

# YOUR PENSION UPDATE



## Pension Indexing Coming Next Year!

In September 2004, the CSI pension plan will begin to phase in pension indexing in order to permanently raise pension benefits at retirement. Even though the change is a year away, we want plan members and schools to start thinking and planning ahead.

This newsletter is designed to help you understand and consider the options for your school. Whether you want a refresher on how the plan works, how indexing will be implemented or how it may affect your school and pension plan members – the information you need is right here.

### How Did We Get Here?

CSI trustees have spent the past four years guiding pension plan members and retirees through an important process of education and discussion. It began with a survey in 1999 and ended with feedback in 2003. In between, several newsletters, focus groups, regional meetings, discussions and a facilitator’s toolkit communicated what pension indexing was all about and how it would affect the pension plan and its members – past and present.

More importantly, rather than just tell you the impact of pension indexing, we wanted to hear

from you and know whether you thought it would be a positive change. Obtaining your feedback and involvement in this process was a priority.

Thanks to your participation and detailed feedback, we were able to determine that there was a strong indication of support for indexing. Based on this feedback, trustees and directors approved the pension indexing proposal last spring.

Now that the decision has been made, plan members and schools can prepare to finance the increased contributions as part of pension indexing.

## Pension Indexing Refresher – What Makes Indexing a Pension Improvement

Pension indexing permanently raises a retiree’s pension benefits at regular intervals. These regular pension increases help offset the impact of inflation.

Starting in September 2004, the indexing plan will be phased in over about 10 years. Once it is completely implemented, it should ultimately result in an annual 2% increase in pension benefits for all members and current retirees.

Retirees will first receive an annual pension increase of 0.2% in September 2004. After review and approval, this amount will increase by 0.2% each year, as follows:

Indexing Phase-In Year	Annual Indexing Increase	Date Approved
2004/2005	0.2%	March 2003
2005/2006	0.4%	To be determined (TBD)
2006/2007	0.6%	TBD
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

Pension indexing is being phased in over 10 years in order to build up enough money in the pension fund to pay for indexing, while keeping contributions at a reasonable level. Also, a phased-in approach allows trustees to suspend the plan implementation if the contributions base deteriorates. In other words, pension indexing only works with continued participation of schools.

## What Are the Positive Impacts of Pension Indexing?

The feedback we received from schools strongly indicated support for pension indexing. Schools also outlined key positive impacts they expected indexing to have upon their schools. Those key positive impacts are:

- Significant improvement in pension benefits (e.g., helps keep up with inflation),
- Useful tool in attracting and retaining quality teachers,
- Looks after current retirees whose retirement income can be low, and
- Supports CSI's community values, because indexing benefits all in the Christian school community.

## What are the Challenges of Pension Indexing?

The feedback from schools also identified a challenge around managing the cost of indexing. In response, pension indexing will be introduced in 2004, instead of 2003, giving plan members and schools time to budget.

### Paying for Pension Indexing

Contributions to the pension plan will increase in September 2004. That means you and your school have a year to consider your options and adjust your budgets if necessary.

The amount that your contributions will increase depends upon your school. If your school belongs to the:

- 4% pension plan, you will contribute an extra 2% to cover the cost of indexing
- 3% pension plan, you will contribute an extra 1.5% to cover the cost of indexing

Schools will continue to match employee total contributions.

Schools that find it challenging to manage the increased contributions have the following options:

- Switch from a 4% to a 3% plan; or
- If a school is already in the 3% plan, it could switch to a temporary 2% plan. Under the temporary 2% plan, you will contribute 3%, with 1% going towards the cost of indexing.

Keep in mind that switching to a pension plan with lower contributions, even temporarily, should be considered only as a last resort. In the long term, switching plans is less beneficial because it will reduce the final amount of your pension.

## CSI PENSION PLAN AT A GLANCE

### A Defined Benefit Plan

The CSI pension plan is a defined benefit (DB) pension plan. It is called a DB plan because the pension you will receive at retirement is defined or predetermined based on a formula.

The pension is designed so the amount of contributions from participants and schools is enough to pay for the pension promised to employees.

### Pension Plan Highlights

- Provides monthly retirement income
- Benefit determined by a formula that makes it possible for you to predict your final pension amount
- Employee and school both contribute
- Schools decide whether to contribute 3% or 4%
- Employees contribute either 3% or 4% of annual salary through payroll deduction
- CSI pension plan assumes investment risk and oversees pension fund investments
- Pension amounts are vested when a member has participated in the CSI pension plan for two or more years. (When pension benefits are "vested," it means a pension plan member is eligible to receive a pension at retirement based on contributions from both the employee and employer)

### Questions

If you have any questions, please contact Howard Van Mersbergen, Director of Employee Benefits Plans, at 1 (800) 635-8288 ext. 226 or [hvanmersbergen@csionline.org](mailto:hvanmersbergen@csionline.org).

### Calculating Your Pension

You can use the formula below to calculate the amount of pension you will receive at retirement.

#### 3% Plan

$$1.38 \% \times \text{Average of best three consecutive years' salary} \times \text{Years of eligible service} = \text{Annual pension benefit}$$

#### 4% Plan

$$1.84 \% \times \text{Average of best three consecutive years' salary} \times \text{Years of eligible service} = \text{Annual pension benefit}$$

Note that if you belonged to both the 3% and 4% plan, you will have to use a combination of the two formulas, according to your length of service under each plan. For instance, if you belonged to the 3% plan for your first 10 years of service and the 4% for the past 2 years, you will only use the 4% formula for 2 years and the 3% formula for the other 10 years.



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