

Pension Bulletin

from the College Pension Board of Trustees

To: Plan Members and Plan Employers
Date: May 2004
Topic: Contribution Rate Changes Effective September 1, 2004

The August 31, 2003 actuarial valuation report for the College Pension Plan was received by the College Pension Board of Trustees on April 27, 2004. This report provided the trustees with an assessment of the financial health of the pension plan and the changes in the plan member and employer contribution rates that are needed to keep the pension plan financially healthy. It is the second report received by the trustees since the implementation of the joint trust arrangement in April 2000. Typically, an actuarial valuation report is prepared every three years.

The joint trust arrangement established in 2000 provides that plan members and plan employers will share in all aspects of the management of the College Pension Plan, including the sharing of the risks and rewards associated with the funding of the pension plan. This includes sharing any increase or decrease in contribution rates.

The 2003 valuation report indicated that the pension fund has an unfunded liability of \$50 million. As a result, the actuary has determined that an increase in contribution rates is necessary in order for the pension plan to maintain its financial soundness and thus its ability to meet the pension promise made to plan members. For members' information, the pension fund had a \$120 million surplus in the previous valuation report.

During the three-year period between the two valuation reports a number of factors contributed to the creation of the unfunded liability. They are briefly described below.

1. Depressed Investment Returns—During the three years between valuations, the investment market rates of return were -8.6% in 2001, -2.5% in 2002 and 7.2% in 2003. While the actuary smooths the impact of short-term performance in preparing the report, this nevertheless causes a drag on the results. The good news is that these investment results were better than those obtained by the average pension plan or in investment markets generally over this same period of time. However, they are disappointing when compared to the longer-term assumptions.

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2. Change of Economic and Demographic Assumptions—Changing economic conditions, most importantly declining investment market returns, are the primary reasons the plan has reduced its economic assumptions for the future, including forecast investment returns and inflation projections. Other factors, such as a growing and aging plan membership and improving life expectancy, have also put pressure on plan costs.

In addition, in the past, contribution rates in the plan have been able to remain low for a number of years, primarily due to relatively high investment returns.

3. Influx of New Members—The significant growth in plan membership in the last three years has resulted in a more rapid use of surplus funds than projected.

Early End to Temporary Contribution Holiday

The unfunded liability created by the factors listed above requires the early cancellation of the current temporary contribution holiday. The 2001 partners' agreement resulted in a significantly improved benefit for those members retiring on or after January 1, 2002. This benefit improvement, whereby the rate used in the pension formula to calculate a member's bridge benefit was decreased from 0.65% to 0.3%, was to be funded through a 1.5% increase in plan member and employer contribution rates. Further details on the change can be found at the website noted below. Given the financial health of the plan at the time, the partners directed that the first five years of the contribution increase be paid out of surplus; however, there was an understanding that contribution rates would increase at the end of the period.

The terms of the joint trust arrangement state that the trustees must amend the pension plan rules if they receive an actuarial valuation report that concludes an increase in contribution rates is necessary. Therefore, the trustees have decided that, effective September 1, 2004, plan member and plan employer contribution rates will each increase on average by 2.2% (an increase of 2.45% on pensionable salary below the Year's Maximum Pensionable Earnings [YMPE] and 1.7% on pensionable salary above the YMPE) as indicated below. This increase is composed of a 1.5% increase related to the early termination of the contribution

holiday and a 0.7% increase related to the changes to the economic and demographic assumptions and plan experience.

Plan Member Contribution Rates

- 7.95% (was 5.50%) of pensionable salary up to the YMPE, and
- 8.70% (was 7.00%) of pensionable salary in excess of the YMPE.

Employer Contribution Rates

- 7.95% (was 5.50%) of pensionable salary up to the YMPE, and
- 8.70% (was 7.00%) of pensionable salary in excess of the YMPE.

Notes:

1. Year's Maximum Pensionable Earnings (YMPE) are the earnings on which you make Canada Pension Plan contributions. The 2004 YMPE is \$40,500.
2. The numbers in brackets are the plan member and employer contribution rates prior to the contribution rate change.
3. The relatively higher contribution rate on salary up to the YMPE more closely reflects the higher benefit that is paid on that portion of salary.

With the rate changes that have been announced in this bulletin the long-term health of the College Pension fund continues to be sound. More information about the plan is available on the website at pensionsbc.ca.

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This publication provides general information about the pension plan and is based on the relevant plan documents (statutes, regulations and rules). If there is a discrepancy between this publication and the plan documents, the plan documents will apply.