

PENSION NEWS

UBC FACULTY PENSION PLAN | Fourth Quarter 2012 Edition

Canada Pension Plan Retirement Income

Years ago, UBC faculty would retire at age 65 and start collecting their UBC pension, Canada Pension Plan (CPP) retirement income and, if applicable, Old Age Security (OAS). Fast forward to today with no mandatory retirement age, marked improvements in mortality rates, and changes to the CPP and OAS regimes, and things are no longer so straightforward. There are many decisions to be made, including:

- when – or even whether – to stop working completely;
- how to receive retirement income from the UBC Faculty Pension Plan (FPP);
- whether to contribute to the FPP again if you work after retirement;
- when to start your CPP pension – early while you are still working? when you retire? or some years after you begin your FPP pension?;
- whether to contribute to the CPP after age 65 if you are still working and receiving CPP income; and
- whether and how to split your various sources of pension income with your spouse.

This article focuses on the decisions related to your CPP retirement income – when to start taking it, whether to contribute additional amounts, and the implications of those choices. It reflects

CPP changes being phased in through 2016 which have been made to better align with how Canadians today are living, working and retiring.

You can retire and start an income from the UBC FPP any time between the 1st of the month following your 55th birthday and December 1st of the year you turn 71. You can elect to start receiving your CPP pension as early as age 60, even if you do not stop working. The new CPP rules provide more flexibility as you transition from active employment to retirement, recognizing this is often now an ongoing process rather than a one-time event.

Your CPP Statement of Contributions (available from Service Canada) will confirm how much you have contributed to CPP over the years and assist you in estimating your CPP pension. As a rule of thumb, you'll receive the maximum CPP retirement income¹ if you contributed the maximum amount² to CPP in at least 40 years.

EARLY OR DELAYED CPP COMMENCEMENT:

As you work and contribute to CPP, your CPP retirement benefit continues to grow based on your service and earnings. In addition, there are age-related adjustments which apply on early or late CPP commencement to reflect that the income will be paid for more or fewer years, respectively. These adjustments have changed with the recent CPP



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¹ \$1,012.50 per month for retirement at age 65 in 2013

² Earned more than the Year's Maximum Pensionable Earnings each year (\$51,100 in 2013).

This material has been compiled by the University of British Columbia Faculty Pension Plan Administration Office from information provided to them and is believed to be correct. If there is any inconsistency between the contents of the newsletter and the pension plan trust or legislation, the trust and legislation will prevail.



a place of mind

THE UNIVERSITY OF BRITISH COLUMBIA

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amendments. In 2013 and later, CPP retirement pensions commencing at age 70 will be 42% higher than if you had taken it at 65. Starting in 2016, CPP retirement pensions at age 60 will be 36% lower than it would have been if you had stopped working at 60 but waited to take CPP till age 65.

HOW DO YOU DECIDE WHEN TO START YOUR CPP PENSION?

There is a computable “break-even age” where two otherwise identical retirees, one starting earlier with a reduced CPP pension and one starting at age 65 with the normal CPP pension, will have accumulated the same total payments. For individuals earning the maximum CPP retirement benefit, the break-even age is approximately age 73.³ Since you cannot predict your mortality, you might want to think about which side of this break-even age you are most likely to enjoy the money! Many people feel they live the best years of their retirement in the early years. After age 70 or so, spending on consumables and travel may slow down; however, other costs, e.g. healthcare, may rise. It is important to consider your own likely spending patterns into retirement.

NEW CPP POST-RETIREMENT BENEFITS:

Under the new rules, you no longer need to reduce your work hours or stop working in order to start collecting CPP. If you start CPP income before age 65 but keep working, both you and UBC must continue making contributions to CPP. After age 65, if you continue to work, you choose whether to continue making CPP contributions or not. If you continue, UBC must also continue their share.

CPP contributions made after you start receiving CPP income are used to provide additional retirement benefits starting the following year under the new CPP post-retirement benefit (PRB) provision. These additional PRB contributions⁴ will not affect your other CPP benefits,

nor are PRBs subject to credit splitting or pension sharing. Employees’ maximum CPP contribution in 2013 is \$2,356.20 (total with UBC contribution is \$4,712.40).

The maximum PRB benefit you can earn each year is equal to 1/40th of the maximum CPP retirement pension amount. In 2013, the maximum PRB benefit at age 65 is approximately \$300 per year, and PRBs are subject to the same early and late commencement adjustments and future indexing as regular CPP benefits.

Your decisions regarding when to start CPP income and whether to continue making CPP contributions to earn PRBs should be made within the context of your overall personal financial circumstances. You’ll need to consider several issues including the cost of additional CPP contributions relative to the PRBs earned and the tax implications of the available options. The graph on page 3 shows the maximum monthly CPP retirement income including PRBs for various scenarios. The table on page 3 illustrates total CPP benefits, net of the additional employee contributions made to earn PRBs, accumulated without interest. With CPP commencement at age 60 or 65, you can see that the cumulative amounts start to converge around age 73. This is the break-even age previously mentioned. Ultimately, starting around age 83, the accumulation is the highest under the scenario where CPP contributions continue through to age 70 at which time CPP income commences.

MORE INFORMATION:

You can get more information on the CPP changes on the Service Canada website (www.servicecanada.gc.ca/eng/home.shtml). Here you will also find access to online services which allow you to estimate your own CPP and OAS pensions at various future ages.

If you prefer to speak to a Service Canada representative, you can call the number on the website.

An article in the Q2 2010 *Pension News* discussed considerations as you approach retirement and focused on determining how much money you would need in retirement and how to mitigate the risks as you continue to invest some of your Faculty Pension Plan funds while starting to provide yourself with income. There are a number of other archived newsletter articles on the website which address the various retirement income options under the Plan. As noted in the “Thinking of Retirement” section on the website, you are strongly encouraged to seek independent financial advice to discuss your own personal financial situation and to assist you in making decisions. ■

This article was prepared for the UBC Faculty Pension Plan by Aon Hewitt Inc. The views expressed are those of the author and not necessarily those of the UBC Faculty Pension Plan trustees, management and staff, which make no representations as to their completeness or accuracy. Comments and questions should be sent to fpp@hr.ubc.ca

Old Age Security (OAS) Update

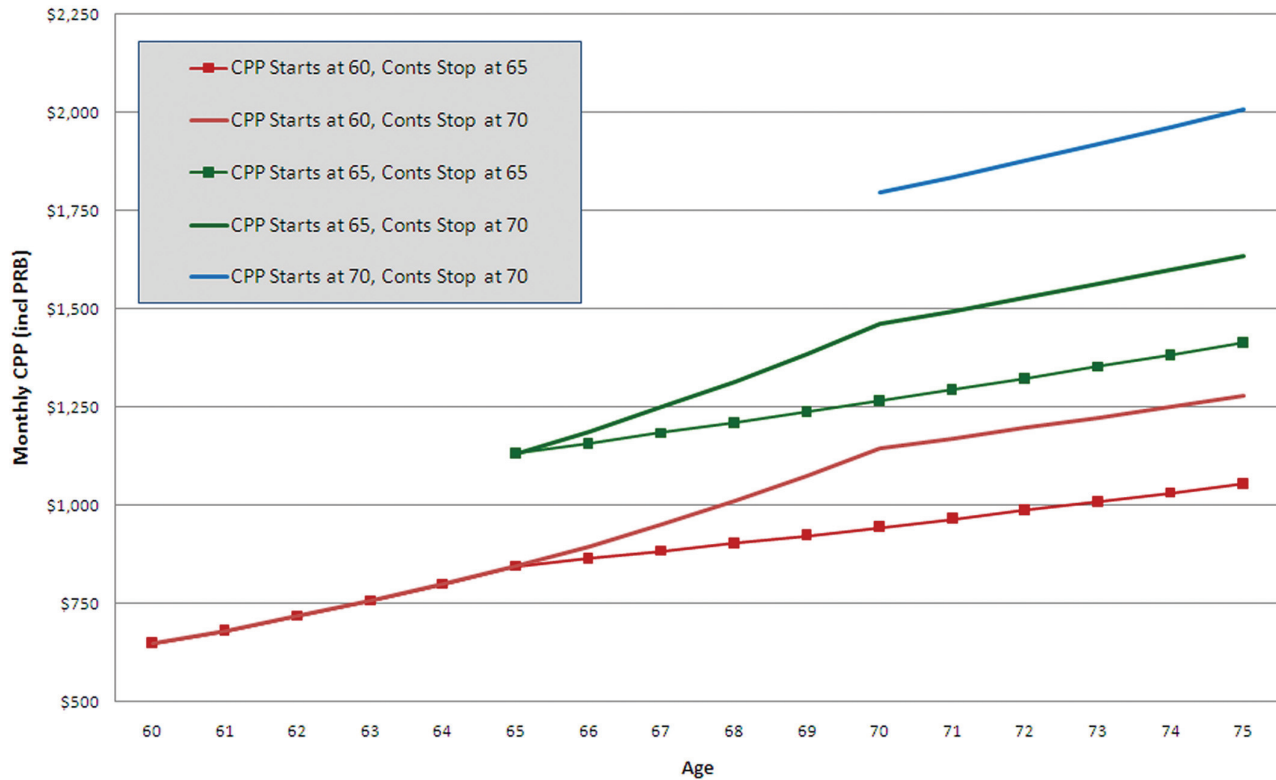
Starting on July 1, 2013, you may voluntarily defer payment of your OAS pension by up to five years past the age of eligibility, and subsequently receive a higher actuarially adjusted pension.

For information on the OAS changes, please visit the Service Canada website (www.servicecanada.gc.ca/eng/home.shtml).

³ It will be later for individuals who do not get maximum CPP due to a shorter contributory period.

⁴ PRB contributions are the same as current CPP contributions, i.e., both you and UBC contribute 4.95% of earnings between the Year’s Basic Exemption (\$3,500) and the YMPE (\$51,100 in 2013).

Maximum CPP Monthly Income



Assumptions:

1. CPP program changes fully phased in
2. Member has full CPP contributory period to earn maximum CPP retirement income
3. CPP annual increases = CPI indexing = 2.25% per year; salary increases = 3.5% per year

Cumulative CPP Received Under Various Scenarios

| | CPP Start at 60, Contributes Stop at 65 | CPP Start at 60, Contributes Stop at 70 | CPP Start at 65, Contributes Stop at 65 | CPP Start at 65, Contributes Stop at 70 | CPP Start at 70, Contributes Stop at 70 |
|---------------|---|---|---|---|---|
| Age 65 | \$41,000 | \$38,400 | \$13,600 | \$10,900 | \$0 |
| 70 | \$95,300 | \$88,000 | \$86,200 | \$78,900 | \$21,600 |
| 73 | \$130,800 | \$131,000 | \$133,800 | \$134,000 | \$89,200 |
| 75 | \$155,900 | \$161,300 | \$167,400 | \$172,800 | \$136,800 |
| 77 | \$182,100 | \$193,000 | \$202,500 | \$213,300 | \$186,600 |
| 80 | \$223,700 | \$243,300 | \$258,100 | \$277,700 | \$265,600 |
| 83 | \$268,100 | \$297,000 | \$317,600 | \$346,500 | \$350,100 |
| 85 | \$299,400 | \$334,900 | \$359,500 | \$395,000 | \$409,600 |

Assumes:

1. Individual entitled to maximum CPP retirement income.
2. Includes CPP retirement income and post-retirement benefits (PRBs) net of CPP contributions made on and after age 65.
3. Ignores interest on CPP benefits received.
4. Assumes member survives through illustration period.
5. Ignores CPP survivor benefits.

2013 Pension Forum

The **Faculty Pension Plan (FPP) Pension Forum** will take place on Wednesday, May 22, 2013. This is a great opportunity for members to learn more about their pension plan, and meet and converse with the FPP trustees, management and staff. There will also be a short presentation from the FPP management and trustees. Light refreshments will be served.

Learn more about your pension plan

We are pleased to host several information tables at the Pension Forum. Bring your questions - we will be happy to help answer them.

Are you a new FPP member?

Visit the **General Information table** to learn more about the Faculty Pension Plan, or sign up for an **information session or workshop**.

What do you know about the FPP Funds?

Visit the **Investment table** to learn more about the FPP investment options.



Approaching Retirement?

Visit the **Retirement table** and ask us about your retirement options. While you are there, visit the **Retirement and Survivor Benefits Program table** to learn more about the health benefits that are available as part of the retirement program.



Working past age 65 or thinking about it?

Learn what **choices you'll need to make about your pension if you decide to work past age 65**. Did you know that your other UBC employee benefits may change?



Save the Date

Wednesday, May 22, 2013

11:00 a.m. to 1:00 p.m.

**Liu Institute of Global Issues
Multipurpose Room**

6476 NW Marine Drive
Vancouver Campus

Doors open at 11:00 a.m.
Presentation starts at 11:15 a.m.

Please RSVP by April 30 to:

pensions@hr.ubc.ca | 604.822.8100

RRSP Information for the 2012 Tax Year

March 1, 2013 is the RRSP contribution deadline for the 2012 tax year.

This article provides you with information on how much you may contribute.

To find your contribution limit

The maximum amount you can contribute to an RRSP each year is shown on the Canada Revenue Agency (CRA) Notice of Assessment form that you receive after you file your income tax return. You can also find your contribution limit by calling the CRA at 1.800.267.6999 or by using the My Account option on the CRA website at www.cra-arc.gc.ca. You will need a Government of Canada 'epass,' which you can obtain on this website.

How do your Faculty Pension Plan contributions impact your RRSP contribution room?

While contributions to the UBC Faculty Pension Plan (FPP) will reduce your RRSP contribution room, it is important to remember that this does not happen until the following calendar year and the calculations are always performed by the CRA. You do not need to make any calculations to determine your 2012 RRSP contribution room - you simply have to refer to the Notice of Assessment form you received after filing your 2011 tax return.

The CRA calculates the maximum 2012 RRSP contribution amount available by taking 18% of your gross 2011 income

(before taxes and deductions) to a maximum of \$22,970, less your 2011 Pension Adjustment amount, which represents the 2011 FPP contributions reported in Box 52 of your 2011 T4.

When calculating your RRSP contribution limit, CRA will also include any unused contribution room since the 1991 tax year.

Contributions made to the FPP in 2012 have no impact on your 2012 RRSP contribution limit. But, they will impact your 2013 RRSP contribution room.

Can I use my RRSP contribution room to contribute voluntarily to the Faculty Pension Plan?

RRSP contribution room can only be used for contributions to an RRSP. However, you can later transfer the value of your RRSP on a tax-sheltered basis to your UBC Faculty Pension Plan account. Your RRSP contributions must have been made by yourself (not your spouse) and in your name. Further information on 'Transfers-In' is available under the QuickFind menu on the FPP website.

How do additional voluntary contributions (AVCs) to the FPP work?

For 2013, the CRA maximum contribution to a pension plan is the lesser of 18% of your 2013 pensionable earnings and \$24,270. Your AVC room is the difference

between the CRA maximum and the required contributions that will be made to your pension plan account in 2013. To determine how much you can voluntarily contribute, use the calculator tool found under the QuickFind menu on the FPP website.

Your 2013 AVCs may be contributed to the FPP by payroll deduction up to and including December 31, 2013. Contributions made by cheque are not accepted after November 30, 2013.

NB - Pension plan voluntary contribution room is calculated using your current year's earnings and RRSP contribution room is calculated using your previous year's earnings.

Should I make voluntary contributions to an RRSP or to the Faculty Pension Plan?

There are benefits for contributing to either vehicle and your decision should be based on your own needs. Please visit the Voluntary Contributions page under the QuickFind menu at the FPP website for additional information regarding choosing between these two vehicles. ■

This article was prepared by the UBC Faculty Pension Plan. Comments and questions should be sent to fpp@hr.ubc.ca.

Increase in Tax Free Savings Account Annual Limit

In 2013, the annual dollar limit for Tax Free Savings Account (TFSA) contributions has been increased from \$5,000 to \$5,500. TFSAs are important savings vehicles to help you achieve your short and long-term financial goals. For more information about TFSAs, please visit www.cra-arc.gc.ca/tx/ndvdl/tpcs/tfsa-celi/menu-eng.html

Your Financial Toolkit

The Financial Consumer Agency of Canada (FCAC) has developed a comprehensive resource to help Canadians manage their personal finances and make responsible financial decisions. This toolkit can be accessed online at www.fcac-acfc.gc.ca/ft-of/home-accueil-eng.html or you may order a printed copy through FCAC at www.fcac-acfc.gc.ca/eng/resources/publications/PubOrder/index-eng.asp

Help find these FPP members

The Faculty Pension Plan would like your help to find members of the Plan with whom we have lost contact with over the years. If you have any contact information for the members listed below, please contact Louise Mah at 604.822.6015 or by e-mail at louise.mah@ubc.ca. Any information provided is held confidential and greatly appreciated.

| Name | Left UBC |
|---|----------|
| Caggiano, Joseph <i>TRIUMF</i> | Jun 2006 |
| Cho, H J Peter | Jun 1988 |
| Chung, Ilchoo | Jun 1984 |
| Davoudi-Dehaghi, Bahman <i>Ctr Disease Ctrl</i> | Apr 2011 |
| Du Mont, Gertraude E | Jun 1975 |
| Henderson, Robert C <i>Forestry</i> | Jun 1971 |
| Henderson, Robert S <i>TRIUMF</i> | Jun 2012 |
| Herbst, Karl Peter | Dec 1989 |
| Knight, Peter <i>Zoology</i> | Jul 2003 |
| Lumsden, Hugh David | Jun 1971 |
| Nini, Lylia <i>Psychiatry</i> | Jun 2008 |
| Ohan, Jeneva <i>Psychology-Okanagan</i> | Dec 2007 |
| Perrino, Andrea <i>Psychology</i> | Dec 2009 |
| Porth, Cheri <i>Oral Health Sciences</i> | Jun 2009 |
| Song, Cai <i>Psychiatry</i> | Aug 2004 |
| Sullivan, Daniel J | Jul 1975 |
| Visser, Troy <i>Psychology-Okanagan</i> | Jul 2008 |
| Wang, Jian <i>Pharmaceutical Sciences</i> | Aug 2000 |
| Zhang, Li <i>Biochemistry</i> | Jul 1999 |

FPP Board of Trustees Update

On behalf of the FPP membership, the FPP trustees, management and staff would like to thank Mr. Al Poettcker for his 14 years of service as a trustee. Mr. Poettcker's term on the FPP Board of Trustees concluded on December 31, 2012. We wish Mr. Poettcker the very best on his future endeavours.

The FPP would like to welcome Dr. R. Kenneth Carty to the Board of Trustees. Dr. Carty has been appointed for a term from January 1, 2013 to December 31, 2014. He has been a Professor Emeritus of Political Science since retiring from UBC in 2010.

New Member and Retirement Workshops

"You & Your Pension Plan" workshops for new members or members wishing to learn more about the Plan are available throughout the year, as well as "Understanding Your Retirement Income Options" workshops for members approaching retirement.

Understanding Your Retirement Income Options
Wednesday, April 10, 2013
12:00 p.m. to 2:30 p.m.

For more information on these workshops or to register for the session above, please contact Lorraine Heseltine at lorraine.heseltine@ubc.ca. Please refer to the Workshops page on the FPP website for up-to-date workshop information and dates.

MARKET COMMENTARY

THE MARKETS MOVED A LITTLE HIGHER in the fourth quarter despite many global macroeconomic problems continuing to overshadow the markets. Evidence that the Chinese economy is recovering and the pro-growth stance adopted by many of the world's major central banks has contributed to somewhat improved investor optimism. The troubled European markets bounced along, helped by the European Central Bank's announcements supporting the Euro.



In the U.S., the Federal Reserve's announcement of a third round of quantitative easing based on buying large amounts of mortgage bonds was viewed positively by investors. The U.S. "Fiscal Cliff" was a major concern in the fourth quarter and was finally met with a short-term resolution early in 2013. The U.S. Federal Reserve also indicated that interest rates will likely continue to be held very low until the unemployment rate reduces to 6.5%.

The Canadian stock market returned 1.7% in the fourth quarter and 7.2% for the year. The strongest returns in the fourth quarter were in the more defensive industry sectors such as Consumer Staples and Utilities. The Canadian market's high weighting in commodity stocks (i.e. the Materials, Gold and Energy) hurt returns in the fourth quarter as prices dropped for many of these commodities.

The U.S. stock market had a weak fourth quarter return of 0.8%, but was up a strong 13.4% for the one-year in Canadian dollar terms. Global equities were again positive at 3.9% in the fourth quarter and 14.3% for the year in Canadian dollar terms. There was a large divergence of returns between various countries (e.g. Germany 28.1% vs. Japan 5.8%) and industry sectors (e.g. health care versus materials) throughout the year. Emerging market returns were strong in the fourth quarter (6.9%) as investors were willing to accept more risk by investing in these markets.

The Canadian Bond market had a low fourth quarter return of 0.3% and returned a modest 3.6% on a year-to-date basis. Real Return Bonds had a weak fourth quarter at only 0.03% leading to a one-year return of just 2.9%. The Bank of Canada left rates unchanged but again reiterated their bias to increasing interest rates when appropriate. Inflation remained low for another year at only 1.6% for the one-year. ■

FPP Board Members

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604.822.8527

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250.807.9545

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604.822.6825

Dr. Joanne Emerman
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604.822.2969

Dr. Kai Li
Sauder School of Business
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Mr. Vijay Verma
TRIUMF
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Cheryl Neighbour
Executive Director, Operations
Secretary to the Board
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Derrick Johnstone
Senior Operations Manager
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Lorraine Heseltine, 604.822.3485
Louise Mah, 604.822.6015
Diana lampietro, 604.827.3286

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**PERFORMANCE OF THE FUNDS
FOR PERIODS ENDING DECEMBER 31, 2012**

*Annualized returns

| | 3 Months | 1 year | 3 years* | 5 years* | 10 years* |
|------------------------------------|----------|--------|----------|----------|-----------|
| Balanced Fund - gross | 2.54% | 10.14% | 7.72% | 4.11% | 7.06% |
| Balanced Fund - net | 2.40% | 9.58% | 7.14% | 3.56% | 6.55% |
| Composite Index 1 | 1.50% | 7.40% | 6.46% | 3.59% | 6.21% |
| Bond Fund - gross | 0.45% | 4.37% | 7.80% | 7.29% | 6.26% |
| Bond Fund - net | 0.37% | 4.04% | 7.46% | 6.95% | 5.97% |
| Composite Index 2 | 0.24% | 3.46% | 7.45% | 6.93% | 6.15% |
| Canadian Equity Fund - gross | 3.68% | 11.52% | 6.59% | 1.86% | 10.28% |
| Canadian Equity Fund - net | 3.56% | 11.02% | 6.11% | 1.42% | N/A |
| Composite Index 3 | 1.87% | 7.41% | 4.55% | 0.69% | 9.18% |
| Foreign Equity Fund - gross | 4.76% | 16.46% | 6.59% | -0.32% | 3.12% |
| Foreign Equity Fund - net | 4.59% | 15.69% | 5.82% | -0.95% | N/A |
| Composite Index 4 | 3.06% | 13.32% | 6.08% | -0.18% | 3.55% |
| Short Term Investment Fund - gross | 0.34% | 1.26% | 1.03% | 1.33% | 2.31% |
| Short Term Investment Fund - net | 0.29% | 1.09% | 0.87% | 1.17% | 2.13% |
| Composite Index 5 | 0.29% | 1.01% | 0.81% | 1.07% | 2.14% |

The Average Rate of Return for the FPP funds are updated on a monthly basis and are available under the QuickFind menu on the FPP website.

Composite Index 1: 32% DEX Universe, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60 Capped, 6% S&P 500, 21% MSCI World Ex Canada, 3% Dex 91-Day TB, 10% CPI + 4% commencing November 2011 (retroactive), 8% DEX Real Return Bonds

Composite Index 2: 80% DEX Universe, 20% DEX Real Return Bonds

Composite Index 3: 25% S&P/TSX, 50% S&P/TSX Capped, 25% S&P/TSX 60 Capped

Composite Index 4: 73% MSCI World Ex Canada, 21% S&P 500, 6% DEX 91-Day TB

Composite Index 5: DEX 91-Day TB Index until August 2007, DEX 30-Day from September 2007 to January 2011, DEX 91-Day TB Index as of February 2011.

**COMPOSITION OF THE FUNDS
AS AT DECEMBER 31, 2012**

| | Market Value (\$ Millions) | % of Funds | | Market Value (\$ Millions) | % of Funds |
|-------------------------------|----------------------------|---------------|---|----------------------------|---------------|
| BALANCED FUND | | | CANADIAN EQUITY FUND | | |
| Equities - Canada | 253.7 | 20.3% | Equities - Canada | 106.1 | 99.5% |
| Equities - U.S. | 200.2 | 16.1% | Cash | 0.5 | 0.5% |
| Equities - non-North American | 136.9 | 11.0% | Total Canadian Equity Fund | 106.6 | 100.0% |
| Absolute Return Hedge Fund | 31.1 | 2.5% | FOREIGN EQUITY FUND | | |
| Real Estate - Canada | 135.2 | 10.8% | Equities - U.S. | 25.7 | 55.9% |
| Fixed Income | 380.8 | 30.5% | Equities - non-North American | 17.6 | 38.2% |
| Real Return Bonds - Canada | 106.5 | 8.5% | Absolute Return Hedge Fund | 2.3 | 5.0% |
| Cash | 3.1 | 0.3% | Cash | 0.4 | 0.9% |
| Total Balanced Fund | 1,247.5 | 100.0% | Total Foreign Equity Fund | 46.0 | 100.0% |
| BOND FUND | | | GUARANTEED INVESTMENT CERTIFICATES | | |
| Fixed Income | 61.3 | 78.0% | | 14.9 | 100.0% |
| Real Return Bonds - Canada | 17.1 | 21.8% | SHORT TERM INVESTMENT FUND | | |
| Cash | 0.2 | 0.2% | | 51.5 | 100.0% |
| Total Bond Fund | 78.6 | 100.0% | | | |