

YOUR PENSION UPDATE



CHRISTIAN SCHOOLS
INTERNATIONAL

Over the past few years, we have provided a number of updates about the CSI Pension Plan (the Plan). We have addressed many topics, keeping you informed on the regular cycle of valuation reports and the funding status of the Plan, the 20-year projection study, and the recent redesign of the Plan to improve long-term sustainability. In this edition, you will read about the most recent valuation, some of the challenges the Plan is currently facing, and the steps we are taking to help us towards a resolution.

In A Nutshell

As you know from our ongoing education initiatives and updates, the Trustees continually monitor the Plan and have been particularly active in the context of today's financial environment. The results of the most recent **actuarial valuation**, conducted as at August 31, 2010, show that the Plan's funding status has declined since the previous actuarial valuation, which was done effective August 31, 2007. *The challenges presented by the actuarial valuation are explained below in the next section.*

The Trustees were not surprised by these findings, given the continuing economic instability. Indeed, as so many defined benefit pension plans have been negatively affected by the economy in recent years, the government is enacting new pension legislation to provide financial relief, including solutions for plans like ours.

The redesign of the Plan in 2010 put the Plan on solid financial grounds to ensure its sustainability in the long-term. However, certain actions were required to address the short-term challenges that were presented by the actuarial valuation.

At their meeting on May 27, 2011, the Trustees made three decisions:

1. Use the funding relief measures announced by the Ontario government in 2009 for the 2010/11 year. *Go to page 6 to see the formal notice describing the Ontario funding relief measures and the impact on the Plan.*
2. Apply to Ontario's pension regulator for relief from solvency **special payments** for the 2011/12 year. *Read more about relief from solvency special payments on page 3.*
3. Take the prudent step to freeze the earnings recognition date for Final Average Earnings at August 31, 2011 and suspend the pension indexing effective September 1, 2011, until such time as the financial status of the Plan allows them to resume. *Go to page 4 for more details about the impact on you.*

The Plan's current situation will be monitored through annual actuarial valuations. Regardless of these three decisions, please be assured that you are still earning pension benefits.

Pension terms in bold are explained on page 2.

Actuarial Valuation of the Plan as at August 31, 2010

The purpose of an **actuarial valuation** is to assess if the Plan's **assets** are sufficient to meet its **liabilities**. An actuarial valuation also measures if annual contributions to a pension plan are sufficient to meet the sum of (i) **the current service cost**, (ii) the plan's **administrative expenses** and (iii) **special payments** required to eliminate any funding deficits.

The results of the most recent actuarial valuation as at August 31, 2010, show that the Plan is underfunded according to both the **going concern** and **solvency tests**. Although the Plan status according to the going concern test is manageable, the situation with respect to the solvency test has become challenging and would potentially require a significant increase in special payments in future years.

The going concern test:	The solvency test:
On a going concern basis, liabilities exceed assets by \$41.2 million. The Plan's funding status – the ratio of assets to going concern liabilities – is 83% as at August 31, 2010. This is a decrease from 94% since the last valuation on August 31, 2007.	On a solvency basis, liabilities exceed assets by \$56.1 million. The Plan's funding status – the ratio of assets to solvency liabilities – is 78% as at August 31, 2010. This is a decrease from 94% since August 31, 2007.

Here's what this means from a funding perspective:

- The total of employee and employer contributions for the period of September 1, 2010 to August 31, 2011 is sufficient to cover the Plan's funding cost (i.e., the sum of the current service cost, administrative expenses, and special payments) required for that plan year. In order to ensure that contributions were sufficient to cover these costs, the Trustees took advantage of funding relief measures with the pension regulator. See page 6 for your formal notice regarding this funding relief.
- For the plan year starting on September 1, 2011 (the 2011/12 year), contributions are projected to cover the current service cost, administrative expenses, and special payments towards the going concern deficit. However, contributions would almost certainly be insufficient to fully cover the special payments towards the solvency deficit. See "Applying for Assistance from the Regulator (FSCO)" on page 3 to see how we plan to resolve this issue.

Pension Terms

Actuarial valuation: An assessment of a pension plan's financial status conducted by the Plan actuary at least once every three years. Pension law, regulated by the Financial Services Commission of Ontario (FSCO), sets the rules under which actuarial valuations are conducted. The law requires assets and liabilities to be measured through two key tests: the going concern test and the solvency test.

Assets: Money in the pension fund.

Liabilities: Obligations of the pension fund. Liabilities are expressed as a lump sum amount, calculated using current economic assumptions, to cover the cost of pensions being paid to current retirees plus the cost of pensions earned so far by active members.

Going concern test: This measures a plan's liabilities as if the plan were to continue indefinitely.

Solvency test: This measures a plan's liabilities as if the plan were terminated on the valuation date, with certain adjustments applied to smooth the impact of recent changes in interest rates and to exclude the value of certain benefits. (It does not mean that the plan sponsor intends to terminate the plan!) The solvency test is more stringent and is particularly sensitive to fluctuations in interest rates.

Current service cost: The cost of benefits that will be earned by active members in that year.

Administrative expenses: The cost to administer the plan in that year.

Special payments: These are required by pension law to eliminate any funding deficit if the plan's assets are less than the plan's liabilities by either or both of the going concern and solvency tests. Pension law determines the period of repayment and the size of special payments.

- A deficit determined on a going concern basis can be eliminated over a period of 15 years.
- A deficit determined on a solvency basis must be eliminated within 5 years (or 10 years in certain circumstances). The shorter elimination period means that solvency deficits generally require larger special payments than going concern deficits.

Applying for Assistance from the Regulator (FSCO)

As noted, our Plan contributions are projected to be adequate to cover special payments on a going concern basis in the 2011/12 year. The challenge lies with solvency deficiencies and the requirement for solvency special payments: this affects not just our Plan, but it has become a major issue for many defined benefit plans.

The Ontario government, among others, has reconsidered the funding of solvency deficits and is providing more flexible rules. Bill 120, new legislation adopted by the Ontario government in December 2010 and expected to take effect in 2012, modifies the rules for paying down solvency deficits and, for some types of plans, will remove the requirement for solvency special payments entirely.

While regulations accompanying Bill 120 have yet to be released, the Trustees are confident that the CSI Plan will satisfy the conditions under which funding of the solvency deficit will not be required. In the meantime, the Trustees will apply to have FSCO suspend the enforcement of the funding of the Plan's solvency deficit until the new rules come into place.

If the need for special payments towards the solvency deficit were removed, the redesigned Plan would have sufficient annual contributions to make special payments toward the going concern deficit, based on the August 31, 2010 valuation.

Note that the Plan will be subject to another actuarial valuation as at August 31, 2011, to monitor the situation.

Financial Speed Bumps: Why a Deficit?

Between August 2007 and August 2010, the economic environment has been particularly unstable, which has caused major financial "speed bumps" affecting many DB plans.

Inconsistent investment returns over the past decade have limited the growth potential for Plan assets. In the first 18 months after our last actuarial valuation, the Plan assets sustained significant losses due to the global financial crisis. Since the second quarter of 2009, most of the prior losses have been reversed and Plan assets are back on the growth track.

Historically low interest rates have increased Plan solvency liabilities. The persistence of low interest rates over the past few years has boosted solvency liabilities and dragged down solvency financial positions for DB plans across the board. As our actuary has noted, solvency liabilities would drop by 12% for every percentage point rise in interest rates from today's levels. It would not take much movement in interest rate to significantly improve our solvency position, assuming no other changes.

A Recap of the 2010 Plan Redesign

The design changes that became effective on September 1, 2010, were good decisions for the long term. On a going concern basis, the redesigned Plan

has been successful in ensuring that contributions are sufficient to cover the special payments towards the deficit. However, the significant impact of solvency special payments presents a short-term challenge for which we are taking action through the application for funding relief.

Contribution and benefit levels under the Plan were re-designed based on findings from a 20-year projection study performed in 2008 and on input received in 2009 from you, the CSI community. The objective of the Plan redesign process was to ensure the Plan can be properly funded, healthy, and sustainable for the long term. The redesigned contributions and benefits were based on current financial and demographic factors and data as at August 2008.

Based on community input, the redesigned Plan realigned contribution and retirement benefit levels, maintained the early retirement subsidy, set the post retirement indexing at 1% annually and made changes to the Final Average Earnings (FAE) definition and normal form of pension. A third contribution/benefit formula was also added. As well as covering the current service cost and the Plan's administrative expenses, future contributions were set to provide some cushion which could be used for special payments towards deficits.

Impact for 2011/2012

Final Average Earnings will not be updated beyond August 2011

The pension formula in the CSI Plan uses Final Average Earnings or FAE. This is the average of the best five years of your earnings (three years of service up to August 31, 2010) in your last 20 years of service, up to a set date. This date is updated by way of an amendment, if the financial status of the Plan allows it, which has always been the case until now. This year, the Plan will not be amended to update FAE – the earnings recognition date will remain at August 31, 2011.

Example:

Steven is considering retiring at September 1, 2012. At that time, he will have 30 years of service in the Plan. In the 2010/2011 school year he has been making an annual salary of \$56,000, and he expects a salary increase of \$1,000 in September, 2011. The tables below show his salary history and the calculation of his FAE for the CSI Plan pension formula. If his FAE had been updated to reflect earnings up to August 31, 2012, his FAE (based on a 5-year average) applicable to service from September 1, 2010 would have been \$55,000, and his FAE (based on a 3-year average) applicable to service up to August 31, 2010 would have been \$56,000. However, his FAE is frozen at August 31, 2011, meaning his FAE applicable to service from September 1, 2010 will remain at \$54,000, and his FAE applicable to service to service up to August 31, 2010 will remain at \$55,000.

School year	Earnings	FAE at retirement (if it were updated at August 31, 2012)		FAE at retirement (frozen at August 31, 2011)	
2011/2012	\$57,000				
2010/2011	\$56,000				
2009/2010	\$55,000				
2008/2009	\$54,000				
2007/2008	\$53,000				
2006/2007	\$52,000				
		Service up to August 31, 2010 (3 year average)	Service from September 1, 2010 (5 year average)	Service up to August 31, 2010 (3 year average)	Service from September 1, 2010 (5 year average)
		\$56,000	\$55,000	\$55,000	\$54,000

Steven calculates his pension using the sum of the old pension formula (service up to August 31, 2010) and the new pension formula (service from September 1, 2010).

Old formula – 1.84% x FAE (3 year average) x years of eligible service to August 31, 2010

New formula – 1.90% x FAE (5 year average) x years of eligible service from September 1, 2010

These pension formulas assume that Steven’s school has chosen the CSI Plan option with the highest contribution rate.

	Pension if the FAE were updated	Pension with frozen FAE at August 31, 2011
Pension formula	$1.84\% \times \$56,000 \times 28$ $+$ $1.90\% \times \$55,000 \times 2$	$1.84\% \times \$55,000 \times 28$ $+$ $1.90\% \times \$54,000 \times 2$
Annual pension	\$30,941.20	\$30,388.00
Monthly pension	\$2,578.43	\$2,532.33

Because FAE is not being updated past August 31, 2011, Steven’s monthly pension will be \$46 less than it would have been had his FAE been updated to reflect earnings up to August 31, 2012.

Pension indexing will be put on hold effective September 2011

Currently, pensions paid to retirees are increased (indexed) by 1% on September 1 of each year – an element of the Plan which was altered during the 2010 plan redesign. However, the Board of Trustees has decided that the Plan should be amended to suspend this indexing until the financial status of the Plan improves. This decision is currently in the approval process with CSI's Board of Trustees.

It is the Trustees' intention to continue updating the FAE in the future and to resume the annual indexation of pensions in payment when the financial status of the Plan allows it. Actuarial valuations of the Plan will now be performed annually. The Trustees will reconsider FAE updates and pension indexing based on new valuation results.

How will this affect me?

Q: *What happens to my FAE if I retire during 2011/2012?*

A: If you retire after September 2011 and before such time as the FAE is updated, your pension would be based on your FAE as of August 31, 2011. If the FAE subsequently recognizes earnings to a date at which you were still employed, then your future pension will be increased accordingly. However, you will not receive a retroactive adjustment.

Q: *What happens to my FAE if I cease employment during 2011/2012?*

A: If you permanently leave the employment of a participating employer under the Plan and choose to transfer the lump-sum value of your pension out of the Plan, it will be based on your FAE as of August 31, 2011. You will have left the Plan and will therefore not receive any additional value if FAE is later updated.

If you permanently leave the employment of a participating employer under the Plan, leave your pension in the Plan, and defer starting your payments until your 55th birthday or later, your pension will be based on your FAE as of August 31, 2011 unless the FAE has been updated, in which case your pension will be based on your FAE up to the new date.

Q: *What is the impact of the suspension of indexing on my pension?*

A: If you receive a pension during the period in which indexing has been temporarily suspended, you will not receive any indexing adjustments until the Plan is amended to reinstate pension indexing. Once indexing has been reinstated, you will receive all future indexing adjustments to your pension. These adjustments will not be retroactive to the period in which indexing adjustments were suspended.

Regarding employee contributions...

Employee contributions to the Plan will continue to be based on actual salary. Schools should report all employee salaries at September 1, 2011. Collecting contributions at the actual salary rate, while paying any benefits at a frozen salary rate, will help to increase Plan assets and reduce liabilities in the short term.

In conclusion

As your Trustees, we continue to implement our pension strategy and keep the Plan on course during these financially trying times. Our continuing goal is to provide a meaningful pension benefit to all plan members, a healthy and sustainable pension plan for the long term, and flexibility to adapt to unpredictable situations in the future. The recent Plan design changes were good decisions for the long term, and have been successful in ensuring that contributions are sufficient to cover the special payments towards the deficit on a going concern basis. We will work with the Ontario regulator to address the significant impact of special payments through the application for solvency funding relief. As always, we welcome your comments and input.

Formal Notice regarding Funding Relief for 2010/2011

Canadian Christian School Pension Plan
Registration #0283812

The Trustees of the Canadian Christian School Pension Plan (the Plan) are required by Ontario pension law to inform you, the Plan members, of specific details of funding relief choices of which the Plan has taken advantage.

As the deficits in the Plan have increased substantially between the August 31, 2007 valuation and the August 31, 2010 valuation, the special payments required to fund those deficits have also increased substantially. As of the August 31, 2010 valuation, the plan is 83% funded on a going concern basis, and 78% funded on a solvency basis; the Transfer Ratio is 59% (the Transfer Ratio measures the funding status of the Plan assuming it would be terminated on the valuation date, without any smoothing adjustments being applied or any benefits being excluded).

As permitted under the Ontario legislation, the Trustees have taken advantage of the following “one-time” funding relief measures to limit the increase of special payments for the plan year starting on September 1, 2010 (the 2010/11 year):

- *The existing solvency special payment schedules established in previous valuations were consolidated into a single amount and re-amortized over a new five-year period starting on August 31, 2010*
- *The new solvency deficit determined in the August 31, 2010 valuation was amortized over 10 years (instead of the usual five years)*
- *The start of the funding of new going concern and solvency deficits determined in the August 31, 2010 valuation was delayed by one year until August 31, 2011*

The use of the funding relief measures ensures that, in the 2010/11 year, the sum of the employee and employer contributions to the Plan (\$14,912,000) are sufficient to cover the sum of the current service cost & administrative expenses (\$10,014,000), and special payments (\$1,649,000). Without the funding relief measures, the special payments based on the solvency deficit as at August 31, 2010 would have increased by \$8,045,000, causing the contributions to be insufficient, mainly due to the amortization of the solvency deficit over a shorter period.

As indicated in “Applying for Assistance from the Regulator (FSCO)” on page 3, the Trustees will apply to the Ontario pension regulator to permanently exempt the CSI Plan from solvency funding given the nature of the CSI Plan. Consequently, it is the Trustees’ view that applying the funding relief measures allowed by Ontario legislation to the calculation of special payments for the 2010/11 year does not adversely affect the security of the benefits provided under the Plan. This is because contributions are sufficient to fund the Plan’s current service cost, administrative expenses and special payments on a going concern basis.

Board of Trustees

Janet Baird, St. Thomas, ON
Stuart Bakker, Abbotsford, BC
Theo Meester, Beamsville, ON

Diane Stronks, Guelph, ON
Jan van der Woerd, St. Thomas, ON
Jack Vanden Pol, Lacombe, AB

Henry Vanderveen, Langley, BC
Jean Weening, Calgary, AB

Questions?

If you have any questions, please contact Howard Van Mersbergen, Vice President of Employee Benefits, at 1-877-274-8796 ext. 226 or hvanmersbergen@CSIonline.org.

For details about the CSI Pension Plan, visit the CSI Employee Benefits website at www.CSIonline.org/benefits.

This newsletter is meant to provide a summary of some information related to the CSI Pension Plan. It is not a complete explanation of the Plan. The official plan text will govern all rights and obligations in respect of the Plan.