

YOUR PENSION UPDATE



CHRISTIAN SCHOOLS
INTERNATIONAL

Announcing: The Pension Plan Redesign

Since last year, the Board of Trustees for the CSI Pension Plan has been keeping you informed on the status of your pension plan: its current financial situation, the challenges it faces now and over the coming years, and the available alternatives to keep the plan on the track of long-term health and sustainability. The Board of Trustees also engaged the school community through focus groups and interactive webinars as part of the redesign process.

Now, we are happy to announce that the CSI Board has approved a new design for the CSI Pension Plan – one which takes your input into account and aims at managing the current funding shortfall while providing for future pension benefits. **The new pension plan design will be implemented on September 1, 2010 and will affect pension earned for service on or after this date.** Your pension earned for service up to August 31, 2010 will be calculated according to the CSI Pension Plan's current provisions. In this edition of *Your Pension Update*, read how we as a community reached this new design and how each school can move forward with the new plan.

How Did We Get Here?

A new pension plan design was prompted by the need to keep the plan properly funded, healthy, and sustainable for the long term. Like so many other defined benefit plans in Canada, the CSI Pension Plan is at a financial crossroads and must deal with a number of challenges.

Results from the 20-Year Projection Study

In the March 2009 edition of *Your Pension Update*, we shared the results from a 20-year projection study of the CSI Pension Plan's costs and contribution levels. This study concluded that the plan cannot be sustained over the long term with the current design due to three key factors:

- **Increased life expectancies of plan members.** With a defined benefit plan, more pension benefits must be paid out when retirees live longer.
- **Historically low interest rates.** Lower interest rates increase the estimated costs of plan liabilities (i.e., the cost of pension benefits) because more money needs to be set aside in the plan to cover the value of these liabilities. For example, when interest rates drop by 1%, plan liabilities increase by about 12%.
- **Lower investment returns.** Investment returns have been extremely volatile over the last decade and are projected to be generally lower into the future.

Funding Shortfall

The most recent actuarial valuation at August 31, 2007 confirmed that the CSI Pension Plan is experiencing a funding shortfall. Between August 2007 and August 2008, we know that plan assets decreased because of low investment returns, while plan liabilities increased because of falling interest rates. This combination contributed to a worsening of the plan's funding shortfall. Since August 2008, plan assets have declined significantly due to the downturns in capital markets.

Facing the Challenges Together

Left unchecked, the long-term sustainability problems of the current plan design and the plan's funding shortfall have the potential to put plan members' future pension benefits in jeopardy. However, through responsible stewardship of the plan, a solution can be achieved. After obtaining broad input from the CSI community on the alternatives, a resolution in the form of a new plan design has been developed to help deal with the challenges the CSI Pension Plan is facing.

Determining the new plan design was a collaborative process. In January 2009, the Board of Trustees tested initial plan design alternatives in two focus groups with teachers, retirees, board members, and administrators. The findings from these focus groups helped to refine the design alternatives that were presented and discussed during the next stage of community input – the school webinars. These webinars were conducted in April 2009 and, together with the March 2009 edition of *Your Pension Update*, gave the entire CSI community the opportunity to learn about the plan design alternatives on the table. The webinars also provided schools with a forum to ask questions and submit their preferences on the alternatives.

After the webinars, the Board of Trustees carefully studied the input received and, using that input as a guide, finalized a new recommended plan design. The CSI Board approved the recommended design with an implementation date of September 1, 2010.

Here's What You Asked For

Remember that the new pension plan design will affect pension earned for service from September 1, 2010 only. Your pension earned for service up to August 31, 2010 will be calculated according to the CSI Pension Plan's current provisions.

Through the education and input process, you indicated certain preferences for changes to the pension plan. Together, we considered the pension benefit formula, and other features such as contribution levels, indexing and the early retirement subsidy. Over the next pages, you can learn about the plan changes in detail.

In the new plan design, there will be three plan levels, each having its own contribution amount. Every school gets to choose the plan level that best suits its community.

All plan levels will use a 1.900% benefit formula to calculate annual pension amounts. Pension amounts will also be calculated using a years-of-service adjustment, which varies between plan levels.

Plan Features	8.05% Plan	7.00% Plan	5.55% Plan
School/Employee Contributions	8.05%	7.00%	5.55%
Years-of-Service Adjustment	1.0 for every year of eligible full-time service	0.87 for every year of eligible full-time service ¹	0.69 for every year of eligible full-time service ²
Early Retirement	No changes – same as current provisions		
Indexing	Capped at 1.0% per year		
Final Average Earnings	Best five consecutive years in the last 20 years (up to a set date)		
Normal Form of Pension			
<i>Retiree without a spouse at retirement</i>	Lifetime pension with no guarantee period		
<i>Retiree with a spouse at retirement</i>	Joint and survivor pension (amount of pension to the retiree is reduced so that it is equivalent in value to the pension payable to a retiree without a spouse)		

¹ Equivalent to a 1.653% benefit formula after the years-of-service adjustment

² Equivalent to a 1.311% benefit formula after the years-of-service adjustment

Contribution Levels

Under the current provisions of the CSI Pension Plan, you and your school each contribute either 4.5% or 6% of your annual salary to the pension fund, depending on which plan level your school selected.

Under the new provisions of the CSI Pension Plan, current contribution levels have been increased by about 1% and a new higher contribution level has been added because the vast majority of schools

that participated in the webinars indicated they preferred to increase current contributions in order to receive a higher pension benefit at retirement.

These changes in contribution levels will strengthen the financial health of the CSI Pension Plan. They also offer flexibility and choice, to help schools remain within their budgets for pension contributions.

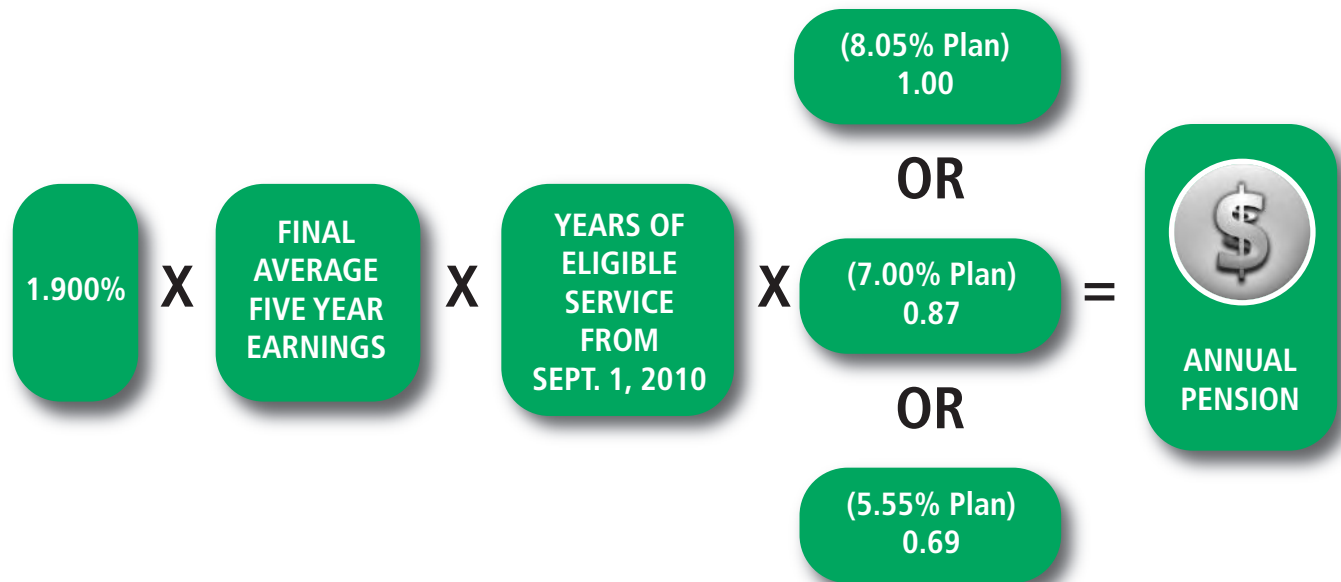
What are the contribution levels of other teachers' pension plans?

- **Ontario Teachers' Pension Plan (OTPP):** Both schools and employees contribute between 10.4% and 12% of their gross pay
- **Alberta Teachers' Retirement Fund (ATRF):** Private school employees contribute 8.5% of their gross pay while schools contribute 7.9%
- **BC Teachers' Pension Plan (BCTPP):** Employees contribute between 9.16% and 10.66% of their gross pay while schools contribute between 12.29% and 13.79%

Pension Benefit Formula

Under the current provisions of the CSI Pension Plan, your annual pension benefit at retirement is calculated using a 1.84% formula. If you participate in the 4.5% Plan, a 0.75 adjustment is applied to your eligible service, effectively providing you with a pension benefit formula of 75% of 1.84%, or a 1.38% formula.

With the new plan design, your annual pension benefit at retirement for service from September 1, 2010 onwards will be calculated using a 1.900% formula. The years-of-service adjustment used in the formula will depend on the plan level that your school selects.



The Online Retirement Calculation Tool is being updated to the new pension benefit formula and will be available October 1.

How do pension benefits under the new plan design compare with those under the current plan design?

- **8.05% Plan:** Pension benefits are slightly better than those provided by today's 6% Plan (a pension benefit formula of 1.900% compared with 1.84%)
- **7.00% Plan:** Pension benefits are lower than those provided by today's 6% Plan (after the years-of-service adjustment, a pension benefit formula of 1.653% compared with 1.84%)
- **5.55% Plan:** Pension benefits are close to those provided by today's 4.5% Plan (after the years-of-service adjustment, a pension benefit formula of 1.311% compared with 1.38%)

The pension benefit formulas under the 8.05% Plan and the 7.00% Plan compare favourably with the best public sector pension plans in Canada. The highest benefit formula allowed by law is 2% and most public sector plans only reach that level when the Canada Pension Plan benefit is added.

Indexing

Currently, post-retirement indexing is at 0.9% per year. Since 2004, there have been incremental increases to the indexing rate each year, with an original goal of reaching 2% indexing per year. Under the new plan design, indexing will be capped at 1% per year (that is,

there will not be any further incremental increases to the indexing rate after it reaches 1%). The indexing rate will increase to 1% on September 1, 2010.

This is the only plan design change that will affect retirees currently receiving a pension.

Final Average Earnings

Final Average Earnings (FAE) is used in the pension formula to calculate your pension benefit amount. Under the current provisions of the CSI Pension Plan, FAE is defined as the average of your best *three* consecutive years of earnings in your last 20 years of service, up to a set date. The new plan design will define FAE as the average of your best *five* consecutive years of earnings in your last 20 years of service, up to a set date.

In practice, it will be a two-part calculation: the pension you earn for service up to August 31, 2010, will use the average of your best *three* consecutive years of earnings in your last 20 years of service; the pension you earn for service from September 1, 2010 will use the average of your best *five* consecutive years of earnings in your last 20 years of service.

Remember that only earnings up to a set date (currently August 31, 2010) are recognized in the calculation of the FAE. In conjunction with the implementation of the new plan design, the set date to which earnings under FAE will be recognized has been extended to August 31, 2011.

Being able to set and re-set the date for FAE recognition is a flexible feature of the plan that the Trustees can use as a lever to manage fluctuations in the plan's funding status.

Did you know?

In Canada, two-thirds of defined benefit plans that use an FAE formula to calculate pension amounts, including the OTPP, the ATRF, and the BCTPP, take the average of earnings over five years.

"Normal Form" of Pension

All pension plans are required to identify a "normal form" of pension. This is a technical term used to describe how the amount of pension generated by the pension benefit formula is paid to plan members – for example, if payments are guaranteed for a certain period of time or if they are passed on to a spouse upon a retiree's death. Under the current provisions of the CSI Pension Plan, the normal form of pension for a retiree who does not have a spouse at retirement is a pension payable for his or her lifetime, with a 10-year guarantee period. That is, if you die within 10 years of the start of receiving pension benefits, the payments continue to your beneficiary for the balance of the 10-year guarantee period.

For a retiree with a spouse at retirement, the normal form is a "joint and survivor" pension, where the pension is paid for the lifetime of the retiree, and 60% or 66.7% of the amount (depending on the province)

paid to the retiree continues to be paid to the spouse after the retiree's death. The actuarial value of the "joint and survivor" form of pension is the same as that of the normal form of pension for a retiree without a spouse, but the monthly pension payments will differ: under the "joint and survivor" form, the initial pension payment to the retiree is smaller compared with a single retiree's pension because the "joint and survivor" pension is likely to be paid over a longer period of time.

The current normal form for pension earned for service to August 31, 2010 will continue. However, under the new plan design, the normal form for pension earned by a retiree without a spouse for service from September 1, 2010 will no longer provide a 10-year guarantee period. Because the actuarial value of the "joint and survivor" form of pension for a retiree with a spouse needs to be the same as the actuarial value of the normal form for a retiree without a spouse, this change also decreases the pension amount payable to a retiree with a spouse.

No change to early retirement provision

Early retirement provisions remain the same under the new plan design:

- Retire at 60 (with at least 10 years of service) with no reduction in the pension formula;
- Retire as early as 55 (with at least 10 years of service) with a 5% reduction per year for every year you retire in advance of age 60;
- With less than 10 years of service, retire as early as 55 with a 4% reduction per year for every year you retire in advance of age 65.

The input received from the focus groups and webinars suggest that current early retirement provisions constitute an important and highly-regarded feature of the CSI Pension Plan. Therefore, changes were not made in this area.

Schools Make The Choice

September marks not only the beginning of classes, but also a period of planning for the 2010-11 school year and beyond. Before the new plan design is implemented, schools will have to select a plan level (the 8.05% Plan, the 7.00% Plan, or the 5.55% Plan) and take their selection into account when budgeting for 2010-11. In terms of making a choice between the different plan levels, it will be up to each individual school to find the right balance between contributions made and pension benefit received based on the requirements of its school community.

Individual plan members will not have to take any special action as a result of the new plan design.

Choosing a plan level: Things to consider

Each school has a unique situation and must select a plan level that best accommodates that situation. When making the decision, it is important to remember that money is not the only factor to consider. For example, if a school chooses a plan level that provides a lower pension benefit, employees may have to work longer to make up the difference and retire at a later age, which will affect staffing patterns of the school.

Thank You!

The Board of Trustees would like to take this opportunity to thank all schools and plan members who participated in this important decision-making process and enabled us to move forward as a community. It is because of your interest and cooperative spirit that we have a new plan design that will provide:

- A meaningful pension benefit to plan members
- A healthier, more sustainable plan for the long term
- More flexibility to adapt to an unpredictable future

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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.