

Pension *Bulletin*

from the Public Service Pension Board of Trustees

To: Plan Members and Plan Employers
Date: December 2005
Topic: Contribution Rate Changes Effective April 1, 2006

The March 31, 2005 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees on December 14, 2005. This report provided the trustees with an assessment of the financial health of the Plan and the changes in the plan member and employer contribution rates that are needed to keep the Plan financially healthy. The report is limited to an assessment of the financial health of the guaranteed pension benefit and does not include an assessment of the non-guaranteed benefits such as indexing and post-retirement health benefits. Typically, an actuarial valuation report is prepared every three years.

The joint trust agreement provides that plan members and employers will share in all aspects of the management of the Public Service Pension Plan, including the sharing of the risks and rewards associated with the funding of the Plan. This includes sharing any increase or decrease in contribution rates.

The 2005 valuation report indicated that the pension fund has an unfunded liability of \$767 million. As a result, the actuary has determined that an increase in contribution rates of 1.88% each, for plan members and employers, is necessary in order for the Plan to maintain its long term financial soundness and thus its ability to meet the pension promise made to plan members. For your information, the pension fund had a \$546 million surplus at the previous valuation date, March 31, 2002.

The terms of the joint trust agreement state that the trustees must amend the Plan rules if they receive an actuarial valuation report which concludes an increase in contribution rates is necessary. Therefore, the trustees have decided that, effective April 1, 2006, plan member and employer contribution rates will each increase by 1.88% as indicated below.

Plan Member Contribution Rates

7.63% (was 5.75%) of pensionable salary up to the YMPE, and
9.13% (was 7.25%) of pensionable salary in excess of the YMPE.

Over...

Employer Contribution Rates

8.63% (was 6.75%) of pensionable salary up to the YMPE, and

10.13% (was 8.25%) of pensionable salary in excess of the YMPE.

Notes:

Year's Maximum Pensionable Earnings (YMPE) are the earnings on which you make Canada Pension Plan contributions. The 2006 YMPE is \$42,100. The numbers in brackets are the plan member and employer contribution rates prior to the contribution rate change.

Throughout the 1980s and 1990s the Public Service Pension Plan benefited from higher than expected investment returns. This resulted in a steady improvement in the Plan's funded status and, as a result, allowed for lower contribution rates. Unfortunately, since 2000/01, investment returns have been below the assumed rate and, in the current low interest environment, the outlook is for more subdued returns in the future. Cost pressures have also developed from demographic changes in the membership (e.g., increased life expectancy and aging plan membership). Therefore, it is now necessary to increase the contribution rates to ensure the Plan will remain on a solid financial footing so it will continue to meet its current and future payment obligations.

It is also important to note that pension plans throughout the country are experiencing similar funding challenges and the resulting higher contribution rates caused by weaker investment returns. In addition, in the case of the Plan, the rise in contribution rates is magnified because previous surpluses have allowed the actuary to set past

contribution rates significantly below the Plan's normal cost. The new contribution rates are set at the Plan's normal cost.

With the rate changes that have been announced in this bulletin the long-term health of the Public Service Pension Fund continues to be sound. More information about the Plan is available on the website at pensionsbc.ca.

Purchase of Service Applications

Purchase of service costs are based on salary and contribution rates at the time of purchase. On April 1, 2006, when contribution rates increase, purchase of service costs will also increase. In order to provide an opportunity for all plan members to purchase service at current contribution rates, the Public Service Pension Board of Trustees has made arrangements so that member applications received by employers by March 31, 2006 will be processed using the old contribution rates. Employers will be given until May 31, 2006 to verify the applications and submit them to the Public Service Pension Plan. More detailed information will be provided to employers. Members are encouraged to submit their application as soon as possible rather than waiting for the cutoff date.

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This publication provides general information about the pension plan and is based on the relevant plan documents (statutes, regulations and rules). If there is a discrepancy between this publication and the plan documents, the plan documents will apply.