.

The RRSP contribution maximum increases to $22,000 in 2010 and $22,450 in the 2011 tax year.

## Pension Adjustment

Your contribution room is reduced by your Pension Adjustment (PA) – the value of the pension you accrued in your registered pension plan during the tax year. Your Pension Adjustment amount is listed in Box 52 of your T4 slip.

Please note when you are doing your taxes for 2009, you will have a higher Pension Adjustment this year as your pension benefit is higher under the July 1, 2009 plan changes.

For more information regarding pension adjustments, calculating your PA, and how it affects your RRSP contribution room, visit **www.pensions.ubc.ca/staff/rrsp.html**.

## Other Sources of Retirement Income – 2010

| Source | Maximum Monthly Benefit | Contributions | Notes |
|---|---|---|---|
| **Canada Pension Plan***<br>*These rates are adjusted annually to reflect Consumer Price Index increase* | $934.17 | YMPE: $47,200<br>YBE: $3,500<br>4.95% of YMPE above the YBE to a maximum of $2,163.15 | The YMPE (Year's Maximum Pensionable Earnings) is the maximum amount of earnings on which Canadians can contribute the CPP.<br>The YBE is the Year's Basic Exemption |
| Old Age Security** | $516.96 | | These benefits are adjusted quarterly. |

* http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/cpp-rpc/menu-eng.html?=slnk

** http://www.hrsdc.gc.ca/eng/isp/oas/oasrates.shtml