

REPORT TO MEMBERS

MARCH 2018

Q&A with our Chair



Larry Murray, PSP Board Chair

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What's happened since the last issue?

Since the last *Report to Members* in December, Chris Archibald's term on the Board has ended. I have returned to the role of Chair of the Board and Denise Hamilton – whom we introduced you to in our previous *Report to Members* – has been appointed to Vice-Chair. Also, Mike Dempsey has been re-appointed to the Board for another three-year term.

Legislation requires the offices of Chair and Vice-Chair of the Board to rotate every two years between employer and employee nominees. For 2018 and 2019, the office of Chair must be held by a Board member nominated by the Alberta Union of Provincial Employees and the office of Vice-Chair must be held by a Board member nominated by the Government of Alberta.

We're also pleased to announce the appointment of Wesley Peters as an external Investment Committee (IC) member. Wes is an accomplished investment leader with a track record in asset management, liability risk management, fund governance and team-building. The Investment Committee is comprised of all six members of the Board and three external investment professionals. The IC makes recommendations on investment-related topics.



Are there more Board changes in sight?

We have an employer-nominated Board member position vacant, which we're hoping will be filled as soon as possible. As we are a six-member Board, one vacancy has a significant impact on the balance and workload of the Board. The Government of Alberta is responsible for the recruitment and appointment of employer nominees.



What would you like to say to the outgoing Board and committee members?

On behalf of the Board, I would like to take the opportunity to sincerely thank Chris Archibald for her 10 years of dedicated service on the Board. Her enthusiasm and leadership has been an integral part of the Board's success. We wish Chris all the best in her future endeavours.

I would also like to thank John Dustan for his 14 years of dedicated service on the Investment Committee. During his time, John played an important role in helping the Board set its Statement of Investment Policies & Guidelines, the PSPP asset mix, and monitor investment performance. We wish John all the best in his future endeavours.

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Describe 2017 in a nutshell...

Overall, 2017 was a good year for the PSPP. The Plan's financial position improved as a result of strong investment returns and careful governance. You can read more about the Plan's financial health [here](#). I look forward to continuing on this path in 2018.



What do members need to know?

Last year, we completed an actuarial valuation that tests the Plan's financial health. We are pleased that contribution rates were reduced this year thanks to the Plan's improved financial position. See new rates [here](#).



Anything else you'd like to share?

A working group between the Board and the Government of Alberta has been established to identify solutions for funding the Plan's Combined Pensionable Service (CPS) benefit. Several years ago, the Board identified an inequity related to the funding of the CPS provision. The establishment of the working group provides the next step towards resolving this inequity in the future. What's the CPS provision? Learn more [here](#).



What would you like to hear from members?

The PSPP defined benefit plan provides immense value to our Plan members. If you have a story to tell, we would love to hear it!

What does being a member of the PSPP mean to you?

Was there a moment when you realized or suddenly appreciated the value of the Plan? We want to help spread the word about the positive impact defined benefit plans have on members and the economy. Please share your story by sending an email to board@pspp.ca.



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The Plan's financial health – recap

The Board completed an actuarial valuation of the Plan. This means that we look at the difference between the Plan's assets (funds) and liabilities (projected costs to pay pension benefits) to help determine whether there is enough money in the pension fund to pay full benefits to members. The valuations must be conducted at least every three years.

Highlights of the December 31, 2016 valuation

\$2.34 billion

The increase in the Plan's assets since the last actuarial valuation in 2014.

90.8%

The Plan's funded ratio – up from 83.9% at the last actuarial valuation as at December 31, 2014.

2027

The Board has set contribution rates at a level that targets reaching a fully (100%) funded status by 2027. This meets the standards set in our governing legislation for eliminating funding shortfalls.

The Board will have another actuarial valuation of the Plan conducted as at December 31, 2017. The results of that valuation will be shared in the next edition of *Report to Members*.

Contribution rates reduced for 2018

Contribution rates were reduced for 2018. The new rates are a result of the Plan's improved financial position and represent a reduction from the rates that were in place between 2013 and 2017.

Member and employer contribution rates

On pensionable salary below YMPE

On pensionable salary above YMPE

11.70%

in 2013 – 2017

16.72%

in 2013 – 2017



10.47%

in 2018



14.95%

in 2018



What is the YMPE?

YMPE stands for Year's Maximum Pensionable Earnings. It is set by the Government of Canada each year, and reflects the maximum level of salary on which Canada Pension Plan contributions can be made. In 2018, the YMPE is \$55,900.

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Funding for the Combined Pensionable Service (CPS) provision

To fund the Plan, both employers and employees make contributions. Currently, there is a 50/50 cost sharing between employers and employees, meaning that employers and employees share equally in funding the Plan.

The Board identified the funding of the **CPS provision** of the Plan as inequitable since not all employers and employees have an opportunity to benefit from the CPS provision. The 50/50 cost sharing means that the cost of the CPS provision is equally shared among all employers and employees, whether or not they benefit from the CPS provision. To address the funding inequity, a CPS Working Group was established in January 2018 to identify viable solutions to resolve CPS funding.



What is the CPS provision?

It's a unique Plan feature that benefits employees who, under the same employer and with no break in service, move from the PSPP to a position under either the Management Employees Pension Plan (MEPP) or the Universities Academic Pension Plan (UAPP) as a result of a promotion. When this happens, employees no longer earn service or make contributions under the PSPP. However, when they retire, employees' PSPP pension benefit is calculated based on their highest average salary at retirement (highest average salary over five consecutive years under **either plan**). Thus, the Plan receives fewer contributions for a higher benefit, making the CPS provision more costly.

Watch for more information on the work of the CPS Working Group in the next edition of the *Report to Members*.

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Getting to know the players... in governing the PSPP

The PSPP is a huge Plan with more than 82,000 members – that's a lot! This means that there are many players involved in the administration, management and operation of the Plan. Ensuring these functions are carried out carefully so that we can continue providing a valuable defined benefit pension plan well into the future requires good pension plan governance.

Here's a snapshot of how the Plan governance works, and how all the parties work together. The PSPP is governed by rules found in the *Public Sector Pension Plans Act and Regulations*.



The President of Treasury Board and Minister of Finance (the Minister) is the Trustee of the Plan.

The Minister is responsible for preparing the Plan financial statements as well as the administration of the Plan and managing investments but has delegated these tasks to various service providers:

Alberta Pensions Services Corporation (APS)

A provincial Crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. APS takes care of the day-to-day administration of the Plan for members, pensioners and employers, including:

1. Contributions management
2. Member, pensioner and employer information management
3. Employer and member education
4. Benefit calculations and disbursements
5. Pension policy support and implementation
6. Compliance, regulatory and plan financial reporting

APS also administers six other public sector pension plans and two supplementary retirement plans in Alberta.

Alberta Investment Management Corporation (AIMCo)

A provincial Crown corporation, operating at arm's length from the Government of Alberta. AIMCo is one of Canada's largest and most diversified institutional investment fund managers and manages over \$100 billion for Alberta's public sector pension plans, endowments and government funds, including PSPP member and employer contributions. In accordance with the investment policy set by the Board, AIMCo manages and invests the Plan assets on behalf of the Minister and the PSP Board to maximize return on risk.

Watch for more information on the role of APS and AIMCo in an upcoming *Report to Members*.

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The Public Service Pension Board (Board)

A body of three employee and three employer representatives. The Board's mandate is established under the *Public Sector Pension Plans Act*, and it includes the following:

- Valuations: Undertake an actuarial valuation at least every three years
- Contribution rates: Adjust contribution rates to ensure the PSPP is adequately funded
- Asset mix: Set the asset mix for the PSPP Fund
- Plan rules: Recommend to the Minister amending, or repealing and replacing the Plan rules
- Policies: Set general policy guidelines on the investment and management of the PSPP fund and the administration of the PSPP
- Administrative decisions: Review administrative decisions made by APS for the PSPP members or beneficiaries
- Consultations: Participate in consultations with the Minister regarding the cost for the Plan administration and changes proposed to the Public Sector Pension Plans (Legislative Provisions) Regulation

What is governance?

Pension plan governance refers to the processes and procedures that are put in place so that the parties involved in the administration and management of a pension plan can fulfil their fiduciary obligations – that is, to ensure the Plan is administered in the best interest of its members and other beneficiaries.



George & Bell Consulting Inc.

Plan Actuary; provides actuarial and pension consulting services to the Board, including performing actuarial valuations of the PSPP and recommending contribution rates to the PSP Board.



Investment Committee (IC)

Established by and comprised of the full Board plus 2 – 3 external members experienced in the investment industry to:

- Monitor and review the Plan's investment performance
- Advise on the Plan's asset allocation and investment policy
- Monitor investments for compliance with the investment policy

The IC is not a decision-making body; it may only make recommendations to the Board on investment-related matters.



The Auditor General of Alberta

Independently audits the financial statements of the PSPP to ensure they are presented fairly and in accordance with Canadian accounting standards for pension plans. By legislation, the Auditor General of Alberta is the auditor of all government ministries, departments, regulated funds, and most provincial agencies.

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Learn about the Plan

Review pension statements



Life change (Marriage, Change of job, Divorce)



Seek financial advice



Check how savings track against goals

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When to start your pension

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The PSPP is a defined benefit (DB) pension plan, which means that you know exactly how much pension you will receive at retirement – the amount is based on a set formula, not on how investments perform in the market.

The Board is responsible for overseeing the investment of pension assets, so there is less for you to worry about: you don't need to monitor or manage investments – you just collect your pension benefit when you retire. You can relax knowing you will receive a set monthly pension from the Plan, as long as you live.

You still play an important role in making the most of the Plan. There are things you need to understand and do throughout the life of your plan membership in the PSPP to ensure you're getting the most value possible.

In this new **Ready, Set, Retire** series, we walk you through that life cycle, and highlight key considerations and decisions you need to make along the way to ensure you're well-prepared for retirement.

Ready: Learn about the Plan

Congratulations – you're a member of a great DB pension plan. In addition to getting ready to reap the benefits at retirement, we strongly encourage you to learn about the Plan to understand how it fits within your overall retirement savings strategy – even if you're still far away from retirement.



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Taking the time to **learn about the Plan** is a key first step in making smart decisions. When you have a foundational understanding of the Plan, it will be much easier to plan for retirement and any (unexpected) life events that might come your way. Start by taking advantage of the great resources available to you, including:

The [PSPP website](#) – your go-to resource for everything you need to know about the PSPP

There you'll find:

- [PSPP At-a-Glance](#) for a quick overview of the Plan
- [Member Handbook](#) for a more detailed Plan description
- [Frequently Asked Questions](#) – and answers, to any questions you might have
- Much more!

[mypensionplan.ca](#) – the home of all your personal information

There you can:

- Calculate an estimate of your pension at any time
- Update your contact and beneficiary information
- View your pension highlights (member annual statement)
- View your salary, service and contributions
- Keep track of your pension income and prepare for retirement
- Contact the Member Services Centre, available to answer any of your questions
- Sign up for one-on-one information sessions

One-on-one information sessions

Are you unsure about your Retirement Benefit Statement information and forms? Need help understanding your pension options? Require a Commissioner for Oaths to complete a pension document? Book a one-on-one session and meet face-to-face with an information specialist.

The spring schedule for one-on-one sessions is now open.

Appointments are available in Calgary, Red Deer, Peace River, downtown Edmonton, Fort McMurray, Lethbridge, Medicine Hat and Grande Prairie. Visit our website to find out more about the sessions, locations and dates. You can book online through [mypensionplan.ca](#) or by calling 1-877-1PSP (1777).

These sessions are available by appointment year-round in Edmonton, and are regularly scheduled at locations around Alberta. One-on-one sessions normally take up to half an hour. The sessions do not include any financial planning, financial advice, or any information related to Canada Pension Plan, Old Age Security or your other employer benefits.



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Learn how your pension is determined: the PSPP formula

Your pension benefit is based on your years of service, your highest average salary and a legislated benefit rate. The benefit rate is a percentage of your highest average salary for each year of pensionable service:

1.4% and **2%**

of your highest average salary earned up to the matching average Year's Maximum Pensionable Earnings (YMPE) times your years of PSPP pensionable service;

of your highest average salary above the matching average YMPE, times your years of PSPP pensionable service.

Highest average salary refers to your highest average pensionable earnings during five consecutive years.

YMPE stands for Year's Maximum Pensionable Earnings, which is set by the federal government each year. In 2018, the YMPE is \$55,900. Since you do not earn Canada Pension Plan benefits on earnings above the YMPE, you contribute more to the PSPP and get a higher benefit rate on those earnings to increase your pension at retirement per the formula above.



PSPP 101

Here are three fundamental PSPP features you should be able to rhyme off with confidence once you've completed the learn step:

- 1. It's secure:** The PSPP is a defined benefit plan, which means you will receive a set, lifetime monthly pension when you retire, regardless of market conditions or how long you live. The money is held in trust, meaning it cannot be used for any other purpose other than to pay pension benefits to members or beneficiaries.
- 2. It's predictable:** The pension you will receive is predictable since it is based on a formula that takes into account two set factors: your pensionable salary and pensionable years of service.
- 3. It's funded through contributions and investment returns:** Both you and your employer contribute to the Plan, and the Plan Fund is invested and managed by professionals, so you don't have to make investment decisions.

Next up on **Ready, Set, Retire**... Learn how to review pension statements, seek financial advice and check how your savings are tracking against your goals in upcoming editions of *Report to Members*.

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We're excited to announce the upcoming launch of the new PSPP website.

We are creating the new website with you in mind to help you find information about your employer pension at any stage of your life.

Highlights of the new website include:

- Content that is more comprehensive, engaging and readable
- Improved navigation, layout and design
- Easy access to tools and calculators
- A mobile-friendly design

Stay tuned!



Introducing a new online retirement tool

New for 2018, we'll also be launching **PensionEase** – an online retirement tool. You'll now have the option to complete most of the retirement process online, using a secure and simple tool with less paper, less wait-time and no mailing required. PensionEase will be going live in 2018. Watch for the launch announcement on our website or when you log into mypensionplan.ca.



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You've asked, we're answering



What are the Plan's buyback rules?

Your pension from the PSPP is based on two factors: your pensionable salary and pensionable years of service. This means, the higher the salary and more service you have when you retire, the larger your pension will be.



What are the benefits of buying back service?

You earn service for every day that you contribute to the Plan. However, if you were off work for a period of time and not paid (Leaves of Absence), this will create a gap in your pensionable service, meaning there will be less service to count toward your pension. The good news is that you may be able to buy this service to avoid a service gap. If you wish to increase your PSPP pension, you might consider a buyback to decrease the impact of your time off on your pension.

You may also be able to use service you earned with another Registered Pension Plan (RPP) to buy pensionable service in the PSPP. This process of buying service is called a "buyback."



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Key considerations for buying back service

If you're interested in taking advantage of the buyback process, there are several factors you will need to consider.

1. Are you eligible?

First off, contact your Human Resources to find out if you might be able to buy back service.

2. How much does it cost?

The cost to buy back service depends on several factors, including your salary, age, life expectancy and potential interest rate changes.

The value of the pension you have earned under another RPP might also be less than the cost to buy the same amount of service under the PSPP. This means that you would need to pay more to get credit for all of your prior service.

To get an estimate of the cost to buy back service and how this prior service affects your PSPP pension:

1. Visit the Buying Back Service Estimator at <https://www.pspp.ca/members/estimators/index.jsp>.
2. Click on the button next to "Check here to provide your own service estimate."
3. Run two pension estimate calculations:
 - One with only your current PSPP service
 - One that includes your current PSPP service PLUS the prior service
 - Compare these two estimates to see how buying prior service will impact your PSPP pension

3. How do you apply?

Speak to your employer for more information on how to apply to buy prior service. Once you have applied, you will receive a buyback proposal that outlines:

- How buying prior service will affect your PSPP pension;
- How much it will cost you to buy your prior service;
- How much prior service you are eligible to buy;
- How to pay for your prior service; and
- The deadlines for making your election and payment(s).

Important: start this process as soon as possible, because deadlines apply to most buyback situations.



Speak to a financial advisor before making this decision to help you understand the different considerations, including tax implications related to this decision.

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If you have questions about...



The PSPP in general

Visit www.pspp.ca

Your pension benefits

Alberta Pensions Services Corporation
Member Services Centre
5103 Windermere Blvd. SW
Edmonton, AB T6W 0S9
Active or deferred members: 1-877-453-1777
Pensioners: 1-877-422-4748
memberservices@pspp.ca

The member one-on-one sessions where you can meet with a member services information specialist

Visit https://www.pspp.ca/members/publications/PSPP_OneOnOne_2018.pdf

The PSP Board or would like to submit topics or member profile suggestions for this newsletter

Email board@pspp.ca