



October 2013

Member Information Sessions

Agenda

- Introductions and roles
- Process for today
- Background
- Proposed Plan Design Changes
- Question Period
- Proposed Plan Governance Changes
- Question Period
- Next steps

Introductions and Roles

- Maureen Simons – Pension Communication Consultant – Moderator
- Bob Thiessen – MEPP Actuary – Presenter
- MEPB Members – Presenters
- Brenda Chisholm, Plan Board Manager, Natalie Frederick and Julia Qiu, MEPB Plan Board Specialists and Recorders

Process for Today

- Session today is divided into segments
 - Please hold your questions until the end of each segment and we will conduct a Q&A period
 - If your question pertains to a subsequent segment, we will ask you to hold your question until after that segment
- Please queue at each microphone if you have a question

Background

Review Process

Timing	Process Steps
July - August 2012	Minister requests meeting with MEPB and requests MEPB undertake a pension sustainability review
September 2012	Minister confirms review in letter to MEPB MEPB established Working Group and research starts
November 2012	MEPP Fall Newsletter announcing pension sustainability review
December 2012	Pension Sustainability Guide published Focus group conducted with representatives from 21 MEPP employers
January 2013	10 focus groups with active MEPP members across Alberta Special review e-mail address established & receives over 610 e-mails
March 2013	Board issues interim report to the Minister
June – July 2013	Actuarial valuation completed Governance research completed Review of and calculations for possible changes to MEPP completed Letter to Minister on governance Letter to Minister with recommendations for possible plan changes to support sustainability
August 1, 2013	Minister announces Vision for Pensions in AB and invites MEPB and other AB public sector pension plans to meeting in mid-September
September 16	Minister announces proposed changes to public sector pension plans

Current Challenges

- Contribution rates more than doubled over last 20 years
 - 1994: 15.625%
 - 2013: 30.3%
 - Employer: 19.14%
 - Member: 11.16%
 - 2014: 34.65%

Current Challenges (cont.)

What's contributed to higher contribution rates?

- Expectation of lower investment returns in the future
- People are living longer
- Investment losses
- Other plan experience factors

Current Challenges (cont.)

Challenges to pension sustainability a combination of several factors:

- Lower and less certain investment returns in the future
- Generous guaranteed benefits
- Maturity of MEPP – active members represent 35% of liabilities

Government Pension Proposal

Overview of Proposed Design Changes

- Changes will not affect current retirees or pension service earned before 2016
- Planning amendments to *Public Sector Pension Plans Act* in Spring 2014
- As of January 1, 2016:
 - MEPP closed to new members
 - New managers join PSPP
 - Changes to MEPP benefits for service after 2015 only

MEPP Design – Core Benefit

	MEPB Recommendations	Government Proposal
Core Benefit	No change	No change
2% x highest average salary x years of pension service		

MEPP Design – Ancillary Benefits

Benefit	MEPB Recommendations	Government Proposal
Early Retirement Subsidy	Must have 85 factor for subsidy	No subsidy Actuarial reduction applies to retirement before age 65
Cost-of-Living (COLA)	Conditional COLA (60% of Alberta inflation) based on funding status of the Plan	Target COLA 50% of Alberta inflation, high probability but not guaranteed
Normal Form of Pension	If single – no change – guaranteed 10 years If with pension partner – actuarial equivalent to single benefit	If single – guaranteed 5 years If with pension partner – actuarial equivalent to single benefit
Vesting	No recommendation	Post-1991 benefits for active members vested immediately
35-Year Service Cap	No recommendation	Removed

Example – Bill

- Bill is 48 years old with 18 years of service
- He retires end of 2020, age 55, with 25 years of service
- His highest average salary is \$125,000

- Before adjustment for early retirement and normal form:
 - Current rules annual pension:
 - **$2\% \times \$125,000 \times 25 \text{ years} = \$62,500$**
 - Government proposal annual pension:
 - **Pre-2016: $2\% \times \$125,000 \times 20 \text{ years} = \$50,000$**
 - **Post-2015: $2\% \times \$125,000 \times 5 \text{ years} = \$12,500$**

Early Retirement – Bill retires at 55

- Currently, subsidized early retirement costs approximately 4% of salary

Current	Government Proposal
<p>No reduction if</p> <ul style="list-style-type: none"> •Age 55 and 80 points (years of service plus your age equal 80 points or more); or •Age 60 and at least 5 years of service <p>Otherwise 3% per year from earlier of the above or age 65</p>	<ul style="list-style-type: none"> • Pre-2016: Current MEPP rules • Post-2015: Actuarial reduction applies to retirement before age 65
<p>Example: Bill has 80 factor (55+25)</p>	<p>Example: Bill has 80 factor (55+25)</p>
<p>No early retirement reduction Annual pension = \$62,500</p>	<p>Pre-2016: No early retirement reduction Annual pension = \$50,000 Post-2015: Actuarial reduction* = \$12,500 reduced to \$5,968</p>

*Actuarial reduction based on life expectancy (gender & age), interest and inflation

Normal Form of Pension – Bill is single

- All pensions guaranteed for your lifetime
- “Normal Form” sets out how pension is paid after your death in retirement
- Partner pensions – i.e., paying a pension for two lifetimes – has a cost
- Current pension partner normal form costs approximately 1% of salary

Current	Government Proposal
<ul style="list-style-type: none"> • Single: Guaranteed 10 years • With pension partner: 66 2/3% to pension partner 	<p>Pre-2016: Current MEPP rules</p> <p>Post-2015:</p> <ul style="list-style-type: none"> • Single: Guaranteed 5 years • With pension partner: actuarial equivalent to single form
<p>Example: Bill is single – guaranteed 10 years</p>	<p>Example: Bill is single</p>
<p>Annual pension: \$62,500 (guaranteed 10 years)</p>	<p>Pre-2016: \$50,000 (guaranteed 10 years) Post-2015: \$5,968 (guaranteed 5 years) converted to \$5,925 (guaranteed 10 years)</p>

Normal Form of Pension – Bill has pension partner

- All pensions guaranteed for your lifetime
- “Normal Form” sets out how pension is paid after your death in retirement
- Partner pensions – i.e., paying a pension for two lifetimes – has a cost
- Current pension partner normal form costs approximately 1% of salary

Current	Government Proposal
<ul style="list-style-type: none"> • Single: Guaranteed 10 years • With pension partner: 66 2/3% to pension partner 	Pre-2016: Current MEPP rules Post-2015: <ul style="list-style-type: none"> • Single: Guaranteed 5 years • With pension partner: actuarial equivalent to single form
Example: Bill has partner	Example: Bill has partner
Annual pension: \$62,500 (66 2/3% to pension partner)	Pre-2016: \$50,000 (66 2/3% to partner) Post-2015: \$5,968 (guaranteed 5 years) converted to \$5,591 (66 2/3% to partner)

Summary – Bill retires at 55

- Bill is 48 years old with 18 years of service
- He retires end of 2020 at age 55 with 25 years of service
- His highest average salary is \$125,000
- Assumes Bill elects same guarantee benefit as today if single (guaranteed 10 years)

	Current		Government Proposal	
	Single	With Pension Partner	Single	With Pension Partner
Pre-2016	\$50,000	\$50,000	\$50,000	\$50,000
Post-2015	\$12,500	\$12,500	\$ 5,925	\$ 5,591
Total	\$62,500	\$62,500	\$55,925	\$55,591
	Guaranteed 10 years	66 2/3% to partner	Guaranteed 10 years	66 2/3% to partner

Summary – Bill retires at 65

- Bill is 48 years old with 18 years of service
- He retires end of 2030 at age 65 with 35 years of service
- His highest average salary is \$125,000
- Assumes Bill elects same guarantee benefit as today if single (guaranteed 10 years)

	Current		Government Proposal	
	Single	With Pension Partner	Single	With Pension Partner
Pre-2016	\$50,000	\$50,000	\$50,000	\$50,000
Post-2015	\$37,500	\$37,500	\$36,635	\$34,039
Total	\$87,500	\$87,500	\$86,635*	\$84,039
	Guaranteed 10 years	66 2/3% to partner	Guaranteed 10 years	66 2/3% to partner

*If Bill is single and elects Guarantee 5 on post 2015 benefit, total pension would be \$87,500 same as current

Cost-of-Living – Bill

- Current guaranteed COLA costs approximately 2% to 3% of salary

Current	Government Proposal
<ul style="list-style-type: none"> Pensions increased annually at 60% of Alberta inflation (guaranteed) 	<ul style="list-style-type: none"> Pre-2016: Current MEPP rules Post-2015: Target COLA 50% of Alberta inflation, high probability but not guaranteed; funding would include allowance for COLA
<p>Example for Bill's pension</p>	<p>Example for Bill's pension</p>
<p>\$62,500 increased annually at 60% of Alberta inflation (guaranteed)</p>	<p>\$50,000 increased annually at 60% of Alberta inflation (guaranteed) \$5,925 or \$5,591 increased annually at 50% of Alberta inflation (not guaranteed)</p>

Example – Ronald

- Ronald is 58 years old with 5 years of service
- He retires end of 2020 at age 65 with 12 years of service
- His highest average salary is \$100,000

	Current		Government Proposal	
	Single	With Pension Partner	Single	With Pension Partner
Pre-2016	\$14,000	\$14,000	\$14,000	\$14,000
Post-2015	\$10,000	\$10,000	\$9,738	\$ 9,023
Total	\$24,000	\$24,000	\$23,738	\$23,023
	Guaranteed 10 years	66 2/3% to partner	Guaranteed 10 years	66 2/3% to partner

- $\$14,000 = 2\% \times 7 \text{ years} \times \$100,000$
- $\$10,000 = 2\% \times 5 \text{ years} \times \$100,000$
- $\$9,738$ or $\$9,023 = \$10,000$ adjusted for post-2015 normal form

Example – Sandra retires at 59

- Sandra is 42 years old with 4 years of service
- She retires end of 2030 at age 59 with 21 years of service
- Her highest average salary is \$150,000

	Current		Government Proposal	
	Single	With Pension Partner	Single	With Pension Partner
Pre-2016	\$18,000	\$18,000	\$18,000	\$18,000
Post-2015	\$45,000	\$45,000	\$28,390	\$26,642
Total	\$63,000	\$63,000	\$46,390	\$44,642
	Guaranteed 10 years	66 2/3% to partner	Guaranteed 10 years	66 2/3% to partner

- $\$18,000 = 2\% \times 6 \text{ years} \times \$150,000$
- $\$45,000 = 2\% \times 15 \text{ years} \times \$150,000$
- $\$28,390$ or $\$26,642 = \$45,000$ adjusted for post-2015 early retirement and normal form

Example – Sandra retires at 65

- Sandra is 42 years old with 4 years of service
- She retires end of 2036 at age 65 with 27 years of service
- Her highest average salary is \$150,000

	Current		Government Proposal	
	Single	With Pension Partner	Single	With Pension Partner
Pre-2016	\$18,000	\$18,000	\$18,000	\$18,000
Post-2015	\$63,000	\$63,000	\$61,653	\$57,379
Total	\$81,000	\$81,000	\$79,653	\$75,379
	Guaranteed 10 years	66 2/3% to partner	Guaranteed 10 years	66 2/3% to partner

- $\$18,000 = 2\% \times 6 \text{ years} \times \$150,000$
- $\$63,000 = 2\% \times 21 \text{ years} \times \$150,000$
- $\$61,653$ or $\$57,379 = \$63,000$ adjusted for post-2015 normal form

Example - John

- John is 52 years old with 26 years of service
- He retires end of 2017 at age 56 with 30 years of service
- His highest average salary is \$125,000

	Current		Government Proposal	
	Single	With Pension Partner	Single	With Pension Partner
Pre-2016	\$70,000	\$70,000	\$70,000	\$70,000
Post-2015	\$5,000	\$5,000	\$2,536	\$2,385
Total	\$75,000	\$75,000	\$72,536	\$72,385
	Guaranteed 10 years	66 2/3% to partner	Guaranteed 10 years	66 2/3% to partner

- $\$70,000 = 2\% \times 28 \text{ years} \times \$125,000$
- $\$ 5,000 = 2\% \times 2 \text{ years} \times \$125,000$
- $\$2,536 \text{ or } \$2,385 = \$5,000 \text{ adjusted for post-2015 early retirement and normal form}$

Contribution Rates

- Government proposal:
 - Member contribution rates for closed MEPP to be tied to PSPP member rates for portion of PSPP benefit at 2%
 - Remaining costs borne by employers

Question Period

Plan Governance

Current Governance

- The President of Treasury Board and Minister of Finance is the statutory administrator of MEPP, and holds all assets of the Plan in trust to provide benefits pursuant to MEPP rules and to meet plan costs.
- *The Public Sector Pension Plans Act* defines MEPB's role – MEPB acts essentially in an advisory capacity

Plan Governance

MEPB Recommendations	Government Proposal
<p>Recommended Minister's review should aim at:</p> <ul style="list-style-type: none">• Improve clarity on who is sponsor and the sponsor roles & responsibilities• Sponsor & trustee should be separated and trustee empowered to manage plan and deliver on sponsor objectives• Cost sharing, going forward, should be clearly established as 50:50 between employers and employees	<ul style="list-style-type: none">• PSPP, SFPP & LAPP to be jointly sponsored• MEPP Board replaced by Advisory Committee as of January 1, 2016• Government continues as MEPP sponsor and trustee

Question Period

Next Steps

- Summary of member questions and concerns from all MEPP Information Sessions will be provided to the Minister
- Review all the information on <http://pensionsustainability.alberta.ca>
- Provide your feedback by December 31st to pensionreform@gov.ab.ca