CHRISTIAN SCHOOLS INTERNATIONAL

Christian School Pension Plan & Trust Fund

UPDATE

Date: June 4, 2004

To: School Boards, Active/Inactive Plan Participants and Retirees

From: Howard Van Mersbergen
Executive Secretary-Treasurer

- CSI Pension Plan News

CSI Pension Plan News

Webcast Follow-up

We appreciate your feedback! Thank you to all who participated in the CSI Pension Plan webcast in March. More than 120 schools attended! It was important for participants, schools and administrators to hear about the issues facing the CSI Pension Plan and proposed solutions. It was also important for us to hear your questions and comments. Here's a recap of your feedback:

- 95% agreed or strongly agreed that the information was presented in a way that was clear and easy to understand.
- 95% agreed or strongly agreed they understood why changes must be made to the Plan.
- 92% agreed or strongly agreed they understood the proposed new contribution levels.
- 92% agreed or strongly agreed they understood the proposed changes in the pension formula.
- 91% agreed or strongly agreed they understood the proposed changes in the early retirement reduction factors.

Most participants liked the webcast format (78%), and especially benefited from hearing the questions and answers. This was our first attempt at this type of meeting. We now have a better understanding of the types of technical issues that a few schools had and will try to help these schools overcome those issues if we use the webcast format in the future.

The webcast is still available…
Follow these steps to access the webcast:

- Go online to www.csionline.org
- Click on "Employee Benefits" on the top bar
- Click on "United States" on the left bar
- Click on "Christian School Pension Plan" on the left bar
- Click on "Webcast" on the left bar. This will take you to the webcast page. Click on "CSI Pension Webcast" for the PowerPoint presentation, and follow the instructions to access the audio portion.

The Financial Status of the CSI Plan

The CSI Pension Plan is financially sound. In fact, the most recent valuation showed that our assets exceeded our liabilities by $62 million. So what's the problem? Participants are earning benefits worth $1.24 for each $1 brought into the Plan. Down the road, that spells trouble.

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The reason for this is due to the good news that we're living about 10 years longer today than when the Plan was first established in 1943. That means that benefits are being paid out over a longer period of time than when the original Plan provisions were established. We need to preserve the Plan assets to be able to pay promised benefits.

Recapping the Proposed Solutions

While the feedback forms indicate participants have a strong understanding of the proposed solutions, we also received a number of questions about various aspects of the potential changes. We want to make sure everyone understands the proposed solutions, so we're recapping them below. Two important things to keep in mind are:

- The Plan's goal remains the same: To pay out the same amount of benefits in total.
- Any changes that are ultimately made will only be for benefit accruals that you earn on and after September 1, 2005; the benefits you have earned before the change are unaffected. For current participants, that means your benefit will be determined in two parts: First, benefits for service through August 31, 2005, will be determined under the current provisions. (Your benefit earned as of August 31, 2005, will never be decreased.) Second, benefits for service on and after September 1, 2005, will be determined under the proposed provisions.

Provision	**Current**	**Proposed (to be effective 9/1/2005)**
Contribution Levels	2%, 3% and 5%	Current contribution levels plus ***new*** levels of 4%, 6% and 7%
Pension Formula	60% of total contributions	50% of total contributions
Early Retirement Reduction Factors	Age 62 or older – no reduction Age 55 to 62 – 5% per year	Age 60 to 65 – 8% per year Age 55 to 59 – 4% per year

Remember…

Any changes to the CSI Pension Plan will only affect benefits earned on and after the effective date of the changes – September 1, 2005. All benefits earned before September 1, 2005 will be based on current plan provisions.

How the Potential Solutions Impact Pension Accruals

As mentioned during the webcast, one of the main reasons for the issues facing the Plan is the change in life expectancy since the Plan was first established in 1943. As mentioned earlier, the good news for us is that we're living about 10 years longer than in 1943. Unfortunately, the increased life expectancy has impacted the Plan.

As shown above, one of the potential solutions to the CSI Pension Plan is to change future pension accruals from 60% of contributions to 50%. The effect of this change is that the same total benefit will be paid out but, based on today's life expectancy, it will be paid over a longer period of time. Here are some examples of how the proposed changes would impact benefits at retirement:

Example One: Peter, a new hire when changes take effect Peter has an average annual salary of $28,000. He retires at age 65 after 30 years of service. His benefit will be determined as follows:		
	Current Formula	**Proposed Formula**
Employee Contributions	5%	5%
Benefit formula	$42,000 x .60	$42,000 x .50
Annual Benefit	**$25,200**	**$21,000**

Example Two – Rachel, a long time participant with 25 years of participation in the current Plan and five years after the changes take effect, retiring at age 65 Like Peter, Rachel has average annual salary of $28,000. She retires at age 65 after 30 years of service. Her benefit will be determined as follows:		
First 25 Years of Service	**Current Formula**	**Proposed Formula**
Employee Contributions	5%	5%
Benefit Formula	$31,000 x .60	$31,000 x .60
Annual Benefit From First 25 Years	**$18,600**	**$18,600**
Last 5 Years of Service		
Employee Contributions	5%	5%
Benefit Formula	$11,000 x .60	$11,000 x .50
Annual Benefit From Last 5 Years	**$ 6,600**	**$ 5,500**
Total Annual Benefit	**$25,200**	**$24,100**

How the Proposed Early Retirement Reduction Works

As discussed during the webcast, one of the areas we're considering changing are early retirement provisions. The proposed solutions in this area are two-fold:

- Raise the retirement age for unreduced benefits to age 65 (the same way the Social Security Administration has dealt with the increases in life expectancy)
- Change the early retirement factors to:
  - 8% reduction for each year you retire before age 65 but after age 60
  - 4% reduction for each year you retire before age 60 but on or after age 55

"more"

Here are two examples of how the proposed changes would impact early retirement benefits:

Example One – Sarah, a new hire when changes take effect, retiring at age 58 Sarah has decided to retire and begin receiving her pension benefit on her retirement date, which is her 58th birthday. She has earned an annual benefit of $22,000 as of that date. Her benefit will be determined as follows:	
8% reduction per year that benefits begin before age 65 but after age 60 (8% x 5)	40%
4% reduction per year that benefits begin before age 60 (4% x 2)	8%
Total reduction	48%
Percentage of accrued benefit Sarah will receive at age 58 (100% - 48%)	52%
Sarah's early retirement benefit ($22,000 x 52%)	$11,440/year

Example Two – Joe, a long time participant with 28 years of participation in the current plan and two years after the changes take effect, retiring at age 58 Like Sarah, Joe has decided to retire and begin his pension benefit when he retires on his 58th birthday. He has earned an annual benefit of $22,000 as of that date. His accrued benefit at the time of the changes was $20,000 and $2,000 was accrued after the change. His benefit will be determined as follows:	
Pre-change accrued benefit	$20,000
5% per year that benefits begin before age 62 but after age 55 (5% x 4)	20%
Pre-change benefit percentage (100% - 20%)	80%
Pre-change benefit ($20,000 x 80%)	$16,000/year
Post change accrued benefit	$2,000
8% reduction per year that benefits begin before age 65 but after age 60 (8% x 5)	40%
4% reduction per year that benefits begin before age 60 (4% x 2)	8%
Total reduction	48%
Percentage of post-change accrued benefit Joe will receive at age 58 (100% - 48%)	52%
Joe's post change early retirement benefit ($2,000 x 52%)	$ 1,040/year
Joe's total early retirement benefit ($16,000 + $1,040)	$17,040/year

Why a Defined Benefit Plan for CSI Schools?

During the webcast, we touched on defined benefit plans and how they differ from defined contribution plans (i.e., 401(k) plans). Philosophically, defined benefit and defined contribution plans are quite different. A defined contribution is typically viewed as a savings vehicle that is focused on individual choice. The participant saves what he or she believes he or she can and assumes the investment risk. Most defined contribution plans provide a lump sum benefit for the participant at retirement or when the person leaves the plan. On the other hand, a defined benefit plan is based on the concept of community. The purpose is to provide a retirement benefit that lasts a lifetime. Benefits provided through a defined benefit plan are predictable, making them extremely useful for retirement planning. Both school boards and employees find this very helpful. Alternatively, the final account balances in a defined contribution plan depend on the amount the person is able to save and the market return experienced over that person's working lifetime.

The chart below shows key differences between the CSI Pension Plan and defined contribution plans:

Key Differences Between CSI Pension Plan and Defined Contribution Plans		
	CSI Pension Plan	**Defined Contribution Plan**
What is defined?	The benefit	The contribution
Core Structure	Community	Individual
Predictability	Very predictable – helpful for teachers, schools and Boards to plan for retirement	Unpredictable, final benefit dependent on market returns
What is variable?	In most defined benefit plans, the contributions vary; however, because the CSI Plan is managed carefully, contributions to the CSI Plan do not vary	The final benefit
Benefit payable?	Benefits usually paid as a lifetime annuity at retirement	Benefits usually paid as a lump sum
Investment risk?	Plan owns investment risk	Employees own investment risk
Disability	Short-term disability benefit Benefits continue to accrue during disability	No short-term disability benefit Contributions stop at disability
Leaving before retirement?	Portable among CSI Schools participating in the Plan	Portable account balances
Survivor Benefits	Lump sum payment or a spousal pension	Lump sum payment
Benefits protected?	Insured by the Federal government's Pension Benefit Guaranty Corporation	Not insured by the Federal government's Pension Benefit Guaranty Corporation

What's ahead?

The Trustees are developing recommendations for the CSI Board of Directors to consider at the July meeting. Here are the next steps:

- **July 2004**: Board will receive recommendations about changes to the CSI Plan.
- **September 2004**: Changes will be communicated.
- **2004-2005 School Year**: Schools make decisions based on final Plan changes.
- **September 2005**: Plan changes will take effect.

We will keep you updated during this period, but if you have any specific questions or comments, please contact me at 1-800-635-8288, extension 226, or send me an email at hvanmersbergen@csionline.org.

About This Newsletter
We've designed this newsletter to give you a brief summary of the Pension Plan and some proposed changes to the Plan. This update does not contain all the details of the Plan. In case this newsletter differs from the plan documents, the official plan documents will govern.