

YOUR PENSION UPDATE



CHRISTIAN SCHOOLS
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Your Pension Update

For almost 10 years, this newsletter has been a vital part of CSI's commitment to inform you about the CSI Pension Plan. While many topics have been addressed over the years, we have recently focused on explaining the Plan's funding and the external challenges in managing it. In this issue, we update you on the results of the recent valuation as of August 2007. We announce the start of a projection study which will assess the Plan's health over the next 20 years. In addition, we explain the options that Trustees propose to balance the Plan's financial health while continuing to manage member benefits. We also describe how the current economic situation is affecting our Plan.

Financial Status of the CSI Pension Plan

As you may know, pension law requires that pension plans have a full actuarial valuation every three years. The purpose is to assess if the Plan's assets (money in the pension fund) are sufficient to meet its liabilities. "Liabilities" means the cost of pensions being paid to current retirees in addition to the cost of pensions earned so far by active members. To make projections many years into the future, the Plan actuary makes assumptions about things such as life expectancies, future pension amounts, interest rates, and investment returns. Because these future numbers cannot be known accurately, projections are conservative.

During a valuation, the Plan's funding status is tested in two ways:

- The "going concern" test estimates liabilities as if the Plan continued indefinitely.
- The "solvency" test estimates the ability to pay all pension benefits as if the Plan were terminated on the valuation date.

As you would expect, both testing methods are highly technical. What matters is that the Plan must pass both tests to be considered fully funded.

Valuation results as at August 31, 2007

The good news is that Plan assets have increased in value since the last valuation to \$173.2 million. This is due in part to good investment returns over the past three years. However, both valuation tests show that the Plan is still underfunded. According to the going concern test, the Plan's funding status is manageable based on the level of contributions currently being made. However, results from the solvency test are not so rosy. (For more details, see the article on page 3.)

What would it take for the Plan to pass the solvency test? According to our actuary, it would take a rise in interest rates of about 1.5% from today's levels, assuming no other factors change. The level of interest rates is therefore a key factor in the Plan's ability to pass the solvency test. Although interest rates are currently at a historical low, it is impossible for the Trustees to predict in which direction interest rates will go in the future as they are dependent on market cycles that are outside our control.

Financial Status of the CSI Pension Plan *continued*

Making up the shortfall

When a pension plan is underfunded, pension regulators require that contributions paid to the plan be sufficient to meet the plan's "service cost" (the cost of one year's earned pensions by active members) as well as the amounts required to eliminate the funding shortfall. While the shortfall based on the going concern test can be eliminated over a period of 15 years, the solvency shortfall must be corrected over only five years. For that reason, solvency shortfalls are a bigger challenge.

Implications for Plan improvements

The preliminary valuation results show that the current level of contributions is sufficient to pay current pensions and to make required payments towards the funding shortfalls until at least the next actuarial valuation in 2010.

The current level of benefits is based on indexing increases after retirement of 0.8% per year and the recognition of members' earnings up to August 31, 2008 in the calculation of their FAE.

The size of contributions allocated to the elimination of the solvency shortfall removes our ability to increase the level of indexing or push out the recognition of earnings to our target goals. However, the Plan can afford to update the FAE and make a partial improvement to indexing, as described on page 3.

In keeping with our values, the CSI community has a commitment to care for each other. The significance of that duty of care is heightened when we face adversity. These are challenging economic times that affect us in many ways, including the impact on our Pension Plan. We, as Trustees, are taking this course of action because it appears to be a measured, thoughtful, and reasonably cautious approach to managing the Plan. At the same time, we continue to balance the needs of the various groups that make up our community.

The 20-year projection study of the Plan's costs and contribution levels that is currently underway will allow the Trustees to test the long-term impact on the Plan of financial and demographic variables. As such, the study will provide the Trustees more insight to assist decision-making in respect of future benefit and contribution levels.

A reminder about Final Average Earnings (FAE)

The pension formula in the CSI Plan uses Final Average Earnings, or FAE. This is the average of your best three years of earnings 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 been the case so far. The Plan has been periodically amended so that an active member's full earnings are used in the pension calculation.

Final Average Earnings Update Will Go Ahead

The Plan will again be amended to update the FAE. The amendment will extend the earnings recognition date up to the next valuation on August 31, 2010.

Adjustment to Indexing Increases

In September 2004, we began to apply annual indexing to pension benefits as a way to raise monthly pension income and to help offset the impact of inflation. At the time, we projected a 10-year phase-in with the aim of reaching indexing increases of 2% per year. Each year's indexation increase requires an amendment to the Plan.

However, given the valuation results at August 31, 2007, we will be modifying our approach. We have decided to slow down the phasing in of indexing improvements until we gain a clearer picture of the Plan's financial health from the projection study (see the article on page 4).

The current level of benefits provides indexing increases after retirement of 0.8% per year. We are adjusting the indexing increase to 0.9% per year on August 31, 2008. We will assess the situation again next year.

Questions?

If you have any questions, please contact
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More about the valuation results

The going concern test: As noted, the market value of Plan assets at the valuation date is \$173.2 million. However, going concern liabilities exceed assets by \$10.1 million. The Plan's funding status — the ratio of assets to going concern liabilities — is 94.2% on August 31, 2007. This is an improvement from 92.0% on August 31, 2004.

What this means: The Plan continues to be under-funded on a going concern basis, but less so than three years ago. According to this test, the Plan's funding status is quite manageable based on the level of contributions currently being made.

The solvency test: Solvency liabilities exceed assets by \$10.2 million. The Plan's funding status on a solvency basis is 94.4% as of August 31, 2007. This is a decrease from 95.2% on August 31, 2004.

What this means: Although the liability is smaller, the solvency position is more challenging. A solvency test is like a snapshot of the Plan, based on economic conditions at the valuation date. It uses a different set of actuarial assumptions than a going concern. It is particularly affected by today's low interest rates because when interest rates are low, a plan needs more money today to pay the value of future pensions.

The solvency test is also affected by the life expectancies of Canadians, which have been increasing for some time. Although this is a positive feature of society, longer life expectancies increase the cost of pensions.

Facing Challenging Economic Times

Interest rates continue to make headlines. Over the past year, we have experienced sharp declines in interest rates. Today, interest rates are low but the economic environment is uncertain. Although a low interest rate is helpful for anyone renewing a mortgage or taking out a loan, it is a disadvantage to the funding of defined benefit pension plans, including ours.

As Trustees, we have sought advice over the years from Mercer, a leader in pension and benefits consulting and the actuary for the CSI Pension Plan. Mercer recently released their latest Pension Health Index, which is a comparative study of pension plans' solvency funding status in Canada. At the end of June, the Index had fallen to 79, down from 82 in December, 90 in mid-2007, and 120 in mid-2000. This shows the dramatic impact of very low interest rates and the recent downturns in the market.

Almost all Canadian defined benefit pension plans, regardless of size, are feeling the effects. You may have read about the Ontario Teachers' Pension Plan, which earlier this year announced an 11% solvency deficiency, or a shortfall of \$12.7 billion. This is despite the plan's reputation for excellent management and high levels of contributions. Members will contribute 12% of their gross pay to the plan

in 2009 and the participating school boards contribute an equivalent amount. The combined effect of low interest rates, low investment returns and higher life expectancies adds great challenge to those who manage pension plans' costs and obligations.

Managing the Plan's financial health

As part of our ongoing role to manage the Plan, Trustees have been working with our actuaries on two important projects:

- A full actuarial valuation of the Plan was carried out as of August 31, 2007. We have received a final report, which was filed with the regulators in July 2008.
- A 20-year projection study of the Plan's costs and contributions is underway. This is a look into the future so we can estimate the Plan's long term financial health, including the impact of our changing demographics. The study, similar to one we conducted seven years ago, will help Trustees to make decisions about future benefit and contribution levels.

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