Pension Airwaves

Episode 4 - Target Benefit Plans (*Transcript*)

Thanks very much for tuning in to today's podcast episode. Today we're going to be talking about Target Benefit Pension Plans.

This is a topic that is sometimes a bit confusing for members, so I'm really happy to be able to get into it a little more. And here I have Debbie Wilson, Director, Pensions, to help unpack some of the details around this topic, so…. a warm welcome to Debbie for joining me today – thanks so much!

Debbie: I'm glad to be here!

Chelsey: So tell us, what kinds of pension plans exist in Canada?

Debbie: In Canada there's 3 main types of Plans: Defined Contribution (DC), Defined Benefit (DB), and Target Benefit (TB).

In a DC plan, the employer and employee contribute a defined amount of contributions. Plan members generally decide on how their contributions are invested. The amount of pension income that the member receives at retirement is based on how much those contributions accumulate to over the years.

A DB plan provides members with a defined pension income at retirement which is paid for the member's lifetime. The formula used to determine the pension is usually based on years of membership in the pension plan and the member's salary and is not dependent on the investment returns of the plan fund.

A TB Plan contains elements of both DC and DB pension plans. Similar to DC plans, TB plans have fixed contribution rates from the employer and employee. And similar to DB Plans, TB plans have a pension formula that targets a certain benefit at retirement. However, unlike a DB Plan, the pension is targeted rather than guaranteed – thus the name Target Benefit Plan.

Chelsey: That makes sense! So what kind of plan is the UBC Staff Pension Plan?

Debbie: The Staff Pension Plan is a Target Benefit Pension Plan.

Chelsey: Many of us have heard of Defined Benefit and Defined Contribution plans, but Target Benefit plans aren't that familiar to some of us. Are they new? When did the Staff Plan become a target benefit plan?

Debbie: Target benefit plans are not new – in fact the Staff Plan has been a target benefit plan since it was started in 1972. But the Target benefit wording has been more commonly used in the last few years.

Chelsey: Ok… so let's review the key features of Target Benefit Plans. A TB plan uses a pension formula to determine the amount of pension at retirement?

Debbie: That's right – target benefit and defined benefit both have a formula, but DC does not.

Chelsey: And TB plans have fixed employer contribution rates?

Debbie: Yes, TB and DC have those fixed contribution rates. DB plans do not have fixed employer contribution rates – the employer is required to pay whatever is required to pay the promised pensions.

Chelsey: And TB plans do not require members to choose how their contributions are invested?

Debbie: That's correct - only DC plans require members to choose their investments.

Chelsey: And TB plans allow for the pension benefit to be reduced depending on how the plan is funded?

Debbie: That's correct.

Chelsey: Can you talk more specifically about the Staff Pension Plan? When would benefits be reduced – how does that work and who would make that decision?

Debbie: The Plan has a funding policy which sets out the rules regarding decisions that may be made by the Pension Board around the benefits provided under the Plan. Every 3 years, the Plan's actuary performs certain tests and the Pension Board takes appropriate action if the Plan's funding falls outside certain limits. If the test shows that the funding is insufficient, the Pension Board must follow certain steps to restore the balance, with future indexing being the first item to be addressed.

Chelsey: Have benefits under the Staff Plan ever been reduced?

Debbie: The lifetime pension benefits have never been reduced, but the adjustments that are made to pensions in payment – referred to as indexing or cost of living adjustments – have been changed.

Up until 2011, the cost of living adjustments were based on 100% of inflation – so each January 1st, pensions in payment were increased by an amount equal to inflation. The tests that were done by the actuary in 2011 showed that the funding was insufficient to continue to provide 100% of inflation adjustments. So starting January 1, 2012, increases to pensions in payment were provided at 50% of inflation. That level of adjustments has continued each year to now.

Chelsey: There is a sentence on the members' Annual Pension Statement that says "All pensions are subject to the Plan's ability to pay." So I think now I understand that's what that means. Should younger plan members be concerned at all about the plan's ability to pay when they want to retire?

Debbie: The Staff Plan has a very robust governance structure, which should give plan members comfort in their participation in the Plan. The objective of the Pension Board is to ensure that the Plan is financially sustainable for the long term. It is a priority of the Board to provide the basic benefit with a high degree of certainty, and to maximize post retirement indexing. The Board takes its responsibilities very seriously.

Chelsey: All right, I think that's really good information. I know I learned something new. And hopefully this will help members who are curious about Target Benefit Plans and how it relates to the UBC Staff Pension Plan.

I want to thank Debbie Wilson again very much for sitting with me and chatting about this topic, and helping members get educated about what kind of pension plan they're enrolled in. Thanks very much Debbie.

Debbie: Great, happy to help.

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*If you have questions about the UBC Staff Pension Plan or your personal situation, you can reach out to SPP Member Services at **spp@hr.ubc.ca**, or visit **staff.pensions.ubc.ca/contact**.*