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THE UNIVERSITY OF BRITISH COLUMBIA

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staff pension plan update

Results of the Actuarial Valuation: How they impact *your* Pension

Every three years, the Staff Pension Plan (SPP) is required to undergo an Actuarial Valuation, which is conducted by the Plan's actuary, Aon Hewitt. This year was a valuation year and the Plan's financial position on December 31, 2010 will determine its ability to pay benefits and indexing for the next three years. The next valuation is scheduled for December 31, 2013.

What is an Actuarial Valuation?

An actuarial valuation is essentially a financial check-up for the Plan. The valuation enables the Plan to keep regulatory filings up-to-date with pension authorities.

In an Actuarial Valuation, the actuary estimates the cost of future SPP benefits by making assumptions about future conditions. The actuary compares these estimated costs with the estimated funding – the Plan's assets and expected contributions (money going out versus money coming in). The resulting excess or shortfall may have an impact on the Plan.

In particular, the Actuarial Valuation of the Plan determines how much indexing can be applied to benefits payable from the Plan. Indexing is the amount of inflation adjustment applied to a member's plan benefit. This amount is subject to the Plan's ability to pay the additional cost. Indexing may be adjusted upwards or downwards if the Plan's financial health falls outside limits defined in the Plan's funding policy. The Plan uses the same definition of inflation as used by the Canada Pension Plan.

See next page for the results...

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The Executive Summary of Aon Hewitt's *Actuarial Valuation Report as at December 31, 2010 for the UBC Staff Pension Plan* is available on the Library page at the SPP website.

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How much indexing can the SPP afford?

The actuary uses a Benefits/Funding Test to help determine how much indexing the Plan can afford. The following formula is used for the test:

$$\textbf{Benefits/Funding Test} = \frac{\textbf{Funds Available}}{\textbf{Funds Required}}$$

The actuary compares the "Funds Available" (present value of the funds expected to be available over the next 25 years) to the "Funds Required" (the present value of funds expected to be required over the next 25 years plus a margin for safety). The results of this test let us know if there are enough funds to support benefits, or if cutbacks are required.

Key Results from the Actuarial Valuation

The key result from the December 31, 2010 Actuarial Valuation is that the Plan is reasonably healthy. The basic benefits are well funded, but it is necessary to cut indexing. Tests showed that in order to ensure that the Plan can afford to pay plan benefits for current and future members, indexing must be reduced to a level of 50% of inflation for the next three years.

Table 1 shows the current funding position and the future contributions and costs for the Plan as revealed in the Actuarial Valuation. The costs shown for 2010 already reflect the cutback to future indexing at 50% of inflation.

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 membership movements, 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 required safety margin, the contingency reserve and the contribution margin are all part of the Plan's funding policy to provide such margins.

The Plan must maintain adequate margins; otherwise, contributions (which are fixed) may be unable to support fluctuations in investment earnings and Plan liabilities. In the 2008 valuation, the Safety Margin was not required as the Plan could support indexing at 100% of inflation and there was a healthy Contingency Reserve. This Contingency Reserve significantly helped the Plan to weather the 2008 market downturn. The Pension Board's focus in the last couple of years has been in setting appropriate margins and putting mechanisms in place to allow the Plan to rebuild the Contingency Reserve.

Table 1: Actuarial Valuation Results

Actuarial Valuation Results	As at December 31, 2010	As at December 31, 2007
Funding Position		
Actuarial value of assets $ (based on 5-year "smoothing" of market fluctuations)	$883,692,000 ($819,842,000 market value)	$793,309,000 ($812,953,000 market value)
Actuarial unbiased liability $[1]	$710,624,000	$620,532,000
Required Safety Margin $ (amount determined by Benefits/Funding Test)	$173,068,000	n/a
Contingency Reserve (assets minus liabilities and margin)	$0	$172,777,000
Contribution & Costs in 2011		
(show as a % of the total regular pay for all active Plan members)		
Total contribution rate (Member and University)	15.1%	12.4%
Estimated cost of benefits earned in 2011	13.4%	12.4%
Contribution margin (contribution rate minus cost of benefits earned)	1.7%	0.0%

[1] *Amounts in the December 31, 2010 Actuarial Valuation include future indexing at 50% of inflation effective January 1, 2012 and Plan changes as described below. Amounts at December 31, 2007 included indexing at 100% of inflation and were before the 2009 Plan changes. All figures are taken from Aon Hewitt's Actuarial Valuation Report as at December 31, 2010 for the UBC Staff Pension Plan.*

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How do the Actuarial Valuation results affect you?

The indexing change will have the following effect on SPP members effective January 1, 2012:

Active Members

You are an active member if you are currently making contributions to the Plan.

Active members will not be affected by the indexing change unless they leave the Plan or start a pension (as described below).

Deferred Members

You are a deferred member if you are no longer employed at UBC and/or no longer make contributions to the Plan, but are not yet receiving a pension.

Deferred members will receive for the next three years, or until their pension starts, either:

- Indexing at 50% of inflation, or
- Indexing at 75% of inflation, minus 1%,

whichever produces the greater benefit amount.

Retirees

You are a retiree if you are currently receiving a pension payment from the Plan.

Retiree pensions will be indexed at 50% of inflation for the next three years.[2]

[2] *Retirees receive a letter in December every year notifying them of the amount of indexing (Cost of Living Adjustment) they will receive on their pension payments for the upcoming year. This amount is also posted annually on the 'Cost of Living Adjustment' page at the SPP website by mid-January.*

The adjustments noted in the table above are based on the December 31, 2010 Actuarial Valuation and are valid until another Actuarial Valuation is performed.

Recommendations on Plan Design

In the review of the valuation results, the Plan's Advisors and the Pension Board looked for ways to further improve the Plan and reduce costs. On the advice of the Plan's Advisors, the Pension Board will recommend three changes to the UBC Board of Governors for approval later in 2011, to take effect on January 1, 2012.

The recommended changes are:

- To change the interest rate applied to member contributions from the fund rate of return to a five-year bank rate, to remove volatility and assist in containing costs;
- To ensure a minimum level of pre-retirement indexing to comply with the B.C. Pension Benefits Standards Act; and
- To update the basis on which the Plan determines early retirement reduction factors. It has always been intended that early retirement is cost neutral to the Plan so that Plan members were not subsidizing the cost of early retirement; however, the basis needs to be adjusted going forward to ensure that this equitable approach continues.

The results of the Actuarial Valuation, as presented earlier in this article, assume that the above changes are approved. The changes do have the effect of reducing Plan costs, and therefore, also have a positive impact on the level of indexing that can be provided from the Plan effective January 1, 2012. ■

The effect of the new SPP Policy Asset Mix on the Plan's Assets

The SPP's assets include your contributions, the University's contributions, and investment earnings. How well the Plan's investment funds perform relies a great deal on the Plan's asset mix and how it performs against the financial markets. Since 2010, the Plan's investment consultant, PBI, has been working closely with the Plan's investment manager, UBC IMANT, to implement a new policy asset mix. This new asset mix recognizes the unique characteristics of the Plan and is designed to reduce volatility and risk.

Table 2 lists the Asset Classes in the far left hand column, and from left to right, the table illustrates the Prior Policy Mix, the percentages at June 30, 2011 both planned and actual, and where UBC IMANT expects the transition to be at in Dec. 2011, 2012 and 2013. The farthest right column shows you the percentages, by each asset class of the New Policy Asset Mix.

The most significant changes in 2011 are in the fixed income group which includes: Universe Bonds, Long Bonds, Real Return Bonds, and Mortgages. By the end of 2011, UBC IMANT will have sold all of the Universe Bonds and increased Long Bonds from 5% of the assets to 24% of the Plan's assets. Long Bonds are a better match than Universe Bonds to the Plan's liabilities.

There is no change to the 5% allocation of Real Return Bonds (RRBs). Real Return Bonds are considered a good asset class to invest in for a pension plan like the Staff Pension Plan that pays a Cost of Living Adjustment (indexing) because when inflation increases the value of RRBs also increases.

Mortgages have been added as a new asset class with an allocation of 5%. By the end of June 2011, UBC IMANT had invested 1.2% of the fund in Mortgages, and in September 2011, this allocation was increased to 5%.

The new policy asset mix has 35% in Fixed Income, 30% in Public Equities and 35% in Alternatives. Alternative investments include: Private Equity, Real Estate, and

Table 2: SPP Policy Asset Mix Transition Plan (%)

Asset Class	Prior Policy Mix	June '11 Plan	June '11 Actual	Dec '11 Plan	Dec '12 Plan	Dec '13 Plan	New Policy Mix
Fixed Income							
Cash	2.0	1.0	1.1	0.5	1.0	1.0	1.0
Universe Bonds	23.0	12.5	18.0	1.5	0.0	0.0	0.0
Long Bonds	5.0	15.0	11.2	24.0	24.0	24.0	24.0
RRB Bonds	5.0	5.0	5.3	5.0	5.0	5.0	5.0
Mortgages	0.0	2.5	1.2	5.0	5.0	5.0	5.0
Total Fixed Income	**35.0**	**36.0**	**36.7**	**36.0**	**35.0**	**35.0**	**35.0**
Public Equity							
Canadian Equity	15.0	17.5	16.3	17.0	17.0	16.0	15.0
US Equity	12.5	12.0	12.4	11.5	10.8	10.0	7.5
EAFE[3] Equity	12.5	12.0	11.3	11.5	10.8	10.0	7.5
Total Public Equity	**40.0**	**41.5**	**39.9**	**40.0**	**38.5**	**36.0**	**30.0**
Alternatives							
Private Equity	5.0	6.5	7.1	5.5	5.0	5.0	5.0
Real Estate	10.0	7.0	6.8	7.5	8.0	8.0	8.0
Infrastructure:							
Debt	0.0	0.0	0.0	3.0	6.0	8.0	10.0
Equity	0.0	4.0	3.9	4.5	7.0	8.0	12.0
Hedge Fund of Funds	10.0	5.0	5.6	3.5	0.5	0.0	0.0
Total Alternatives	**25.0**	**22.5**	**23.4**	**24.0**	**26.5**	**29.0**	**35.0**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[3] *EAFE represents the foreign markets of Europe, Australasia, and the Far East.*

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Infrastructure Debt and Equity. The Plan's Actuary has determined that the long term annual rate of return expected from this asset mix is 6.5%. The Actuarial Valuation results presented are therefore based on a 6.5% rate of return.

We will update you on the transition to the new policy asset mix in future newsletters and on our website. If you have questions on the Plan's investments, please send an email to spp@hr.ubc.ca with "SPP Investments" in the subject line. ■

Holiday Closure

The Pension Administration Office will be closed from noon on December 23, 2011 to January 2, 2012 inclusive. 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 23 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 23, 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 23, the cheque will be mailed.

The SPP Pension Board and PAO staff wish you and your family a safe and happy holiday season. ■

Our Newsletter Design

You may have noticed that the SPP Update has a new look. We've updated our newsletter to make it more interesting and easier to read for our members. We have also brought our newsletter design in-house, which has allowed us to streamline the production process and decrease costs. We also minimize costs by printing in black and white; however, a colour version of our newsletter may be viewed at the SPP website. If you have any comments or feedback on the new design, please send an email to spp@hr.ubc.ca. ■

Canada Pension Plan (CPP) Changes

The previously announced changes to the CPP have started to come into effect. If you are retired and receiving your CPP retirement benefit, these changes won't affect you. If you are still working and receiving your CPP benefit or you have yet to start your CPP benefit, some or all of these changes may affect you. Read on to learn more...

Early and late retirement rules

- **Early retirement:** If you start your CPP benefit before age 65, the benefit is reduced to reflect the fact that you'll be receiving it for a longer period of time. Starting in 2012, the reduction will be increased in phases over four years. The reduction will increase from the current 6.0% to eventually 7.2% for each year you begin your pension before age 65.

- **Late retirement:** If you postpone receipt of your CPP benefit past age 65, the benefit is increased to reflect the fact that you'll be receiving it for a shorter period of time. In 2010, this increase was 6% for each year you postponed your pension after age 65. Beginning in 2011, this percentage is increasing over a three-year period eventually to 8.4% for each year you postpone your pension after age 65. You must begin your CPP benefit by age 70.

No work cessation test for early retirement

Starting in 2012, you can start your CPP benefit after age 60 without a requirement to stop working or significantly curtail work. If you are under age 65 and start your CPP pension, you and UBC will continue to contribute to CPP to grow your pension benefit while you are receiving benefits. If you continue to work past age 65, you may choose to continue making contributions to CPP or to cease making contributions. If you continue to make contributions, UBC will also continue to contribute to CPP.

Already receiving CPP, working at UBC and age 60 or older? Please note:

- If you are between age 60 and 65, still working at UBC and receiving your CPP retirement benefit, starting in 2012, you will have to start contributing to CPP again and UBC will also start making its contributions.
- If you are age 65 or older, still working at UBC and receiving your CPP retirement benefit, your CPP contributions will be reinstated in January 2012 and UBC will also recommence contributions. This will result in an increase to your CPP pension annually. You may elect not to have CPP contributions reinstated by completing and returning an opt-out form to the UBC Finance Department prior to January 1, 2012. Joanne Young of the UBC Finance Department will be forwarding information to members affected by this change in the near future.

Change to provision for periods of low earning

When your CPP benefit is calculated, periods of zero or low earnings are dropped out of the calculation up to a certain maximum. This can mean a potential increase to your monthly CPP benefit up to the maximum amount. There is a general dropout provision as well as specific provisions for child rearing and periods spent receiving a CPP disability benefit. The general dropout provision will increase from the current 15% of the years when you had no or low income to 16% in 2012 and to 17% in 2014.

Learn more about these changes at: www.servicecanada.gc.ca/eng/isp/pub/factsheets/postrtrben.shtml. ■

Help us find these members

The Pension Administration Office needs your help to find SPP members who we have lost contact with over the years and may be entitled to benefits from the Plan. If you have any contact information (addresses, phone numbers, emails, contact information of family, friends, or relatives, or even connections through social media networks such as Facebook and LinkedIn) for the members listed below, please contact the Pension Administration office at spp@hr.ubc.ca, or fax the details to 604.822.9471.

Name	Left UBC	Department
Anderson,Silver	Oct-03	Sauder School of Business
Arnold,Bentley C.	Aug-07	Plant Operations
Baylis,Suzanne	Feb-05	Psychiatry
Beese,Mark	Oct-04	Plant Operations
Cioci,Nicholas	Feb-01	IT Services
Dai,Tao	Jun-94	Health Care & Epidemiology
Hall,Caroline	Aug-06	Radiology
Jones,Marlene	Dec-02	Respiratory Medicine
Khan,Shahid	Dec-96	IT Services
Kozak,Alex	Aug-05	Career Services
Kufner,Marcus	May-00	Student Housing
Lee-Thiem,Janice N	May-96	Clinical Dental Services
Lin,Chih Alice	Nov-90	IT Services
Ma,Wei	Aug-09	Medicine
Nelos,Lorraine	Apr-91	Unknown
Oprea,Radu	Jun-00	Mechanical Engineering
Pham,Hong	Sep-97	Forest Resource Management
Star,Shelley	Jan-08	Medicine Dean's Office
Thomson,Norma	Jun-93	Family Practice
Tom,George	Jun-00	Plant Operations
Wade,Robin	Feb-09	Plant Operations
Walsh,Kevin	Aug-06	Dev Neuroscience & Child Health
Zhao,Ying	Jul-03	Physiology

Correspondence should be addressed to:

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STAFF PENSION PLAN BOARD OF DIRECTORS