

# CSI PENSION PLAN

March, 2014

# CSI Pension Plan

## Agenda

- **Current State of Retirement**
- **How the CSI Pension Plan Works**
- **Comparison with RRSP**

# Current State of Retirement

## What Retirement Looks Like Today

- **55% of the time employees end up outliving their savings**
- **40% of baby boomers plan to never stop working**
- **83% of baby boomers intend to keep on working after retirement**

# Current State of Retirement

## What are People Thinking

- **Only 9 percent of workers actually have frequent discussions about saving, investing and planning for retirement with their family and friends**
- **27 percent never discuss it**
- **Even worse: only 10 percent of workers have a written investment strategy;**
  - 22 percent don't participate in their employer plan.
  - 71 percent admit they need more education on saving and investing.
  - 39 percent say their "retirement plan" is either to keep working past age 70 or never retire.

Source: Survey of more than 4,000 workers by the Transamerica Center for Retirement Studies

# Current State of Retirement

## There Is A Better Way

### With the CSI Pension Plan

- Staff can retire early
- Schools can provide useful retirement options
- We all get more bang for our buck

# Current State of Retirement

## Why is a Pension Plan the Best Retirement Plan?

- **Pension Plans deliver significantly greater returns than RRSP.**
- **Results within budget**
- **Contributions pay for benefits, not fees**
- **Community approach protects individual participants from investment market volatility and longevity risk**
- **Income for an entire retirement**
- **Retirement on schedule, not interrupted or stalled by market downturns**

Source: "CSI Pension Plan Delivers Value"

# Current State of Retirement

## What Participants Think About the CSI Pension Plan

*“The CSI Pension Plan provides me with a steady and reliable income. I am able to continue to financially support the causes that are placed before me and still cultivate my passion for golf etc. I have been truly blessed by God and His people.”*

- **Jack Vanden Pol**, Retiree, Red Deer, Alberta

# Saving for Retirement: A risky proposition

## 1980's and 1990's: saving for retirement was easy

- High Interest rates
- High real returns on bonds and equities
- Members of DB plans ask for DC plans

## 2000's: Unforgiving environment to save for retirement

- Low Interest rates
- Two equity market downturns
- Employers sponsoring DB plans convert them to DC plans

## Future

- Continued low interest rates
- Uncertain equity returns
- Volatile markets
- People living longer
- Difficult environment to save for retirement



# How the CSI Pension Plan Works

- **As a community of schools, the plan is ours.**
- **We design it and administer it to help us achieve our school missions.**

# How the CSI Pension Plan Works

## A Few Definitions

- **As a community of schools, the plan is ours. We design it and administer it to help us achieve our school missions.**
- **Defined Benefit (DB) plan: Pension benefits level is determined based on formula; contributions depend on investment performance, interest rates and how long pension is paid; employer assumes retirement savings risk. (Pension Plan)**
- **Defined Contribution (DC) plan: Contributions are defined; retirement benefit is dependent on investment performance, interest rates and how long the pension is paid; employees assume retirement saving risk individually. (RRSP)**
- **Target Benefit plan: Pension benefit and contribution levels are determined based on formula; formula may change from time-to-time reflecting different environment; employees assume retirement saving risk collectively. (CSI Plan)**

# How the CSI Pension Plan Works

## Economic and Demographic Factors Impact All Retirement Plans Equally

- **DB plans** – increased employer contributions to pay for higher cost of future benefits and existing deficits for already promised benefits
- **DC Plans** – immediate reduction and/or increase in contributions to deal with higher benefit costs and investment losses
- **Target Benefit plans** – benefit reductions and/or increase contributions not immediate (impact can be smoothed over time), no one individual plan member subjected to unreasonable risk, plan can take more risk than individuals

# How the CSI Pension Plan Works

## Plan Governance

- **CSI Board of Directors**
- **Board of Trustees**
- **Specialty Staff**
- **Professional investment management**
- **Professional consultants**
- **Legal counsel specializing in employee benefits**

# How the CSI Pension Plan Works

## Plan Communication

- CSI staff available via 1-800 number, mail and e-mail
- Plan book; Updates
- Web site: [www.CSionline.org](http://www.CSionline.org)
- Financial Planning Workshops

# How the CSI Pension Plan Works

## Eligibility/Participation of the Pension Plan

- **Eligible Employees** – full time employees, part-time employees who have worked at least a year and have earned 35% of the Year's Maximum Pensionable Earnings (YMPE) - \$18,212 in 2013/2014 plan year.
- **All eligible employees must participate.** Schools joining for the first time can offer employees, on the initial participation date, the choice of whether or not to participate. Future employees must participate.

# How the CSI Pension Plan Works

## Contribution Options with the Pension Plan

- Staff and schools each participate at the same level, either 5.55%, 7.00% or 8.05%

# How the CSI Pension Plan Works

## Retirement Benefits with the Pension Plan

- Two pension formulas
- For service before September 1, 2010 –  $1.84\% \times 3 \text{ Year Final Average Earnings} \times \text{Service} = \text{Age 65 pension w/ minimum 10 year payout guarantee}$
- For service after September 1, 2010 –  $1.90\% \times 5 \text{ Year Final Average Earnings} \times \text{Service} = \text{Age 65 pension}$
- Formula based on:
  - Average earnings – best consecutive 3 or 5 out of last 20 years
  - Years of service:

### Pre Sept. 2010

4% 1 year @ 100% = 1.00

3% 1 year @ 100% = 0.75

### Post Sept. 2010

8.05% 1 year @ 100% = 1.00

7.00% 1 year @ 100% = 0.87

5.55% 1 year @ 100% = 0.69



# How the CSI Pension Plan Works

## Pension Examples

- Final Average Earnings – 3 Year \$60,000  
– 5 Year \$58,000
- 20 Years of service – 3% Plan  
10 Years of service – 7% Plan
- Age 65 Pension
  - = 1.84% x \$60,000 x 15.0 = \$16,560
  - + 1.90% x 58,000 x 8.7 = \$ 9,587
  - TOTAL = \$26,147\*
- With CPP and OAS:

CSI	\$26,147
OAS	\$ 6,204
CPP	<u>\$10,905</u>
	\$43,256 = 75% of FAE

\*Actual total would be higher to convert pre 2010 benefit from 10 year guarantee to life only.

# How the CSI Pension Plan Works

## Pension Examples

- Final Average Earnings – 3 Year \$60,000  
– 5 Year \$58,000
- 20 Years of service – 4% Plan  
10 Years of service – 8.05% Plan
- Age 65 Pension  
= 1.84% x \$60,000 x 20.0 = \$22,080  
+ 1.90% x 58,000 x 10.0 = \$11,020  
TOTAL = \$33,100\*
- With CPP and OAS:

CSI	\$33,100
OAS	\$ 6,204
CPP	<u>\$10,905</u>
	\$50,209 = 87% of FAE

\*Actual total would be higher to convert pre 2010 benefit from 10 year guarantee to life only.

# How the CSI Pension Plan Works

## A Early Retirement Benefit Option – Begin Drawing Benefits as Early as Age 55

- **Current early retirement reductions:**  
After 10 years participation, unreduced at age 60, reduced 5% per year before 60  
This is being phased out over the next five years and replaced with 6% reduction per year before 65
- **Before 10 years participation, reduced 4% per year before 65**  
Beginning September 1, 2014 the reduction is 6% per year

# How the CSI Pension Plan Works

## Variety of Forms of Pension Available

- Payable for Single Life
- Spouse - Joint and Survivor 60% (with adjustment)
- Optional forms (with adjustment)

Eg.	Life Only	\$100
	Joint & Survivor 60%	\$ 92
	Life 10	\$ 98

# How the CSI Pension Plan Works

## Taking Care of Those on Disability

For participants receiving disability benefits (STD and LTD):

- Schools have the option to continue making contributions
- Based on frozen earnings

(Participants receiving disability benefits from the CSI Insurance Plan automatically receive continued pension accrual without contributions being made by the school or the participant)

# How the CSI Pension Plan Works

## Valuable Options at Termination

- Immediate vesting
- Retain pension
- Transfer the lump sum value to another plan

# How the CSI Pension Plan Works

## Survivor Benefits with the Pension Plan

- **Less than age 45, lump sum value**
- **If age 45, spouse receives lump sum value or lifetime 60% pension**

# Comparing the CSI Pension Plan to a RRSP

## You Assume the Risks with a Defined Contribution Plan (RRSP)

- Staff and schools each participate at the same level, either 5.55%, 7.00%, 8.05%.
- Each individual staff member controls their own investments.
- Retirement benefit equals your individual account balance at retirement.



# Comparing the CSI Pension Plan to a RRSP

## Shared VS. Individual Investment Risk

- Pension Plan spreads investment risk over all participants.
- RRSP: Individual participant has 100% of the investment risk.

# Comparing the CSI Pension Plan to a RRSP

## RRSP Retirement Benefits Are Not Defined Payout Options Must be Chosen At Retirement

- **Annuity:** guaranteed by insurance company, involves profit margin
- **RRIF:** more flexibility, risk of outliving account balance, high fees
- **Guaranteed investment fund:** downside guarantee by insurance company, income bonus, high fees

# Comparing the CSI Pension Plan to a RRSP

## Early Retirement in a RRSP is Not Subsidized

- Fewer years for you to contribute to your account
- Fewer years for you to reap the benefits of compound interest
- Begin to draw down on your savings earlier
- More years of retirement for you to fund

# Comparing the CSI Pension Plan to a RRSP

## The CSI Pension Plan Manages Investment Risk Best

- **Long-term investment allows higher risk with higher returns**
- **Low investment/administration fees 1%**
- **Average return generally 1% to 2% higher in pension plans than in savings plans**

(Boston College: Investment Returns DB vs. DC, Sep. 2006 – 100 bps differential)

CEM Benchmarking: The Ambachsteer Letter, Dec. 2006 – 175 bps differential)

- **Individual participants don't have to worry about making investment decisions**

# Comparing the CSI Pension Plan to a RRSP

## Managing Individual RRSP Investment Risk

- Limited by individual risk tolerance.
- Life cycle investing (reducing risk before retirement can reduce returns)
- High investment/administration fees – 1.5% - 3%  
(Investment Company Institute: December 2003 perspective - 40 bps higher)
- **Guaranteed Income funds charge an extra 0.5% - 1.25% on top of investor/administration fees.**
- Individual participants must select and monitor investments

# Comparing the CSI Pension Plan to a RRSP

## Contributions Required Is Not Equal

- Pension Plan only needs enough contributions to pay benefits for the average life expectancy of the group
- RRSP: Most individuals will feel the need to contribute enough to have funds that last beyond the average life expectancy.

# Comparing the CSI Pension Plan to a RRSP

## Longevity Risk is a Threat to RRSP Participants

- Individuals must manage investments to avoid outliving their assets
- A male retiree at age 60 needs to lower his withdrawal rate by 7% to have funds available until the 25<sup>th</sup> percentile (age 91) rather than the 50<sup>th</sup> percentile (age 85).
- Level of benefit and length of payout period are both dependent on actual investment returns and amount of withdrawals during retirement.
- Pension Plan participants receive a guaranteed annuity for life, regardless of investment returns or life span.

# Comparing the CSI Pension Plan to a RRSP

## RRSP Has Limited Survivor/Termination Benefits

- No locking-in
- Cash payment or transfer to personal RRSP



# Comparing the CSI Pension Plan to a RRSP

## RRSP Is Not Funded During Disability

- Schools have the option to continue making contributions

# Comparing the CSI Pension Plan to a RRSP

## Personal RRSP Contribution Room

	<b>5.55% Pension Plan</b>	<b>7.00% Pension Plan</b>	<b>8.05% Pension Plan</b>	<b>5.55% RRSP</b>	<b>7.00% RRSP</b>	<b>8.05% RRSP</b>
<b>\$25,000</b>	<b>8.6%</b>	<b>5.5%</b>	<b>3.3%</b>	<b>6.9%</b>	<b>4.0%</b>	<b>1.9%</b>
<b>\$35,000</b>	<b>7.9%</b>	<b>4.8%</b>	<b>2.6%</b>	<b>6.9%</b>	<b>4.0%</b>	<b>1.9%</b>
<b>\$45,000</b>	<b>7.5%</b>	<b>4.5%</b>	<b>2.2%</b>	<b>6.9%</b>	<b>4.0%</b>	<b>1.9%</b>

# Comparing the CSI Pension Plan to a RRSP

## Negative Impact of Cost Inefficiencies on RRSP Retirement Income

Entry at age 25: RRSP Income is 38% less than Pension Plan

Entry at age 45: RRSP Income is 28% less than Pension Plan

### Assumptions

- Additional savings plan expenses 0.3%
- Lower savings plan investment return 0.5%
- Savings plan longevity target 75th percentile

# Comparing the CSI Pension Plan to a RRSP

<b>Benefit</b>	<b>Pension Plan</b>	<b>RRSP</b>
Retirement Benefits	Predictable	Less Predictable
Distribution	Pension	Annuity or Lump Sum
Investment Risk	Shared	Individual
Contributions Needed	Average Life Expectancy	Beyond Average Life Expectancy
Longevity Risk	Removed	Needs to be addressed
Indexing	Yes	No
Survivor Benefits	Lump sum or spousal pension	Lump sum
Disability	Benefit accruals at no cost	Contributions Cease
Model	Community	Individual

# Who is CSI?

- **Founded in 1920 by six schools**
- **Christian World View**
- **Goal – to Advance Christian Education, Support Schools**
- **Today - over 400 schools across Canada and U.S. (265 in the US and 141 in Canada)**
- **Leading Edge Programs**
  - **Leadership Development**
  - **Board Training and Development**
  - **Curriculum**
  - **Accreditation**
  - **CSI On-line Academy**
  - **Employee Benefits - Building Community**
  - **Fund Development**

## Thank You

visit us online at: [www.CSionline.org](http://www.CSionline.org)

Canpen//forms/penvrrsp02132013 without cost and efficiency page