

# YOUR PENSION UPDATE



CHRISTIAN SCHOOLS  
INTERNATIONAL

## Your Pension Update

Pension plans are a hot topic today, both in the national news and in casual conversation in the staff room. In keeping with our commitment to keep members of the CSI Pension Plan informed, we wanted to take this opportunity to provide an update about the funding of our Plan, explain the current status of pension indexing, and share some general information about pension plans to help you separate fact from fiction.

## Pensions in the News

In the federal budget presented on May 2, 2006, measures were announced to help federally regulated defined benefit (DB) pension plans ease the burden of closing funding shortfalls. This shows that there is widespread recognition that pension plans are important to Canadians and that economic conditions over the last few years have resulted in a situation that has put an unusual amount of pressure on DB pension plan funding.

More than eight out of 10 plans across Canada currently have funding deficits, which mainly have been caused by historically low interest rates and a difficult investment environment. While the past few years have presented a very challenging economic environment for DB pension plans, there are reasons for optimism: there has been some relief due to rising interest rates in 2006 and favourable stock and bond markets over the past few years. (For more information about DB plans and other types of pension plans, see back page.)

## CSI Pension Plan Funding

As we previously announced, the most recently completed actuarial valuation report in August 2004 found that the CSI Pension Plan had a funding deficit of just over \$10 million on a going-concern basis and assets of about \$114 million. As of April 30, 2006, the market value of assets in the Plan had risen to \$146 million following strong investment performance. The next actuarial valuation is expected to be conducted as of August 31, 2007.

### Funding Solutions

The August 2004 actuarial valuation shows the payment of the Plan deficit will proceed in an orderly manner over a period of five to 15 years, which is acceptable to the regulators. How long it will actually take to pay off the deficit is not known for certain; however, there is still enough money being contributed to the Plan to provide for all the benefits that have been included in the CSI Pension Plan and also to pay off the deficit.

As described in the May 2005 Pension Update, a "consent amendment" had been proposed as one way to help address the funding of the Plan's deficit. The measure was designed to change how the cost of early retirement subsidies is determined when a valuation is conducted. However, after discussions with the regulators, this amendment will not provide the anticipated funding flexibility for the Plan. An alternate amendment has been proposed that would reduce early retirement subsidies in the unlikely event that the Plan is wound up and there are insufficient assets to pay accrued benefits. This option will not affect the actual benefits paid to Plan members in the normal course of the Plan. The amendment will be reviewed by the Board in July 2006, and if approved, will be submitted to the regulators for approval.

## Progress on Indexing

The CSI Pension Plan began to apply indexing to pension benefits starting in September 2004. Indexing is beneficial to Plan members because it permanently raises a retiree's monthly pension income by a percentage to help offset the impact of inflation.

Indexing is scheduled to be phased in over approximately 10 years, as shown in the following table. Each increase is implemented by means of an amendment to the Plan, which is subject to review by the Trustees. To date, all indexing amendments have been approved and the expectation is that the next phase will be implemented in September 2006.

### Indexing Background

The decision to add an indexing feature to the Plan was based on input from Plan members and schools. In 1999, Plan members were surveyed to determine their needs for pension-related information and to obtain input about various options for enhancing the Plan. Following the survey, focus groups and feedback sessions were held at most schools. The consultation process found that there was strong support for the measure, for the following reasons:

- Significant improvement in pension benefits (e.g., less loss of "buying power" due to inflation)
- Useful tool to attract and retain quality teachers
- Looks after retirees whose retirement income can be significantly eroded by inflation
- Supports CSI's community values because it benefits all in the Christian community

Phase-In Year	Annual Indexing Increase	Date Approved
2004/2005	0.2%	Approved March 2003
2005/2006	0.4%	Approved March 2005
2006/2007	0.6%	Proposed for approval in July 2006, for implementation September 2006
2007/2008	0.8%	TBD
2008/2009	1.0%	TBD
2009/2010	1.2%	TBD
2010/2011	1.4%	TBD
2011/2012	1.6%	TBD
2012/2013	1.8%	TBD
2013/2014	2.0%	TBD

## Questions?

If you have any questions, please contact

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## Questions and Answers About the CSI Pension Plan

### Q: Why does the CSI Pension Plan have a funding deficit?

A: The deficit in the pension fund has come about mainly due to falling interest rates and the adverse investment experience in 2001 and 2002, as we reported in the last Pension Update. When long-term interest rates are falling, as they have been for the past few years, it significantly increases the liabilities of the Plan (i.e. more money needs to be set aside to provide the promised benefits). For example, when interest rates drop by 1%, Plan liabilities increase by about 12%. If long-term interest rates were to return to a level that is closer to the historic norm, the funding deficit would be significantly reduced or eliminated.

### Q: How do the Trustees ensure that the CSI Pension Plan is well managed?

A: First of all, we should be clear about who “the Trustees” are. Four of us are Plan members and the other four are current or former School Board members, so we all have a significant interest in the long-term health of the Plan.

Together, we decide which investment managers will be hired to manage the Plan's assets and monitor their performance. To assist us, we work with experts. Mercer Human Resource Consulting, the consulting firm advising us, is the largest pension consulting firm in Canada, providing advice to many of the largest employers in the country. The Board carefully selects managers for the Plan based on the consultants' thorough research, which examines the experience of the personnel at each investment firm, their investment style, their track record of success against established benchmarks and other factors.

Currently, the Plan assets are invested in balanced portfolios that are designed to generate the maximum long-term rate that can be achieved without exposing the Plan to too much risk. This method of providing retirement security to individuals has been in place for over 50 years and it has proven to be highly successful.

### Q: How is the funding status of the CSI Pension Plan determined?

A: Determining the financial status of the CSI Pension Plan is a complicated and highly regulated process. A formal assessment of the Plan's funding – an “actuarial valuation” – is performed once every 12 to 36 months. The most recently completed valuation of the Plan was as of August 31, 2004. At that time, the shortfall in the Pension Plan was just over \$10 million using what is called a “going-concern basis” to value the Plan. This method presumes that the Plan will continue to operate indefinitely.

Valuations can also be performed on a “wind-up basis,” which examines the Plan's financial position as if the Plan was completely terminated on the date of the valuation. Under this method, the Plan would have a larger deficit than under a going-concern basis because if a real wind-up were to occur, different economic assumptions would be used and certain benefits would be enhanced in accordance with pension regulations.

Since the Trustees expect to continue the CSI Pension Plan into the future, we believe that the most recent going-concern valuation is the best measure of the long-term security of members' benefits.

### Q: How does our contribution level compare with other DB plans?

A: The CSI Pension Plan contributions compare well with other pension plans covering teachers and other workers in the education sector. In similar plans in various provinces, the employee and employer contributions are in excess of 16%.

### Q: Will contributions to the CSI Pension Plan be increased again in the future?

A: The Board of Trustees and our consultants currently consider it unlikely that any contribution increase will be required. The long-term outlook is that the Plan remains relatively stable and in good shape financially.

### Q: Is our current type of pension plan the best type of plan for CSI?

A: The current design of the CSI Pension Plan (a “defined benefit” plan) provides members with a predictable lifetime retirement pension regardless of whether members retire during favourable or unfavourable economic times. Over time, the Trustees have compared the current plan design with alternative designs, and we continue to believe that this design is the most cost-effective way of providing financial security for our members during their retirement years.

## Understanding Other Types of Pension Plans

We have received a few questions about other types of pension plans and how they compare to the current CSI Pension Plan. The following may help you to understand the benefits of the two main types of pension plans in Canada: defined benefit (DB) pension plans (such as the CSI Pension Plan) and defined contribution (DC) pension plans.

### Q: What is a defined contribution (DC) pension plan?

A: A DC plan does not guarantee a specific amount of retirement benefits. A member's pension benefits at retirement, termination or death are a function of the amount that has been contributed to the member's account, along with accumulated investment earnings (and net of investment fees). These factors cannot be predicted with accuracy. The amount of investment income earned will depend on how the investments in the account perform over time.

In contrast, under a DB plan, a member's pension benefit is defined by a formula that includes earnings and eligible service.

### Q: How much money can a person get from a DC plan versus a DB plan?

A: A DC plan does not guarantee a specific amount in retirement benefits. A member's pension benefits at retirement, termination or death are a function of the amount that has been contributed to the member's account, along with accumulated investment earnings (and net of investment fees). These factors cannot be predicted with accuracy. The amount of investment income earned will depend on how the investments in the account perform over time.

In contrast, under a DB plan, a member's pension benefit is *defined* by a formula that includes earnings and eligible service.

### Q: Am I better off in one type of pension plan over another type of pension plan?

A: The most straightforward answer is: “It depends on many factors.” However, for the CSI community, we believe that a DB plan is the best type of retirement arrangement for both Plan members and schools. The DB plan defines the amount of pension benefit at a specific retirement date, so members and schools can plan accordingly. Other types of plans, such as DC plans, do not define the amount of pension benefits and the exact amount of benefits ultimately depends on a number of external factors; therefore, members may not be able to retire on their planned retirement date.

We have provided you with information about some fundamental differences between two of the major types of pension plans – DC plans and DB plans. In comparing the two plan types, the following factors should be considered:

#### *Predictability of the final benefit*

In a DB plan, a plan member receives a benefit based on his/her earnings and years of plan membership, according to the pension formula. Given a specific period of employment and a specific level of earnings, the resulting lifetime pension is predictable and is not tied to the performance of the pension fund. In a DC plan, a plan member's income in retirement is tied directly to the investments in his/her DC plan account and how well those investments perform. Most often, in DC plans, an individual plan member makes decisions for his/her own DC account – including how much to invest in each fund and when to move money from one fund to another. Therefore, a DC plan member's results are only as good as his/her expertise in managing investments – and the whims of the stock market. If another person – such as a broker or manager – is directing the investments or even making a general selection from which the plan member may choose, then the plan member should ask him/herself if the broker/manager has a vested interest in the fund options selected. Independent, qualified financial advice is essential for success in this type of plan. (For information about the investment management of the CSI Pension Plan, see “Q: How do the Trustees ensure that the CSI Pension Plan is well managed?”)

#### *Possibility of outliving your pension benefit*

In a DB plan, such as the CSI Pension Plan, benefits are set at retirement and are payable for life to ensure that you do not outlive your pension benefits. This is not the case in a DC plan. In a DC plan, it is possible for a plan member at retirement age to take his/her DC account balance and transfer it to a retirement arrangement that allows the plan member to withdraw a varying amount of money each year, within minimum and maximum limits. Many people underestimate their longevity, so it is quite possible that a DC plan member could have little retirement income left in their later retirement years.

#### *Investment performance between DB plans and DC plans*

Once again, this depends on a number of factors; however, a recent Mercer Human Resource Consulting study has shown that DB plans have produced returns of 1% to 2% higher than DC-type retirement arrangements in the long term. There are several reasons a DB plan pension fund may outperform an individual investment account in a DC plan:

- A DB plan's pension fund is managed by professional investment advisors who are hired and monitored by the plan sponsor. Under a DC plan, it is the plan members who choose how to invest the account balance from a range of funds provided. Plan members' investment expertise usually varies; therefore, investment returns will vary.
- DB plans are investing millions compared to the thousands of dollars that individual investment accounts hold. Therefore, transaction costs and investment fees are significantly lower in a DB plan.
- A DB plan utilizes the power of pooling all contributions into a pension fund, which enables the investment managers to more aggressively invest the funds as the risk is spread over a larger pool of members with various ages and over a longer time period. In a DC plan, each individual member needs to invest more conservatively as the member gets older and the time horizon to retirement shortens. This more conservative investing is likely to produce a smaller return.