



*Employee Benefits. Building Community.*

## **CSI Pension Plan Delivers Value.**

How The CSI Pension Plan Works and Why This Plan Is The Best Fit For The Christian Education Community.



A comparison of the features of defined benefit versus defined contribution retirement plans, complete with explanations and examples of how this impacts the CSI Pension Plan.

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# An Employee Benefits Program Inspired By Our Mission

*Christian Schools International's mission is to advance Christian education and support schools in their task of teaching students to know God and His world and to glorify Him through obedient service.*

CSI's employee benefit programs play an important role in fulfilling our mission. We believe that part of supporting schools involves helping them attract and retain a high-quality well-rounded staff, while recognizing the limited resources available to Christian schools.

To best serve our member schools we have developed a pension program that leverages the strength of the Christian education community at large for the benefit of each individual school, its employees, and their community. In determining the best method of retirement savings, CSI considers both savings plans (defined contribution) and pension plans (defined benefit). CSI chooses a pension (defined benefit) plan as the best fit for our members. Through our pension plan we offer a program tailored to the CSI member schools' needs.

By working together, CSI pension program participants gain access to a wider range of retirement options that are almost twice as cost-efficient as individual defined contribution alternatives. That means that it takes only about half the money to provide a retirement benefit with CSI's pension plan than it would with a RRSP or 401(k)<sup>1</sup> savings account. Regardless of whether the employer or the employee pays into the program, these savings are significant and are a compelling reason to use CSI's pension program.

## CSI Pension Program Can Reduce Cost By Almost Half.



**Note: The cost of guaranteeing a stable retirement income is almost twice as much when using a DC vs. a DB**

Today, retirement planning is presented with a challenging marketplace. Due to the increased promotion and use of defined contribution retirement plans (RRSP and 401(k)) over the past several decades, the advantages of defined benefit (pension) plans are not well known.

A common misconception is that defined contribution plans cost less and are a better value. This is false. The only savings gained by employers who switch from a defined benefit to a defined contribution plan is through a dramatic reduction in the retirement benefit provided to the participant. When designed to achieve equivalent benefits in retirement, defined benefit plans like the CSI pension plan dramatically outperform RRSP and 401(k) plans. In fact, an in-depth study by The National Institute on Retirement Security<sup>2</sup> shows that defined benefit plans can deliver equivalent retirement benefits at a cost 46% lower than defined contribution plans.

*How can this be? The key difference is in the approach — defined contribution plans are based on an individual's savings, whereas defined benefit plans use a community model.*

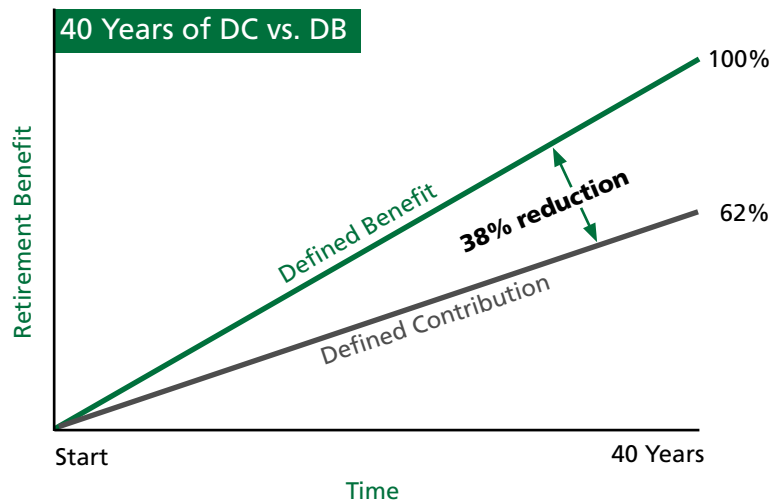
Specifically, a defined contribution plan is a plan in which a percentage of employee pay is saved in an account for that employee's retirement needs. In a defined contribution plan, investment risk and investment rewards are assumed by each employee or retiree and not shared by a larger group. In addition, participants individually bear the risk of outliving their assets.

The “cost” of a defined contribution plan is readily calculated, but the benefit from a defined contribution plan depends upon the account balance at the time an employee needs to use the assets. So, for this arrangement, the contribution is known but the benefit is unknown until retirement.

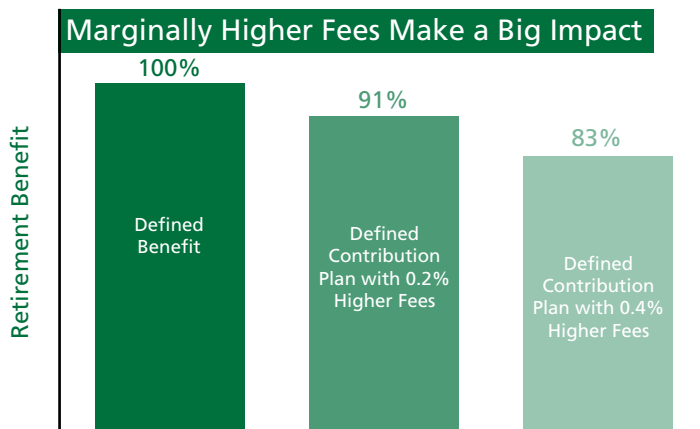
In contrast, a defined benefit plan is a plan in which the benefit at retirement is determined by a set formula. Contributions made by employees and employers are managed and invested to provide specific benefits to employees throughout their retirement. So, for this arrangement, the contribution is typically unknown but the benefit is known. However, the CSI plan is unique in that it is structured so that both the contribution and benefit are pre-calculated and known.

## Defined Benefit Plans Out Perform Defined Contribution Plans Financially.

There are several reasons why the community approach of a defined benefit plan provides cost advantages. Specifically, defined benefit plans cost less in fees, earn superior returns, and share the risk of outliving retirement benefits. These factors are so influential that even understating their individual influence still results in a dramatic decrease in retirement benefit if a defined contribution plan is selected instead of a defined benefit plan. In fact, we have worked with Mercer LLC, an investment and human resources consulting firm, to explore the effects of these factors using understated estimates for illustration purposes. The combined result is an astounding 38% reduction in retirement benefit if an RRSP or 401(k) is selected instead of a defined benefit plan. And it is worth noting that these comparisons each under-estimate the actual impact of the factors and their combined negative effect on retirement benefits.



## Fees — Larger Fees In Defined Contribution Plans Decrease Retirement Benefit Levels By Up To 17%.



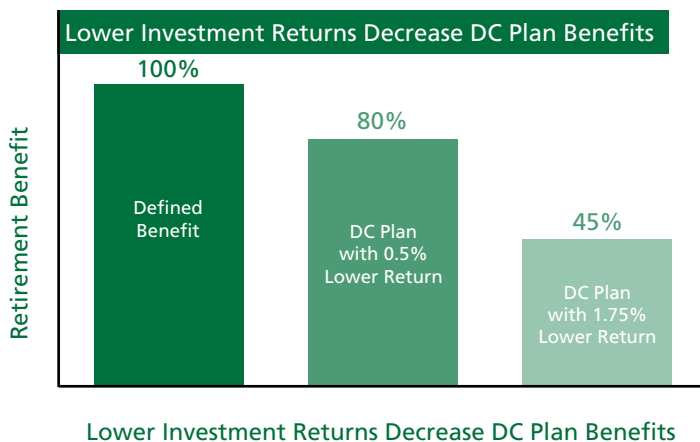
Lower Retirement Benefits Due to Higher Fees Associated with Defined Contribution Plans.

Studies by Boston College and the Investment Company Institute have shown that fees for defined contribution plans are generally 0.4% higher than for defined benefit plans. In the Boston College study, fees on 401(k) plans were found to be about 1%. The current CSI plans expenses are 0.6% to 0.7%.

What may seem like an insignificant difference in fees between a defined benefit and a defined contribution plan actually adds up to make a significant difference over time. For example, if the CSI plans were defined contribution plans the expenses would be at least an additional 0.2 to 0.4 percent. For a participant who enters the plan at age 25, retires at age 65 and has a gross investment return of 7.5%, the increased expenses would reduce the benefits by 9% for that additional 0.2 % expense and by 17% for the additional 0.4% expense.

Both defined benefit and defined contribution plans make investments to provide retirement benefits, so why are the fees different? The key is that with a defined contribution plan there is the additional cost associated with having individual investment accounts for each participant. This expense is passed directly onto the participant and uses up resources that would otherwise provide benefits.

## Investment Returns — Sub-optimal Asset Allocation And Poor Investment Timing With Defined Contribution Plans Decrease Benefit Levels By 20%



Investments returns are impacted by the fluctuations in market conditions. As individual investors age they must be sure to insulate their investments more the closer they come to retirement age. While this makes practical sense in protecting an individual's retirement investment it also means that the individual does not maximize the return on investments for the years immediately prior to retirement. This diminished return period undermines the overall investment return more dramatically because the latter years of retirement savings are also the time when the investment account has the most capital to invest.

Defined benefit plan investments are not limited by a single target retirement date. Rather, the participants in the community are made up of a range of age groups, some entering the plan, some retiring, and some in the middle of their careers. This means that defined benefit plan funds can stay fully invested to maximize the investment potential.

A study published in the Ambachtsheer Letter<sup>3</sup> showed that defined benefit plans in the US, Canada, Europe, and Australia earned 1.75% more on their investments between 1998 and 2005 than defined contribution plans in the same regions. Similar reports have shown defined benefit plans earning one percent more than defined contribution plans in 2006 alone.

While one percent may not seem significant at first, some examples of the long-term impact show how meaningful this difference can be. For example, a participant who enters the plan at age 25 and retires at 65 would lose 20% of their retirement benefit through a decreased return of just half a percent. In this example, for every \$5 participants could have received with CSI's pension plan, they would only receive \$4 using an RRSP or 401(k). And this is an under-statement. This means that for those who experienced 1.75% less return on their investment as noted above, the decrease in retirement benefits would be 55%.

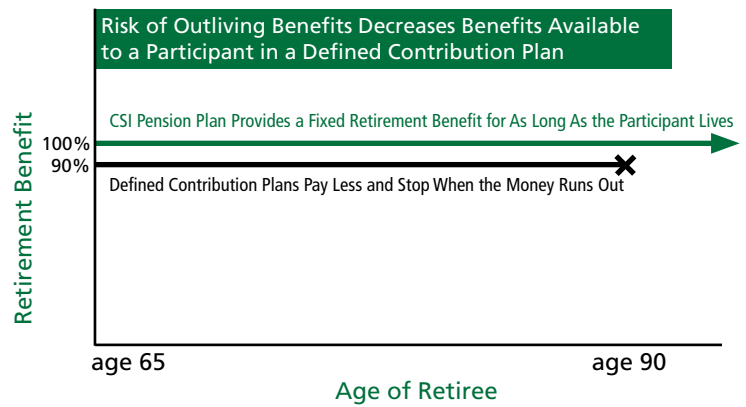
## Risk Of Outliving Benefits— Individually Planning For How Long You Will Live Requires Over-Saving.

Defined contribution accounts are based on estimating an individual's retirement needs. However, it is impossible to accurately predict how long any one person will live and therefore any plan will either over save or under provide. Saving too much for retirement puts an excessive financial burden on both the employee and the employer during employment. Excessive income is deferred and this decreases pre-retirement income. Not saving enough for any one individual's actual retirement will mean that the retiree will be faced with the challenge of returning to work or relying on others for financial support.

Defined benefit retirement plans have the advantage of providing retirement resources for a group of people. Although individuals in the group may have unique longevity characteristics, the group's longevity can be accurately predicted. With an accurate prediction of need, defined benefit plans do not need to over save and will not end up under providing for member retirement needs.

The most common way that defined contribution plan participants address this issue is by decreasing their benefit level in retirement to allow for the potential of a longer retirement if necessary. For example, using an average of male and female life expectancies this “longevity risk” would force an age 65 retiree with a defined contribution account to reduce their retirement benefit level by 10% to 15%.<sup>4</sup>

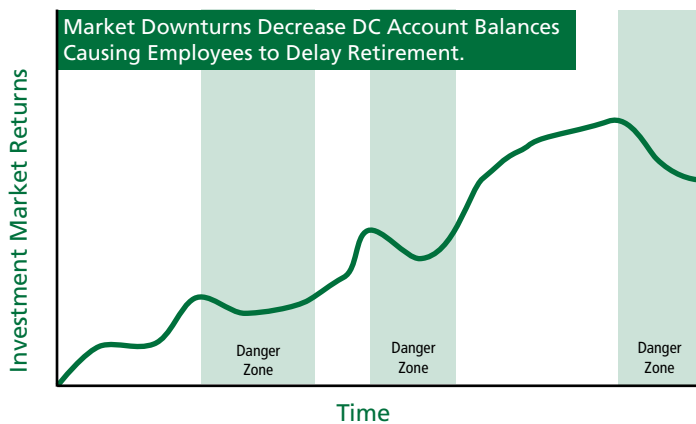
*All of these financial advantages combine to add up to real savings for schools and teachers as they plan for retirement using CSI’s pension program. Through the use of a defined benefit tool, CSI makes substantial retirement benefits feasible for Christian schools with a financially efficient pension fund.*



## What Are The Community Building Features Of CSI’s Defined Benefit Plans?

Defined benefit plans provide employees a predictable retirement benefit. This is an asset to employers in attracting, retaining, and providing for an employee’s well being and a key component to managing staff composition. But that is not all, the community model of a defined benefit plan allows employers to offer additional benefits to individuals within the community, like disability or death benefits, that would otherwise be unavailable in an individual-oriented defined contribution model.

## Making Retirement Predictable And Reliable Helps The School And Staff.



The goal of CSI’s retirement planning is to help schools achieve their mission. Schools as employers need an effective retirement plan to manage the composition of their staff. CSI’s defined benefit plans help schools ensure that employees have the means to retire when doing so would be best for the school. By providing a predictable retirement income to employees they are not forced to stay at work longer than is desirable. In addition, CSI’s pension program is designed to help teachers retire early. Schools have requested this and the community aspect of the plan makes this feature feasible.

## CSI’s Pension Plan Helps Schools Retain And Attract The Right Teachers

An important part of each school is the composition of the staff. Having a good mix of teachers with respect to age, gender, and experience is key to providing a well-rounded education to students. CSI’s pension plan can play a role in helping schools attract and retain both male and female teachers to their schools.

Employee retention is another significant advantage of CSI’s defined benefit plans. Employees can see on their annual statement or through generated retirement benefit projections that staying with the CSI member school provides dramatically higher benefits than leaving the school and joining a defined contribution plan at another employer.

CSI’s defined benefit plans help attract good teachers to the profession. Participants are able to retire at a reasonable age. The plan gives them the financial resources to enjoy a comfortable and capable retirement. With CSI retirement is an attractive component of the teacher lifestyle and provides concrete proof that teaching is a fulfilling profession.

## Designed For Our Community, By Our Community.



CSI is a member organization. As such, the members serve on the board and guide the organization in response to the direction of member schools. This means that the teachers, administrators and school boards of the member schools have influence over what CSI does for participants in the retirement programs.

CSI has the ability to tailor the benefits provided to the specific needs of the group. For example, as mentioned earlier CSI's pension fund has responded to the community's desire to allow teachers to retire early by creating an early retirement benefit that provides real value to participants. This need was expressed by both employers and participants and the trustees made our plan accommodate schools' needs.

Another example of the caring approach that CSI's members take with the pension plan is by providing continued benefit accrual to disabled individuals at no-cost to the participant or their school. This not only benefits the individual, but it serves the good of the larger community.

These are just a few examples of how the community model of CSI's defined benefit plans helps strengthen the community it serves while at the same time providing an excellent retirement program to each individual employee.

## The Best Fit For Christian Schools and Teachers.

Examining the financial and community building benefits of CSI's pension plan has shown it to be the ideal solution for members of the Christian education community — both participants and employers — as they seek to make the best use of their investment and prepare for a well-funded retirement that is fitting with their income and their resources. By leveraging the strength of the community model both employers and participants do better with a defined benefit plan, with the results being optimum financial performance and the addition of community building features.

With the pension program, CSI member schools pay less to get substantial retirement benefits for staff and provide a complete resource that has a long-term positive impact on their entire community and each individual employee. We are confident that our pension program continues to be the best tool available to help our members coordinate and provide retirement benefits.

To learn more about how our pension plan is designed to deliver the most bang for the buck and to support the mission of your school contact Howard Van Mersbergen, Vice President of Employee Benefits at (616) 284-3226 or visit us online at [www.CSIonline.org/benefits](http://www.CSIonline.org/benefits).

<sup>1</sup> RRSP is the most common form of defined contribution plan in Canada and 401(k) and 403(b) are the most common forms of defined contribution plans in the US.

<sup>2</sup> A Better Bang for the Buck, The Economic Efficiencies of Defined Benefit Pension Plans, National Institute on Retirement Security, August 2008, by Beth Almeida and William B. Forna, FSA. [www.nirsonline.org](http://www.nirsonline.org)

<sup>3</sup> The Ambachtsheer Letter — Nov/Dec 2006 states that for the period 1998-2005, the defined benefit versus defined contribution investment return differential for plans in US, Canada, Europe and Australia calculated at 175 basis points [1.75%].

<sup>4</sup> Using standard life expectancy projections, a retiree can reduce the risk of outliving their retirement funds by projecting a life expectancy greater than the average (50th percentile) and assuming a 25th or even 5th percentile life expectancy. The numbers used in this example correspond to a move from the 50th to the 25th and 5th percentile respectively. At the 50th percentile half of the retirees would outlive their funds, at the 25th percentile 25% would outlive their funds, and at the 5th percentile 5% of retirees would outlive their funds.

