

# Window

## on your Pension & Benefits

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This newsletter and past newsletters are available on the Pension and Benefits website [www.presbyterian.ca](http://www.presbyterian.ca) – follow the Quick Links to the Pension and Benefits webpage.



A newsletter for active members of the Presbyterian Church in Canada pension and benefits plans

## Member Pension Contribution to Increase

It's been almost eight years since we last increased member contributions to our pension plan. Much has happened during that long period; unfortunately, little of it has translated into good news for pension plans.

While the Pension and Benefits Board has worked hard to avoid another increase in member contributions, after careful consideration of the facts and advice from the plan's actuaries, we've concluded that an increase is now unavoidable. As a result, starting January 1, 2012, your contributions will increase to 7% of pensionable income from the current 6% rate.

This increase is a prudent and necessary step that will help us strengthen the plan's financial health over the long term. As you'll learn on page three, the plan has a funding shortfall that has grown significantly over the past several years, and exceeds earlier estimates noted in the recent General Assembly report. The funding shortfall is a difficult challenge for our plan.

### Impact of contribution increase

The example below shows the impact of the contribution increase on a plan member with a pensionable income of \$60,000. Keep in mind that your contributions are automatically deducted from your before-tax pay, and therefore reduce the income taxes you pay.

Current pension contribution: \$60,000 x .06	\$300 per month
New pension contribution: \$60,000 x .07	\$350 per month
Difference	\$50 per month in before-tax income ( about \$35 per month in take-home pay)

**“Pensionable income” is your annual income up to the maximum qualifying income (currently \$64,140). It refers to your stipend plus an allowance of 60% of your salary (excluding bonus or overtime payments, but including payments for health and dental insurance).**



When you retire or leave the plan, a test is done to make sure that the Church has contributed at least half the cost of your pension. If it turns out that you have contributed more than 50%, you will receive a refund of your excess contributions with interest.

### **Why Now?**

As we mentioned in the previous issue of *Window*, our plan was required to file a funding valuation with the pension

regulators as of June 30, 2011. Valuation reports must be filed at least every three years (or every year when funding falls to a low level) and include three different valuations:

- a going-concern valuation that measures the health of the plan assuming it continues to operate over the long term;
- a wind-up valuation that tests the value of the fund on the date of the valuation against the total value of all pensions earned by active and retired members assuming the plan is discontinued and all benefits have to be paid in their entirety in a single lump-sum (or used to buy annuities) on the same date; and
- a solvency valuation, which is like a wind-up valuation, except that the value of the fund's assets and the value of pensions earned may be averaged over several years (which reduces volatility).

The key measure of our pension plan funding is the solvency valuation, which is used to determine contribution requirements. When there is a solvency shortfall in a period of low interest rates, it will generally show a larger deficit than the going concern shortfall. The wind-up valuation is done more for information purposes, since the likelihood that the Church will suddenly discontinue the plan is very remote.

Results of the valuation report change from one period to another for a variety of reasons. These include:

- total plan contributions made during the valuation period,
- investment returns earned by the pension fund during the valuation period,
- interest rates in effect at the time the valuation is done,
- the ratio of active plan members to retirees,
- average age of members and retirees,

- life expectancy of plan members,
- salary levels of the active plan members, and
- number of retirements during the valuation period.

The previous actuarial report, which was prepared as of June 30, 2008, showed that our plan had a going-concern surplus of \$12.3 million, a wind-up shortfall of \$14.5 million, and a solvency funding shortfall of \$0.9 million. Despite contributions by the Church to reduce the shortfall (that have been higher than the minimum required under pension legislation), our plan's solvency shortfall has swelled to \$34 million as of June 30, 2011.

### Why the change?

Like most pension plans in Canada, ours is still recovering from the 2008 market downturn. This is due partly to the fact that when we measure the financial health of our plan, we spread the fund's investment gains and losses over several years instead of recognizing them fully in the year they occur. This is a common approach which helps to reduce large swings in required contributions, but it means that we are still recognizing losses from 2008 and have yet to realize all of the gains from 2009 and 2010.

The plan's financial health is also affected by rising pension costs, driven by low interest rates and the longer life expectancy of our retirees. Interest rates are a key part of calculating how much money is needed to pay the pensions earned to date and in the future. When those interest rates are low, as they have been for the last few years, the plan is required to set aside more money to pay member pensions. When you add the impact of longer life expectancy, the plan needs more money to pay these pensions for longer periods of time.

We're not alone. In fact, with so many pension plans facing significant shortfalls, Ontario (where the plan is registered) has introduced temporary funding relief measures. The Pension and Benefits Board is taking full advantage of these measures. Normally, the solvency shortfall must be funded over five years, but with member consent the solvency shortfall may be funded over 10 years. Either way, the solvency shortfall presents a huge challenge for our plan.

### Total plan contributions

Your pension is paid from the pension fund, which is made up of member contributions, Congregational Assessments, the contributions made by employers, plus the investment income generated by those contributions. Since 2004, the member contribution rate has been 6% of pensionable income and the Congregational contribution rate has been 3% of Congregational Assessments, which averages to roughly 8% of pensionable income. The employer contribution rate for non-clergy plan members has been 7% of pensionable income since 2000.

## Looking ahead

Even with the extra 1% in member contributions, and with a 10-year period to fund the solvency shortfall, we expect a contribution shortfall of approximately \$3 million per year starting in 2013. Of course, we are always hopeful that funding needs may be eased over the long term by improved economic conditions, such as higher investment returns or increased interest rates. A 1%

increase in long-term interest rates alone would reduce our solvency shortfall by approximately \$20 million.

In the short term, however, the Board must look for new sources of pension funding, all the while remembering the generosity of Presbyterians in the past, who have donated through their estate planning and wills, and by gifts to the Bequest Fund for widows. In the medium term, the Board may need to consider additional increases in both member and employer contribution rates. If the solvency shortfall doesn't decrease, the regulators will ask us to take additional steps to improve the financial health of the plan. While it's important to keep in mind that benefits earned to date by both active and retired members are fully protected, it could even become necessary to make additional changes to the plan that will affect future benefits. We will continue to monitor the plan closely and weigh all of the available options.



## Questions and comments

If you have any questions about the member contributions increase, please contact the pension administrator, at [pension@presbyterian.ca](mailto:pension@presbyterian.ca).

If you would like to register your concerns or comments formally, please send them in writing to the pension plan's administrator or to the Superintendent of Financial Services of Ontario, c/o the Financial Services Commission of Ontario, Pension Plans Branch, 5160 Yonge Street, P.O. Box 85, Toronto, ON M2N 6L9. Please refer to pension plan registration number 0368902 in any correspondence with the Commission.

## 95 Point Factor and Early Retirement

Your “Normal Date of Retirement” is the first day of the month following your 65th birthday.

However, you may retire early, with a reduced pension anytime after you reach age 55. The reduction is one-half of one percent for each month you take your pension before your Normal Date of Retirement - age 65. The reduction is based on the assumption that you are retiring at a younger age and you will be receiving your pension for a longer period of time.

### Age + Service = 95 Factor

The reduction for early retirement before the age of 65 does not apply if your age plus pensionable service total 95 or more. For example, if you are age 62 and have 33 years of pensionable service ( $62 + 33 = 95$ ), your pension will be calculated using the pension formula without reduction.

If you do not have a 95 Factor, your early retirement pension will be reduced by one-half of one percent (or 6% per year) for each month you take your pension prior to age 65. This is important to note: **the reduction is calculated from age 65 not from your prospective 95 Factor.** For example, if you are age 62 and you have only 31 years of pensionable service at your date of retirement, ( $62 + 31 = 93$ ), your pension will be calculated using the pension formula and then reduced by 18% (3 years before age 65 times 6%).

In this example, you would need to continue working for another year to be eligible for an unreduced pension with the 95 Factor ( $63 + 32 = 95$ ).

The chart below illustrates two pension calculations for early retirement at age 62; one with a 95 Factor and one without a 95 Factor.

	With 95 Factor	Without 95 Factor
Age of Retirement	62	62
Years of Pensionable Service	33	31
Total Points	95	93
Pension (based on \$950 per year of service)	\$31,350	\$29,450
Early retirement deduction (3 years before age 65)	0	5,300
Adjusted Pension	\$31,350	\$24,150

To know if you are eligible for a 95 Factor early retirement pension, please refer to your Annual Pension Statement or call the pension administrator to verify your 95 Factor date.

## Member Group Life Insurance Premiums Reduced

The Group Life Insurance Plan provides life coverage for your life, your dependents' life, coverage for accidental death & dismemberment and long term disability benefits should you become ill and unable to work. The costs of these benefits are paid by you, the member, through payroll deductions each month.

Effective January 1, 2012, the rate of deduction will reduce from 1.25% of your qualifying income, to 1.15% of your qualifying income.

## Frequently Asked Questions

- Q.** Is my son or daughter covered under my health and dental plan while attending college or university?
- A.** Yes, a son/daughter who is a full-time student and entirely dependent on you for financial support, is considered your eligible dependent until age 25 (26 in the province of Quebec). You will need to provide proof of registration to the Pension and Benefits office after age 22 for this coverage.
- Q.** Will my Health and Dental coverage continue when I retire?
- A.** If you are actively working the day before your date of retirement and a current member of the PCC Health and Dental Plan, you are eligible to join the Retiree Health and Dental Plan at retirement. You have only this one-time opportunity to join the Retiree Health and Dental Plan. The premiums for either single coverage or family coverage are paid by the retiree.
- Q.** What coverage is included in the Retiree Health and Dental Plan?
- A.** The Retiree Health and Dental Plan includes the same medical, paramedical, vision, and dental coverage that you've enjoyed while working, but with two specific exceptions. The Retiree Health and Dental Plan does not include "out-of-country" emergency medical coverage. You will need to arrange for your own medical emergency insurance when you travel out of the country.
- Also, the Retiree Health and Dental Plan has a \$50,000 life-time maximum per person for medical coverage.

This bulletin provides summary information about the Presbyterian Church in Canada pension and benefits plans. It is not intended to be complete or comprehensive, or to provide legal or medical advice. If there are any discrepancies between this bulletin and the wording in the legal documents that govern the plans, the legal documents will apply in all cases.