The University of Regina Non-Academic Pension Plan

Information Session 2 – November, 2015

Prepared by Aon Hewitt
NABC is interested in your views on these questions!

Why?
- NABC wants to make sure the Non-Academic Plan continues to meet member needs
What is Planned?

- **Information**
  - Newsletters and information sessions to better inform you about:
    - Where your retirement income may come from
    - The benefits that the Non-Academic Plan will provide
    - How retirement income is funded or paid for

- **Forums to share your views**
  - Information sessions
  - Focus groups
  - Survey
Focus of this Information Session

- Understanding the details of funding your retirement
  - Non-Academic Plan contribution rates
  - How contribution rates are set
How Pension Plans Work – A Recap

Key Points:

• Contributions are made during working career

• Pension assets are held in trust, separate from the Employer
How Pension Plans Work – A Recap

- Pension plans collect contributions and pay benefits in different ways
  - In general, two ways in which a pension plan pays out benefits

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit</td>
<td></td>
</tr>
<tr>
<td>• Provides a lifetime pension</td>
<td>• Contribution rates will vary</td>
</tr>
<tr>
<td>• Calculated by a formula</td>
<td></td>
</tr>
<tr>
<td>Defined contribution</td>
<td></td>
</tr>
<tr>
<td>• Provides a lump sum</td>
<td>• Contributions remain constant</td>
</tr>
<tr>
<td>• Drawn upon after retirement</td>
<td></td>
</tr>
</tbody>
</table>

- Each approach has its advantages and disadvantages and appeals to different member needs and priorities
How Much Needs to be Contributed to the Non-Academic Plan

- Promised pensions are paid out of contributions and investment returns
- The right amount of contributions depends on
  - Amount of pension being paid
  - How long the pension is being paid for
  - The investment returns that can be earned

Higher Contribution Rates
- Higher Pension Amount
- Longer payout period
- Lower investment returns

Lower Contribution Rates
- Lower Pension Amount
- Shorter payout period
- Higher investment returns
… Assumptions Need to be Made

Wide variety of assumptions about the future need to be made to set the contribution rate

- Investment Returns
- Mortality
- Retirement Age
- Wage Increases
- Termination before Retirement
- Inflation

...and if assumptions turn out to be different than reality, contribution rates may need to change
Components of Contribution Rates

- Contribution rates have two components:

<table>
<thead>
<tr>
<th>Past service</th>
<th>Contributions needed to pay for shortfalls in plan assets for service earned to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service</td>
<td>Contributions required to pay for cost of additional pension earned each year</td>
</tr>
</tbody>
</table>

- Contribution rates can go up or down
- Ideally want each member to contribute just enough to cover the actual cost of their pension
  - Impossible to achieve
  - Strive to make sure that not too much distortion among generations
  - Try to manage the contribution rates so they are reasonably stable
University Sets Total Rate

NABC and Actuary Recommend Total Rate

Member Portion - Negotiated

University Portion = Total – Member Portion

Key Guidance: NABC strives to recommend equal member and employer contribution rates
## Non-Academic Plan’s Current Contribution Rates

<table>
<thead>
<tr>
<th>Breakdown by Purpose</th>
<th>Contribution Rate (% of Pensionable Earnings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past Service</td>
<td>5.73%</td>
</tr>
<tr>
<td>Current Service</td>
<td>13.95%</td>
</tr>
<tr>
<td>Total contribution rate</td>
<td>19.68%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Breakdown by Contributor</th>
<th>Contribution Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee share</td>
<td>8.75%</td>
</tr>
<tr>
<td>Employer share</td>
<td>10.93%</td>
</tr>
<tr>
<td>Total contribution rate</td>
<td>19.68%</td>
</tr>
</tbody>
</table>
Costs are Increasing

- Contribution rates have been increasing and future service benefits have been decreasing steadily since 2007

**Total Contribution Rate**

<table>
<thead>
<tr>
<th>Period</th>
<th>Contribution Rate</th>
</tr>
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<tbody>
<tr>
<td>Sept-'07</td>
<td>10.30%</td>
</tr>
<tr>
<td>Jan-'10</td>
<td>13.00%</td>
</tr>
<tr>
<td>Jan-'11</td>
<td>15.50%</td>
</tr>
<tr>
<td>Jan-'14</td>
<td>19.68%</td>
</tr>
</tbody>
</table>

**BAE = Best Consecutive Average Earnings in Period**

**Annual Pension Earned in Period**
General Reasons Why

Lower Investment Returns
- 2007 through 2014 - plan returned 5.25% per annum – assumed was 6.25%
- Future returns are approximately 1% per annum less now than in 2006

Members Living Longer
- In 2015, both male and female members age 65 are expected to live 2.5 years longer than was assumed in 2007

Plan Maturing
- Average age of active members in 2004 was 43 – now it’s closer to 46
- In 2004 there were 2.7 active members for each pensioner - now its 2.1
Compared to other Pension Plans…

- Generally, other defined benefit pension plans are experiencing some combination of increased contribution rates and reduced benefits as a result of:
  - Lower investment returns
  - Members living longer
  - Plans maturing
- Strengthening the financial position of defined benefit pension plans is proving to be difficult when:
  - Current contribution rates are bordering on the unaffordable
  - The risks to “making good” on the promise of a defined benefit pension continue to increase
What’s Next?

- The legislation requires that contribution rates be reviewed and, if necessary, adjusted at least once every three years
  - Last formal review was at 31-December-2012
  - Next will be at 31-December-2015

- Concern that the trend of increasing contribution rates may continue
  - Plan has limited reserves to absorb any “bad news”
  - Difficult to build such reserves when contribution rates are already high

- The NABC will be looking at the 31-December-2015 financial position in early 2016