

# YOUR PENSION UPDATE



CHRISTIAN SCHOOLS  
INTERNATIONAL

## Your Pension Update

In our March 2004 update about the funding of the CSI Pension Plan, we told you that our actuaries expected that the Plan would have a funding shortfall as at August 31, 2004. We also described the next steps that the CSI Trustees would consider in that event, and promised to keep you informed. This newsletter contains the latest information about the Plan's funding and also includes information about pension indexing and a new benefit choice at retirement. The indexing section reviews the next phase of indexing and the status of the temporary 2% plan option. The new benefit choice at retirement is called a "pop-up" benefit and provides an additional option for you at retirement.

### Plan Funding

#### Pension Plan Valuation Completed

As anticipated, in the recently completed Pension Plan valuation report (an assessment of the Plan's funding as at August 31, 2004), our actuaries concluded that the CSI Pension Plan indeed has a shortfall of just over \$10 million in a fund with assets of about \$114 million. This means the current assets (invested contributions) are less than the current liabilities (today's value of the pensions earned by plan members, based on their service to date) and that the Plan is about 92% funded. This is the first time in the Plan's history that the Plan has been in deficit. (For help interpreting these numbers, see the box at right.)

Many pension plans in Canada are currently in a similar situation, due to the significant downturn in the stock markets since 2000 and ongoing low interest rates. Because the CSI Trustees anticipated this, they explored a number of options last year and agreed on the order in which various actions would be taken to minimize the effect on plan members.

### More About the Valuation

The shortfall of just over \$10 million is based on the valuation of the CSI Pension Plan on a "going concern" basis (a basis that assumes the Plan will continue indefinitely) and is equal to slightly more than one year's worth of contributions by plan members and schools.

Currently, contributions coming into the fund exceed the cost of the benefits being paid out by about \$3 million per year. The difference is needed to pay for the proposed indexing and to get through downturns in the markets and increases in the cost of benefits (due to lower interest rates) as we have experienced in the past few years.

Our pension consultants, Mercer Human Resource Consulting, maintain an indicator called the Mercer Pension Health Index. It shows that a typical pension plan that was 100% funded at the end of 1999, was still about 100% funded in August of 2001, but was only about 90% funded by August 2004, due to a difficult investment environment and reduced interest rates.

*continued*

## Change in Costing of Early Retirement Subsidies

Last March, we outlined the various action steps that could be considered to deal with a shortfall. From the available options, CSI has decided to adopt an amendment to the Plan that changes how the cost of some benefits is determined, but *will not affect the actual benefits paid to participants.*

The amendment – called a “consent amendment” – changes how the cost of early retirement subsidies is determined when a valuation is conducted. This is a commonly used method to extend the period over which funding shortfalls get repaid. Currently, the “cost” of early retirement

subsidies under the Plan is taken into account even *before* a plan member is eligible to retire. Shifting the assumptions so that this cost is realized only at the time a plan member is eligible to retire allows the valuation to recognize these costs later – changing the outcome of the valuation.

The March newsletter outlined a number of other options, including temporary benefit reductions, but the current financial position of the Pension Plan, along with anticipated future contributions, is such that only the consent amendment will be required. The CSI Trustees expect that the current deficit will be eliminated over the next few years.

## Indexing

### Indexing Proceeding to the Next Phase

As you will recall, over the past few years, the CSI Pension Plan membership has participated in a detailed examination of pension indexing. In 2003, after careful study and consultation, the CSI Trustees and the Board of Directors approved an amendment to add indexing to the Plan, for implementation in 2004.

The second step in the indexing plan has now been approved, which means pensions in pay to retirees will increase by 0.4%, starting September 2005. The first increase was 0.2%, effective September 2004.

The initial plan for the phase-in of indexing over 10 years was established subject to periodic review by the CSI Trustees to ensure that there continues to be the necessary contribution base to support the Plan. Recent calculations using the latest demographics confirm that there is still projected to be sufficient money over the next nine years to pay for the implementation of indexing, as outlined in the January 2004 newsletter. These projections also assume that those schools that chose a lower plan option will go back to the plan option that they had been participating in prior to the introduction of indexing.

### Indexing: Discontinuation of the 2% Plan Option

The 2% plan option was introduced as a temporary measure to assist any schools that may have difficulty coping with the budget pressures of the added contributions for indexing (see our March 2003 newsletter for details). It allowed some schools to contribute at a lower level (3% of salary each from participants and schools). The regular plan options include the 4% plan option (requiring contributions of 6% each from participants and schools), and the 3% plan option (requiring contributions of 4.5% each from participants and schools).

The CSI Trustees have acknowledged all along that the benefit earned under the 2% plan option is not adequate over a career. Extending this temporary option for too long could put some of our community at risk of not having sufficient income in their retirement years.

As a result, the 2% plan option will be discontinued, effective August 31, 2006. The implementation has been delayed to next year to give the affected schools enough time to incorporate the additional contributions into their budgets.

# New Plan Feature: The “Pop-Up” Optional Form of Pension

The CSI Pension Plan is being enhanced and will now offer a new *form of pension* for members who select it at the time they retire. (See the following page for an explanation of forms of pension.)

Called a “pop-up” form of pension, this new option does not replace any of the forms now available, but adds to the current choices. The feature is already available under the U.S. plan.

A pop-up feature is added to a joint and survivor (J&S) form of pension. It comes into effect if a plan member’s spouse dies earlier than the plan member, and it results in raising the member’s pension after the spouse’s death. The pension increase is possible because there no longer will be a need to provide a spousal pension upon the member’s death.

## Example

### *Without Pop-Up Feature*

A married member retires and elects a 60% J&S form of pension. This choice reduces the initial pension amount – when compared to a life only form of pension – from \$1,000 per month to \$900 per month.<sup>1</sup>

Currently, if the plan member dies first, the spouse would receive \$540 per month (60% x \$900) for the remainder of his/her lifetime. However, the monthly benefit to the member would remain the same, at \$900, if the spouse dies first.

### *With Pop-Up Feature*

If the member chooses the pop-up feature in conjunction with the 60% J&S pension, there is a cost, which is realized as a reduction in the original pension amount (and in the surviving spouse’s pension amount if the member dies first).

Compared to the example above, the same pension with a pop-up feature would start out at \$890 per month. If the plan member dies first, the spouse would receive \$534 per month (60% x \$890) for the remainder of his/her lifetime. However, if the spouse dies first, the monthly pension to the member would be reinstated to the original \$1,000 that the member would have received under the life only form of pension. Since a life only pension under the Plan usually has a 10-year guarantee (see the following page), the remaining period of the guarantee would be reinstated as well, based on the time expired since the original date of pension commencement.

1. To simplify this example, the effect of post-retirement indexing has been ignored.

## About Forms of Pension

The normal form of pension under the CSI Pension Plan – i.e., the normal method of paying a pension – is called a “life only pension with a 10-year guarantee” (Life Guaranteed 10). It is suitable for a single person, because it pays a pension for the member’s lifetime. If you choose this form of pension, and upon your death you have not received at least 10 years of pension payments, the remaining payments in the 10-year guarantee period will be paid to your beneficiary(ies), or to your estate if you have not named a beneficiary.

For a married plan member, most provinces require that a pension be paid in a form that guarantees a pension to the spouse after the member’s death, unless the spouse waives his/her right to this form of pension. This is called a “joint and survivor pension” (J&S). The required percentage that continues to the spouse is 60% or 66.67%, depending on your province of residence. Under this form of pension, the initial pension payment is reduced (compared to the life only form) because the pension is guaranteed to extend over two lifetimes instead of one; thus, it is estimated to cost more.

## Questions?

If you have any questions about the content of this newsletter or about other features of your Pension Plan, please contact Howard Van Mersbergen, Director of Employee Benefits Plans, at 1-800-635-8288 ext. 226 or [hvanmersbergen@csionline.org](mailto:hvanmersbergen@csionline.org).

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*This newsletter is meant to provide a summary of the CSI Pension Plan and its possible revisions. It is not a complete explanation of the Plan. The official Plan Text will govern all rights and obligations in respect of the Plan.*