



CHRISTIAN SCHOOLS  
INTERNATIONAL

## Christian School Pension Plan & Trust Fund

# UPDATE

**Date:** September 22, 2004

**To:** Member Schools, Participants  
and Retirees

**From:** Howard Van Mersbergen  
Executive Secretary-Treasurer

- Board of Directors Amends CSI Pension Plan
- Why the Amendments are Necessary
- Recapping the Amendments
- How the Amendments Impact Pension Accruals
- New Early Retirement Reduction Factors
- Why a Defined Benefit Plan for CSI Schools
- Timelines
- Questions?

### Board of Directors Amends CSI Pension Plan

The CSI Board of Directors met on July 22, 2004 and, based on the recommendations of the Board of Trustees, amended the CSI Pension Plan. The amendments, which will become effective in one year on September 1, 2005, reflect the proposed changes we have been communicating to you during the year.

### Why the Amendments Are Necessary

As discussed in previous communications, there are some important challenges facing the CSI Pension Plan. Today, the Plan is financially sound—the most recent valuation showed that our assets exceed our liabilities by \$62 million. However, each year we're promising more in future benefits than we're receiving in contributions to the Plan. Currently, participants are earning benefits worth \$1.24 for each \$1 brought into the Plan. There are two main reasons for this:

- We are all living longer; therefore, benefits are paid out over a longer period of time.
- The average age of our Plan participants is increasing; therefore, there are fewer years for Plan contributions to grow before participants begin receiving payments.

The bottom line is that we must ensure the Plan remains viable for our future retirees. The amendments the Board of Directors approved in July are the result of numerous studies undertaken with the assistance of our outside consultant, Mercer Human Resource Consulting, and after communicating with those who will be most affected by the amendments—participants and schools.

No. 166

(more)

## Recapping the Amendments

The chart below shows the current provisions and the new provisions based on the Board-approved amendments.

Provision	Current (applies to contributions made before September 1, 2005)	New (applies to contributions made on and after September 1, 2005)
Contribution Levels	2%, 3% and 5%	Current contribution levels <i>plus new</i> 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 before age 60 (plus 8% per year for age 60 to 65 reductions)

### How the Amendments Impact Pension Accruals

As shown in the chart above, one of the amendments will change future pension accruals from 60% of contributions to 50%. As we discussed during the Webcast, we expect that, because people live longer today than when the Plan was first established, the same total benefit will still be paid. That's because, although each monthly payment will be lower, these payments will be paid for a longer period of time.

### **Remember ...**

The amendments 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.

Another amendment expands the contribution levels from three choices to six. This gives schools the opportunity to maintain current pension benefits, even with the change to future pension accruals, by increasing their contribution level.

Each school community should consider which option best helps it achieve its mission. For example, a school can maintain the current benefit level for their participants by increasing the contribution level. That means participants will not have to work longer for the same pension, or save more to fill the gap. It also means that the school community will need to decide how to fund the additional contribution.

On the other hand, if the school decides to keep contributions at the same level, benefits will be lower. Participants may need to work more years, try to save more in personal savings, or determine ways to live on less money during retirement. Schools may have staffing issues to contend with; for example, teachers may need to continue working beyond current retirement ages to fill the benefit gap. For those schools that offer early retirement packages and want to maintain current retirement ages, they may have to find ways to enhance those packages.

### *Examples of Impact of Amendments*

The following examples show how the amendments will impact benefits at retirement:

<b>Example One: Rachel, a longtime participant, has 25 years of participation in the current Plan as of August 31, 2005. She has five more years after the changes take effect.</b>			
Rachel has an average annual salary of \$28,000. She retires at age 65 after 30 years of service. Her benefit will be determined as follows:			
<b>First 25 Years of Service</b>	<b>Current Formula (5% contribution level)</b>	<b>New Formula* (Maintain a 5% contribution level)</b>	<b>New Formula* (Change to 6% contribution level)</b>
Employee Contributions	5%	5%	5%
Benefit Formula	\$31,000 x .60	\$31,000 x .60	\$31,000 x .60
<b>Annual Benefit From First 25 Years</b>	<b>\$18,600</b>	<b>\$18,600</b>	<b>\$18,600</b>
<b>Last 5 Years of Service</b>			
Employee Contributions	5%	5%	6%
Benefit Formula	\$11,000 x .60	\$11,000 x .50	\$13,200 x .50
<b>Annual Benefit From Last 5 Years</b>	<b>\$ 6,600</b>	<b>\$ 5,500</b>	<b>\$ 6,600</b>
<b>Total Annual Benefit</b>	<b>\$25,200**</b>	<b>\$24,100</b>	<b>\$25,200</b>

\* New formula applies to contributions made on and after September 1, 2005.

\*\*Shown for comparative purposes only. Actual retirement benefits will be based on the new formula.

<b>Example Two: Peter is hired on September 1, 2005 (after the changes have taken effect).</b>			
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:			
	<b>Current Formula (5% contribution level)</b>	<b>New Formula (Maintain a 5% contribution level)</b>	<b>New Formula (Change to 6% contribution level)</b>
Employee Contributions	5%	5%	6%
Benefit Formula	\$42,000 x .60	\$42,000 x .50	\$50,400 x .50
<b>Annual Benefit</b>	<b>\$25,200*</b>	<b>\$21,000</b>	<b>\$25,200</b>

\*Shown for comparative purposes only. Actual retirement benefits will be based on the new formula.

### **New Early Retirement Reduction Factors**

The Plan was also amended to change the early retirement provisions. There are two changes:

The retirement age for unreduced benefits will be raised to age 65 (similar to the way the Social Security Administration has dealt with increases in life expectancy)

The early retirement factors are changed 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 (plus 8% per year for age 60 to 65 reductions)

Here is an example of how the change will impact early retirement benefits:

<b>Example: Joe, a long time participant has 28 years of participation in the current Plan as of August 31, 2005 (before the changes take effect), and has two years of participation in the new Plan (after the changes take effect). Joe has decided to retire and begin his pension benefit 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, August 31, 2005, was \$20,000 – and \$2,000 was earned after the changes took place (September 1, 2005 – August 31, 2007). His early retirement benefit will be \$17,040 per year. His benefit will be determined as follows:</b>	
<b>Benefit earned prior to the September 1, 2005 Plan change</b>	<b>\$20,000</b>
5% reduction for each year that benefits begin before age 62 but after age 55 (5% x 4 years)	20%
Pre-change benefit percentage (100% - 20%)	80%
Pre-change benefit (\$20,000 x 80%)	\$16,000/year
<b>Benefit earned after the Plan change August 31, 2005</b>	<b>\$2,000</b>
8% reduction per year that benefits begin before age 65 but after age 60 (8% x 5 years)	40%
4% reduction per year that benefits begin before age 60 (4% x 2 years)	8%
<b>Total reduction</b>	<b>48%</b>
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
<b>Joe's total early retirement benefit (\$16,000 + \$1,040)</b>	<b>\$17,040/year</b>

### Why a Defined Benefit Plan for CSI Schools

During the webcast in March 2004, we commented on defined benefit plans and how they differ from defined contribution plans (e.g., 401(k) plans). Philosophically, defined benefit and defined contribution plans are quite different. A defined contribution plan is typically viewed as a savings vehicle that is focused on *individual choice*. The participant saves what he or she chooses 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 often find this predictability very helpful. Alternatively, the final account balances in a defined contribution plan depend on the amount the person saves and the market return experienced over that person's working lifetime. The chart below highlights key differences.

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
Benefit 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 Pension 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

### Timeline

**2004/2005 School Year:** School Boards make decisions on contribution levels.

**2004/2005 School Year:** Howard Van Mersbergen available to meet with schools at principal meetings and teacher conferences.

**September 1, 2005:** New amendments take effect.

### Questions?

If you have any questions or comments, please contact me at 800-635-8288, extension 226, or send me an e-mail at [hvanmersbergen@CSIONline.org](mailto:hvanmersbergen@CSIONline.org).

### **About This Newsletter**

We've designed this newsletter to give you a brief summary of the CSI 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.

### **The webcast is still available...**

Follow these steps to access the webcast:

- Go online to [www.CSIONline.org](http://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.