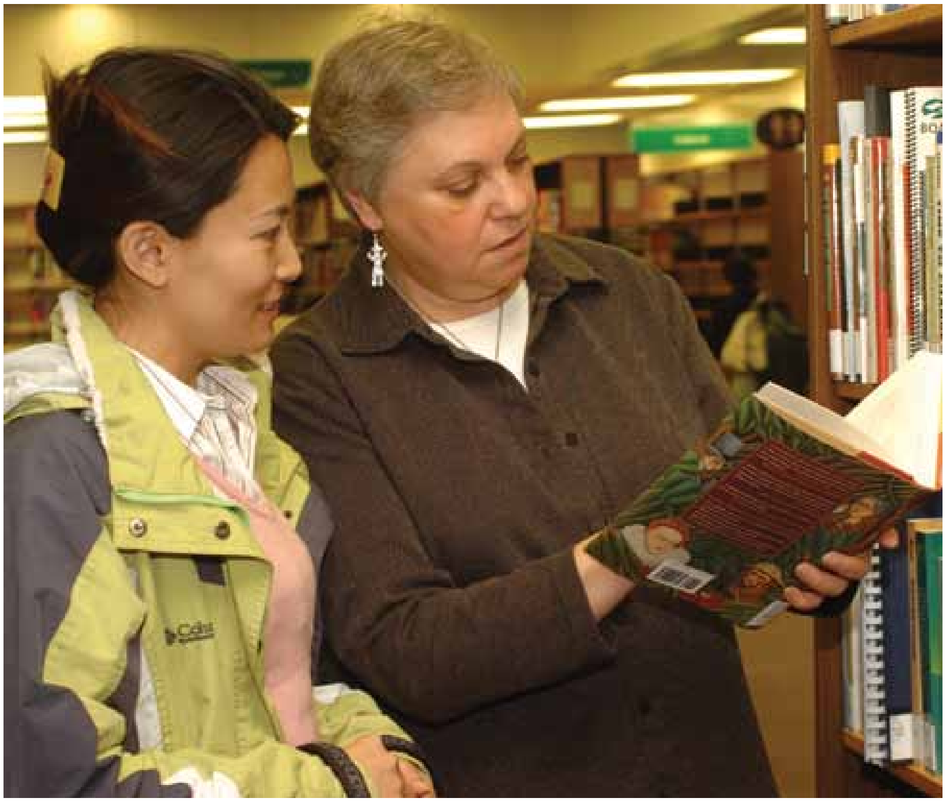
FPSE

FOCUS

COLLEGE PENSION PLAN

Your Plan, Your Future: Options for Change

THIS FALL, the Federation of Post-Secondary Educators of BC (FPSE) is surveying FPSE members about possible options for changes in the College Pension Plan. This booklet is designed to help you with that survey. The booklet provides a primer on your Pension Plan and describes some of the possible changes being explored.



Why is FPSE considering options for change in the College Pension Plan?

The College Pension Plan is in sound financial shape. It has almost $3 billion in assets and is well funded. So why are you being asked about possible Plan design changes?

The answer is simple.

First, in 2009, the Plan decided to cap inflation protection at 1.83% a year and eliminate subsidized health and dental benefits. This had a significant impact on retired members.

Second, the College Pension Plan was created over 40 years ago and was designed to encourage early retirement. However, because of the elimination of mandatory retirement and changing societal conditions, many of our members are choosing to work longer and even to work well past age 65.

In response to these factors, the Pension Plan Partners have turned their minds to finding viable options for addressing today's realities. The Partners believe that there is a unique opportunity to bring about Plan design changes which would

continued on next page

OVERVIEW

continued from page 1
improve inflation protection while, at the same time, making the Pension Plan more responsive to the evolving needs of Plan members moving forward.

How will the survey work?

We have contracted with Ipsos Reid, a major public opinion research firm, to undertake that survey work. Your employer has agreed to allow Ipsos to use your institution email address to make initial contact with "active" Plan members (those who are currently working). Retired members will be contacted through the Post -Secondary Branch of the BC Retired Teachers' Association. Once contacted by Ipsos, Plan members (both active and retired) will be asked to complete a survey questionnaire.

What will happen with the survey results?

The results of the questionnaire will be compiled by Ipsos and summary data will be presented to FPSE by late 2012. Your participation in the survey will help inform the direction FPSE will take in discussions with other Pension Plan Partners regarding any possible changes to the Plan.

Your voice is vital! Please take the time to read this booklet and to participate in the upcoming survey.

Close to 12,000 faculty, administrators, librarians, counsellors and staff who work in BC's public post-secondary institutions are members of the College Pension Plan.

Currently, the Plan provides pensions to approximately 4,200 retirees. The College Pension Plan, which was established in the 1960s, has grown steadily since its inception and now has assets of over $2.9 billion.

The Plan includes a defined benefit as well as indexing to offset the impact of inflation.

The Plan is governed by a ten-member Board of Trustees. The trustees are appointed by the Plan Partners. There are five union-appointed trustees and five government-appointed trustees.

The four Plan Partners are the Government of BC, Post-Secondary Employers' Association (PSEA), FPSE and the BC Government and Service Employees' Union (BCGEU).

The average Plan member starts their academic career when they are in their early 40s and works for about 20 years before retiring.

The current Plan design dates back to the late 1960s and is designed to encourage early retirement. That may no longer be the best Plan design for members bcause there is a growing trend to later retirement.

THE BASICS

1 **How is the College Pension Plan funded?**

Plan members and their employers both contribute to the Plan. Contributions are based on a percentage of your salary and also depends on the year's maximum pensionable earnings (YMPE). The YMPE figure is determined by the Canada Revenue Agency. For 2012, the YMPE has been set at $50,100. Different contribution rates apply for salary above and below the YMPE. The current contribution rates are:

For Employees:

- *8.94% of your salary up to and including the YMPE*
- *9.69% of your salary above the YMPE*

For Employers:

- *9.04% of salary up to and including the YMPE*
- *9.79% of salary above the YMPE*

Your contributions to the Plan are automatically deducted from your salary. Your employer's contributions, while based on your salary, are not deducted from your pay. They are a separate part of your overall compensation, and your employer remits them directly to the Plan along with your contributions.

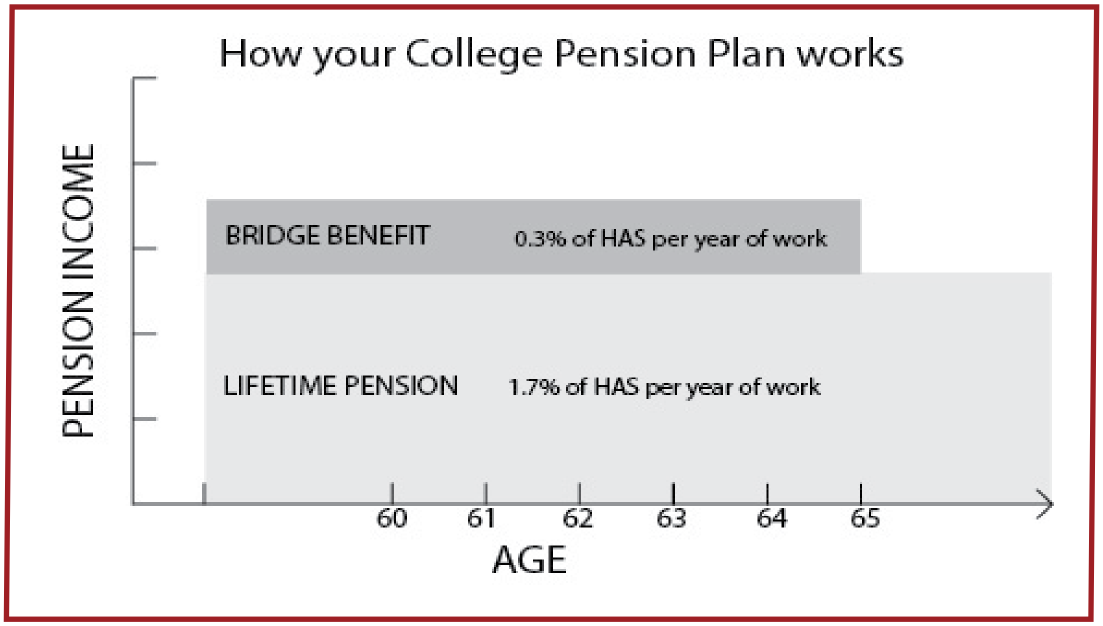
2 **How is the pension benefit calculated?**

There are three critical factors in the calculation of your pension benefit. the accrual rate. This is the percent figure used in the calculation of the monthly benefit:

- The average of your highest five years of salary (HAS).
- Your pensionable service (the number of years you have contributed to the Plan).
- The accrual rate.

The pension you receive has two parts: the basic lifetime pension and the bridge benefit.

The lifetime pension is calculated using a 1.7% per year accrual rate. You receive this amount for the rest of your life. The bridge benefit is calculated using a 0.3% per year accrual rate. You receive the bridge only until age 65. The diagram below shows how this works.



Early Retirement

There are a number of rules related to early retirement and pension reductions. However, for the average active member the rules are as follows:

- You can retire at age 60 or older with an unreduced pension.

THE BASICS

- You can retire between age 55 and 60 with a reduced pension. Your pension will be reduced by 3% a year for each year below age 60. For example, if you retire at age 55, the pension you are entitled to will be reduced by 15%.

(Remember that there are several rules related to early retirement which may affect you differently. If you have less than 10 years of service at retirement, or more than 35, different rules may affect the actual reduction.)

3 How is my pension protected from inflation?

The College Pension Plan provides indexing for pensions. Indexing costs are paid from a fund called the Inflation Adjustment Account (IAA). Indexing is not guaranteed. However, once a pension has been indexed, the adjustment becomes part of the lifetime pension amount.

Each January, an inflation adjustment is made to retirees' pension benefit. It is based on the average change in the Canadian Consumer Price Index over the preceding year. However, the adjustment is currently capped at 1.83% a year. The purpose of the cap is to ensure that the Plan can continue to provide inflation protection in a sustainable fashion. The inflation caps is determined based on an actuarial analysis and is revised every three years.

4 What are vested benefits?

Vested benefits are the various structural benefits of your expected pension which you have "earned" to date. These include things like the accrual rate, the bridge benefit, and early retirement reduction factors. The rules related to vested benefits can be changed for future service but they cannot be changed retroactively for service you have already earned if the change would result in a loss of benefits. Certain things, like inflation protection, have never been guaranteed and can be changed for all service at any time.

5 How do changes to vested benefits work?

If the Plan Partners decide to change a vested benefit, such as the bridge benefit, then the change would only apply to service earned from the date of the change. The old rules would still apply to service earned before the change. Here are three examples to illustrate the concept.

The Plan decides to eliminate the Bridge Benefit starting tomorrow.

Joe has 25 years of pensionable service and decides to retire effective tomorrow when he turns 60. He will receive a bridge benefit for all 25 years of service as per the old rules.

Mary has 10 years of service and will work another 15 years after the rule change comes into effect before retiring. When she retires at age 60, Mary will receive a bridge benefit based on the 10 years of pensionable service she worked before the rule change. Her total lifetime pension will, of course, still be based on 25 years of service.

Albert was just hired effective tomorrow. He will work for 25 years before retiring at age 60. Albert will have always worked under the new rules. He will not receive any bridge benefit even though he will retire before age 65.

6 Four Key Concepts

Keep the following four key concepts in mind as you review the four possible options for the Pension Plan. These key concepts are central to the options under consideration.

Early Retirement Reduction Factor

Under current Plan rules, if you are an average member with over ten years of service, you can retire at age 60 and receive the full pension you have earned. If you retire between Age 55 and 60 your pension is reduced by 3% per year below Age 60. The 3% is called the Early Retirement Reduction Factor. One of the options being considered by the Partners is to increase this reduction factor and/or the age at which it applies.

Accrual Rate

The accrual rate in a pension plan represents the percentage of salary you earn toward your pension for each year of service. The current accrual rate for the College Pension Plan is 1.7% per year for salary below YMPE and 2% for salary above YMPE. This kind of accrual rate structure is common in Canadian pension plans. (Note that 2% is the highest accrual rate allowed under Income Tax Regulations.)

The Bridge Benefit

The bridge benefit is an amount paid on top of your lifetime pension from your date of retirement until age 65. The bridge is based on 0.3% of your Highest Average Salary or YMPE, whichever is less. The bridge benefit ends at age 65. The bridge effectively raises your pre-age 65 pension to a full 2% accrual rate. Your lifetime pension after age 65 drops back down to the 1.7% accrual rate.

Inflation Protection

The Pension Plan indexes pensions each year up to the CPI or the inflation cap, whichever is less. The current inflation cap is 1.83%. The inflation cap limits the amount of indexing you receive.

The inflation cap is determined based on an actuarial analysis and is revised every three years. It allows the Plan to provide sustainable indexing, which means a level of inflation protection that the actuary estimates as affordable if paid indefinitely, thereby ensuring its availability to future retirees as well as current retirees. The level of the inflation cap is not guaranteed. Neither is inflation protection.

OPTIONS

Options for Change in the Plan

Capping inflation increases, combined with the elimination of subsidized health benefit coverage for retirees, and the changing patterns of retirement have caused the Plan Partners to consider ways to improve the Plan. The Partners are looking at changing some provisions and using the savings from those changes to fund improvements that would strengthen the Plan over the long term.

The four options under consideration are explained below.

Option 1
Eliminate indexing below a given age

Currently, the Plan indexes pensions each year up to the CPI or the inflation cap, whichever is less. Pensions are indexed every year once you retire. The Plan could change the rules so that retirees would not have their pensions indexed until they reached a given age, for example 60 or 65. After the trigger age, pensions would be indexed annually. The resulting savings would be used to increase the inflation cap. Because indexing is not guaranteed, this particular change would apply to all service for all members.

Examples

- If the minimum indexing age were set at age 60, the inflation cap could be raised from 1.83% a year to 2.07% .
- If the minimum indexing age were set at age 65, the inflation cap could be raised from 1.83% a year to 2.59%.

Effect

This option would be very easy to implement. There would be an impact on the pensions of members who retire before the target age. This option would not change the fact that indexing is not guaranteed. Changes in actuarial assumptions would be expected to affect the new inflation cap from time to time. The expectation is that this option would have an effect on members' retirement patterns.

Option 2
Eliminate the Bridge

In this option, the Plan would no longer offer a bridge benefit. Members would receive only their lifetime pension. Because the bridge is a vested benefit, service accrued prior to any rule change would still have a bridge benefit. Service accrued after the rule change would not.

The savings generated by eliminating the bridge could be used to raise either the accrual rate or inflation cap. Each option is explored below.

Increasing the inflation cap

If the savings were applied fully to inflation protection, the inflation cap would rise from 1.83% to 1.96% Any indexing improvements would be immediately available to retired members. However, indexing would still not be guaranteed.

Effect

Although there would no longer be a bridge benefit attached to new service,the inflation cap would be raised. This would affect all currently retired members immediately. However, inflation protection would continue to be not guaranteed. Long term improvements in inflation protection would depend on a number of factors, including retirement patterns and economic performance of the IAA.

Increasing the accrual rate

If the savings were applied to the accrual rate, the accrual rate would rise from 1.7% to 1.78%. The new accrual rate would apply to new service and would be "guaranteed". This option would have no effect on the pensions of members who are already retired.

Effect

Although there would no longer be a bridge benefit attached to new service, the accrual rate would provide a slightly improved lifetime pension on that same portion of service.

Option 3
Increase contribution rates

In this option, the Partners would agree to an increase in contribution rates for employers and employees. The increase would provide additional funds to the IAA and thereby increase the indexing cap.

A 1% increase in contribution rates would result in about a 0.3% increase in the cap for inflation protection. The Partners would have to negotiate any increase in contribution rates to improve the indexing cap.

Effect

This option would not involve any changes in Plan design. Any indexing improvements would be immediately available to retired members. However, inflation protection would continue to not be guaranteed.

Option 4
Change the reduction factor to improve the accrual rate to 2%

The current reduction factor for most active Plan members is 3% a year for each year below age 60. By increasing the reduction factor and/or the age at which the factor applies, the Plan could pay a full 2% accrual rate on all service. The accrual rate and the early retirement reduction factors are vested benefits. Therefore the old rules would apply to past service and the new rules would apply to future service.

Examples

Each of the following examples would produce an accrual rate of 2% a year:

- Early retirement reduction of 3% a year for each year below age 65
- Early retirement reduction of 6% a year for each year below Age 62

Effect

The effect of this option would be that a member's lifetime pension would be higher. (Essentially, the effect would be the same as keeping the bridge past Age 65.) However, that would be paid for by increasing the early retirement reduction factor and/or the age at which it applies.

Under this option, Plan members who chose to retire early would have their pensions reduced by a larger amount than under the current rules. However, members would also have a higher lifetime pension because of the increase in the accrual rate. This option would have no effect on the pensions of members who are already retired. This option would not improve inflation protection.

DISCLAIMER

FPSE
Federation of Post-Secondary Educators of BC

400 - 550 West 6 Avenue
Vancouver, BC V5Z 1A1
604.873.8988 (tel) 604.873.8865 (fax)
www.fpse.ca

CUPE1004