a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

february 2013

staff pension plan update

How is the Staff Pension Plan funded?

Understanding how your pension plan works

In the last *Staff Pension Plan Update* newsletter, we wrote about a new Pension Benefits Standards Act (PBSA) that received royal assent on May 31, 2012. This new act introduces provisions for a new class of pension plan called a Target Benefit Plan. The UBC Staff Pension Plan (SPP) meets all of the design features of this new class of pension plan. In order to understand how the Staff Pension Plan works as a Target Benefit Plan, you will need to understand three important aspects of the Plan's design:

1. How the Plan is funded (see side bar)
2. How pension benefits are adjusted if the Plan is under-funded or over-funded, and
3. Why the Plan's design suits the University environment.

In this newsletter, we will look at the first aspect – how the Plan is funded. The next two newsletters (May 2013 and November 2013) will cover the other two aspects of the Plan.

The SPP is funded by two ways:

1. **Fixed contributions by the Plan's members and by the University and its related employers*** (the employers in the SPP), and
2. **Earnings made from investing the SPP funds**

***Related Employers** are entities such as the Association of Administrative and Professional Staff (AAPS), the University of British Columbia Alumni Association, and TRIUMF, which have employees who are eligible to participate in the Staff Pension Plan. For a list of Related Employers, see Article 17 of the SPP Plan Text in the Plan Governance section of the SPP website.

In this issue

What does "funded" mean?

"Funded" in the context of pension plans essentially means the amount of money that is in the pension fund. You can think of it as 'how much money is in the pension plan's bank account.' Sometimes, there may be more than enough money in the bank to pay for promised benefits – the plan is considered "over-funded." At other times, there may not be enough money in the bank – it is "under-funded."

1 Fixed Employee and Employer Contributions

The SPP provides for fixed contribution levels (from both the SPP members and the University and its related employers) to provide a certain level of benefit – a target benefit (known as your SPP Basic Benefit). The target benefit is defined by a formula using a percentage of your pensionable earnings and years of service in the Plan. To read more about the SPP Basic Benefit, see the February 2012 issue of the *Staff Pension Plan Update* newsletter.

You make fixed contributions (6.5% of your pensionable earnings) to the Plan through payroll deduction when you are an Active member. Pensionable earnings means your base salary before deductions for pension and benefit plans. For a full definition of pensionable earnings, please see the Important Terms page on the SPP website.

Did you know?

As an Active member of the Plan you can use myPension to calculate your monthly contribution amount. Click on the myPension badge at **www.pensions.ubc.ca/staff** and log in to your myPension account using your Campus Wide Login.

In addition to your contributions, the University and its related employers make a fixed contribution each month to fund the overall Plan. These contributions are calculated using an integrated formula which is:

- 10% of your pensionable earnings to the YBE, plus
- 8.2% of your pensionable earnings between the YBE and YMPE, plus
- 10% of your pensionable earnings above the YMPE

Canada Pension Plan Terms & 2013 Levels

YBE is the Canada Pension Plan's (CPP) Yearly Basic Exemption. **YMPE** is the CPP's Yearly Maximum Pensionable Earnings.

In 2013, the YBE is $3,500 and the YMPE is $51,100.

The following table provides some examples of employee contributions and employer contributions at different pensionable earnings:

Pensionable Earnings	Employee Contribution of 6.5% of pensionable earnings (per year)	Employer Contribution based on integrated formula (per year)
$40,000	$2,600	$3,343
$60,000	$3,900	$5,143
$80,000	$5,200	$7,143
$100,000	$6,500	$9,143

Where are the contributed funds held?
The money contributed into the Plan goes into a trust account which is held by the Plan's Custodial Trustee, RBC Investor Services Trust.

Who owns the money in the trust account?
The money in the trust account belongs to all members of the Plan, which includes:

- Active members (members who are making contributions to the Plan)
- Deferred members (members who have stopped making contributions but have not yet started their pension), and
- Retired members (which may include spouses and beneficiaries) receiving a pension.

The University and its related employers have a responsibility to make fixed contributions to the Plan whether the Plan is under or over-funded. However, they do not have any entitlement to the SPP funds – the money belongs to the members. This also means, however, that if there is insufficient funding to pay pension benefits and indexing (inflation adjustments), the Plan's funding policy allows benefits and indexing to be adjusted as required. We will talk more about this aspect of the Plan's design in the May 2013 issue of the *SPP Update*.

2 Investment Earnings

In addition to fixed contributions made by you and the University and its related employers, the Plan is funded by investment earnings. Your contributions and those made by your employer, as described in the previous section, are invested in the financial markets and these investments (known as the SPP funds or assets) are expected to earn a rate of return sufficient to help support the longer term financial needs of the Plan.

Who is responsible for investing the Plan's assets?
The UBC Board of Governors is ultimately responsible for approving how the SPP assets are invested. The Plan's Governance document outlines that the Board of Governors has delegated responsibility for the Plan's Asset Mix Policy to the SPP Board and have assigned UBC Investment Management Trust Inc. (IMANT), the Plan's investment manager, the responsibility of investing the Plan's assets as per the approved asset mix policy. The SPP Board works closely with an investment consultant, PBI Actuarial Consultants Ltd., who has expertise in determining and designing the appropriate asset mix policy to ensure that the SPP assets are invested in a way that recognizes the obligations of the Plan.

How are the SPP assets invested?
The SPP assets are invested in a variety of investment types (such as bonds, equities, real estate, and infrastructure debt) as set out in the SPP's Asset Mix Policy. How well the Plan's investments perform over any given period of time depends significantly on the Plan's asset mix and the financial markets. The SPP Asset Mix has been designed to reduce volatility and risk in the Plan's investments with the objectives of providing stability for Plan members and to help the SPP Board manage the Plan with more certainty. For more information on how the Plan's funds are invested and the SPP investment objectives, please see the *Statement of Investment Policies and Procedures* document in the Plan Governance section of the SPP website.

We regularly update our members in the *SPP Update* on how the Plan's assets are invested as well as any research or planned changes to the policy (for example, please see the update under the article, *Plan Governance Update* in this newsletter). For previous newsletters, please visit the Library page on the SPP website.

Summary

In summary, the Plan is funded by employee and employer contributions and by investment earnings. Contributions are fixed and this is an important aspect of the Plan's design, especially when there are insufficient funds in the Plan to pay benefits such as full indexing. In our next newsletter, we will look more closely at what happens when the Plan is under or over-funded. ■

Plan Governance Update

The Staff Pension Plan (SPP) presented a quarterly update to the UBC Board of Governors on November 30, 2012. There were two items that were submitted to the Board of Governors for approval:

1. ***Changes to the SPP Statement of Investment Policies and Procedures***
   As reported in the November 2012 issue of the *SPP Update*, the SPP Board had been working with the Plan's investment consultant, PBI Actuarial Consultants Ltd. (PBI), on a new asset mix policy to help reduce risk in the Plan's investments. The Board of Governors has not approved the new asset mix policy and has asked the SPP Board and PBI to complete additional work with UBC IMANT, the Plan's investment manager, in the area of long bonds and the Plan's discount rate. We hope to provide you an update in the next newsletter when this work has been completed.

2. ***Approval of Amendment No. 6 (CUPE 116 Hourly Employee Eligibility into the Staff Pension Plan)***
   Recent changes to the Collective Agreement between the University and CUPE 116 included a provision, effective April 1, 2013, whereby certain hourly employees of CUPE 116 will become eligible to join the UBC Staff Pension Plan. These changes known as Amendment No. 6 were made to the SPP Plan Text to document the new eligibility rules. The UBC Board of Governors approved Amendment No. 6 on December 4, 2012. CUPE 116 hourly employees who are eligible to join the Plan on April 1, 2013 will be notified by the Pension Administration Office by mid-March 2013.

Changes to the Staff Pension Plan Board

As of January 1, 2013, the following changes have occurred in the membership of the Staff Pension Plan (SPP) Board.

Re-elected Pension Board Directors
Alan Marchant and Dave Lance have been re-elected as members of the SPP Board in the recent election. Their terms of office are from January 1, 2013 to December 31, 2016. Congratulations to Mr. Marchant and Mr. Lance and thank you to all the candidates and members who participated in the election.

New Pension Board Director
Mike Leslie has been appointed by the UBC Board of Governors as a SPP Board director for a term running from January 1, 2013 to December 31, 2016. Mr. Leslie is the Executive Director of Investments for the UBC Faculty Pension Plan (FPP). He is responsible for monitoring and reporting on the performance of the FPP funds and the Plan's external investment managers, ensuring proper implementation of the Plan's Investment Policy, and supporting the FPP Board of Trustees with their governance duties as they relate to investment issues.

Susan Claybo's appointment ended on December 31, 2012. On behalf of the SPP membership, we would like to thank Ms. Claybo for her service on the SPP Board and Communications Subcommittee. The time and work she dedicated to the Plan and to improving member communications has been valuable and greatly appreciated. We also wish Ms. Claybo all the best in her retirement.

Please visit the Plan Governance section on the SPP website for more information on the SPP Board members. ■

The Importance of Estate Planning

Some people balk at the thought of "estate planning." Isn't it just for the wealthy, for people with large estates?

The truth is, having an estate plan can benefit just about anyone. An estate plan can simplify and speed the transition of assets to the next generation and ensure your beneficiaries are protected. It can also reduce the taxes and expenses charged against your estate.

Much like financial planning, estate planning is a series of steps - a process. And, just as having a financial advisor is important to the financial planning process, the help of professionals such as lawyers, accountants, financial planners and trust officers can be vital to the estate planning process. Make sure you seek out advisors whose expertise is estate planning.

Getting Started

Begin by preparing an inventory of your assets and liabilities. Assets are items such as your home, vacation or rental property, your registered and non-registered investments, personal property, pension assets and the value of any annuities or life insurance you own. Liabilities are items such as mortgages, credit card and other debt, and other personal obligations.

Document the location of all your important papers and information - wills, birth and marriage certificates, real estate deeds, location of safety deposit boxes, and details of pre-planned funeral arrangements, to name a few. Banks and trust companies are a good source of information on many aspects of estate planning and some provide handy "personal inventory" booklets or brochures.

The Process

The next step is to identify your objectives. One way to set objectives is to ask yourself questions such as:

- Who are your beneficiaries, and how do you want your assets distributed to them?
- Do you want beneficiaries to receive their inheritance right away or at a future date?
- Do you want to provide ongoing income for your family?
- Are there specific possessions or assets you need to deal with?
- Is it important to minimize income tax and probate tax?
- Do you want part of your estate to go to a charity?

Once you have objectives, you need an action plan to ensure you achieve them. Since the action plan can deal with complex tax and legal issues, professional advice may be important at this stage.

The first action plan item is to create a will or review your current will. A properly constructed will can resolve many estate planning issues. As well as creating a will, you'll want to look at other methods of transferring your estate such as changing the legal ownership of assets, gifting assets before you die, and establishing living or testamentary trusts. Again, professional assistance can be invaluable here.

Life insurance may play a role in your estate plan. It can provide ready money to pay off liabilities such as taxes or mortgages so that assets such as a home or cottage can be left to your beneficiaries and won't have to be sold to pay for taxes. Life insurance proceeds can also be used to provide income for your beneficiaries, or as a donation to a charity.

Your estate plan should deal with potential situations of incapacity. Here you'll consider matters such as:

- a representation agreement or a power of attorney to deal with property,
- pre-planned funeral arrangements, and
- a representation agreement to provide instructions regarding your medical care if you were to become incapacitated and unable to state your wishes.

After you establish your plan, review and revise it periodically to reflect your current position. Legislation, tax rules, and your personal situation may change creating a need to change your plan if you are to achieve your objectives.

Where there's a will, there's a way...

A will is the cornerstone of your estate plan. It is a legal document that allows you to divide and distribute your assets according to your wishes. If you die without a will (intestate), the courts will appoint an administrator to dispose of your assets according to a rigid legal formula, not according to your wishes.

Wills normally:

- appoint an executor (An executor is the person or trust company you appoint to carry out your wishes and settle your estates. Duties might include funeral arrangements, managing investments, paying debts, filing tax returns and making distributions to your beneficiaries.)
- provide directions for managing and distributing your assets and personal effects
- provide instructions to minimize taxes if possible
- include a statement of your burial wishes
- name a guardian for your minor children

To be legally effective in British Columbia, you must be at least age 19 and your will must be a formal will signed by two unrelated witnesses who are at least age 19 and not beneficiaries. While making a will does not require a lawyer or other professional advice, it's a good idea to consult a professional to be sure that your will complies with the current laws and does what you intend it to do. Just as you review your estate plan regularly, you should ensure your will is up-to-date by reviewing it regularly. ■

This article was first printed in the March 2003 issue of the Staff Pension Plan Update. It has been revised to reflect current information. Feedback and comments should be sent to spp@hr.ubc.ca

Don't forget about your Staff Pension Plan Benefits.

It is important to consider your Staff Pension Plan benefits when you are estate planning. In the event that you are unable to make decisions regarding your pension benefits, it is important to have the necessary and relevant legal documentation (such as representation agreements, power of attorney, separation and divorce agreements, and birth records) on file with the Pension Administration Office.

RRSP Contributions for 2013

2013 Contribution Limits
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 (www.cra-arc.gc.ca) You will need a Government of Canada e-pass, which you can obtain on the above website as well.

Contribution Room
Your RRSP contribution room for 2013 is 18% of your gross income (before taxes and deductions) earned in 2012 to a maximum of $23,820, less your 2012 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 this or future years.

Pension Adjustment
Each year your contribution room is reduced by your Pension Adjustment which is the value of the pension you accrued in your registered pension plan during the prior tax year. The amount of your Pension Adjustment is listed in Box 52 on your T4 slip from the University.

For more information on how to calculate your pension adjustment and how it affects your RRSP contribution room, visit www.pensions.ubc.ca/staff/rrsp.html ■

Other Sources of Retirement Income: Government Pension Plans

There are other sources of retirement income that retirees may receive including income from the Canada Pension Plan (CPP) and Old Age Security (OAS) as illustrated in the table below.

Source	2013 Monthly Maximum Benefit
Canada Pension Plan These rates are adjusted annually to reflect Consumer Price Index increase	$1,012.50
Old Age Security These rates are reviewed quarterly to reflect Consumer Price Index increase	$546.07 (Jan to Mar 2013)

Additional information on CPP and OAS may be found on the SPP website on the Pensions 101 page.

Increase in Tax Free Savings Account Annual Limit

In 2013, the annual dollar limit for Tax Free Savings Account (TFSA) contributions has been increased to $5,500 from $5,000. TFSAs are important savings vehicles to help you achieve your short and long-term financial goals. For more information about TFSAs, please visit www.cra-arc.gc.ca/tx/ndvdls/tpcs/tfsa-celi/menu-eng.html

Your Financial Toolkit

The Financial Consumer Agency of Canada (FCAC) has developed a comprehensive resource to help Canadians manage their personal finances and make responsible financial decisions. This toolkit can be accessed online at www.fcac-acfc.gc.ca/ft-of/home-accueil-eng.html or you may order a printed copy through FCAC at www.fcac-acfc.gc.ca/eng/resources/publications/PubOrder/index-eng.asp

Correspondence should be addressed to:

UBC Staff Pension Plan
Pension Administration Office
#201 – 2389 Health Sciences Mall
Vancouver, BC V6T 1Z3 Canada

Tel 604.822.8100
Fax 604.822.9471
spp@hr.ubc.ca

www.pensions.ubc.ca/staff

2013 Pension Fair

Mark your calendars! The annual Staff Pension Plan Fair will be held on **Thursday, June 6, 2013**.

Watch for details in the May 2013 *SPP update*.

©iStockphoto.com/constantgardener

2013 Info sessions and Workshop Dates

Did you know that the Staff Pension Plan offers information sessions and in-depth workshops to help you better understand your pension plan? Pension plans are complex and often not too easy to understand. The Plan provides several opportunities for new and existing members to learn more about their pension benefits as well as retirement income and planning. For 2013 dates and information on how to register, please visit the Workshops page on the SPP website. ■