

Community Living Agencies

Network Society

Inaugural Annual General Meeting

Pension Arrangements

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Agenda

- What is a Pension Plan?
- Different Types of Retirement Arrangements
 - Defined Benefit
 - Define Contribution
 - Group RRSP
 - DPSP

Agenda

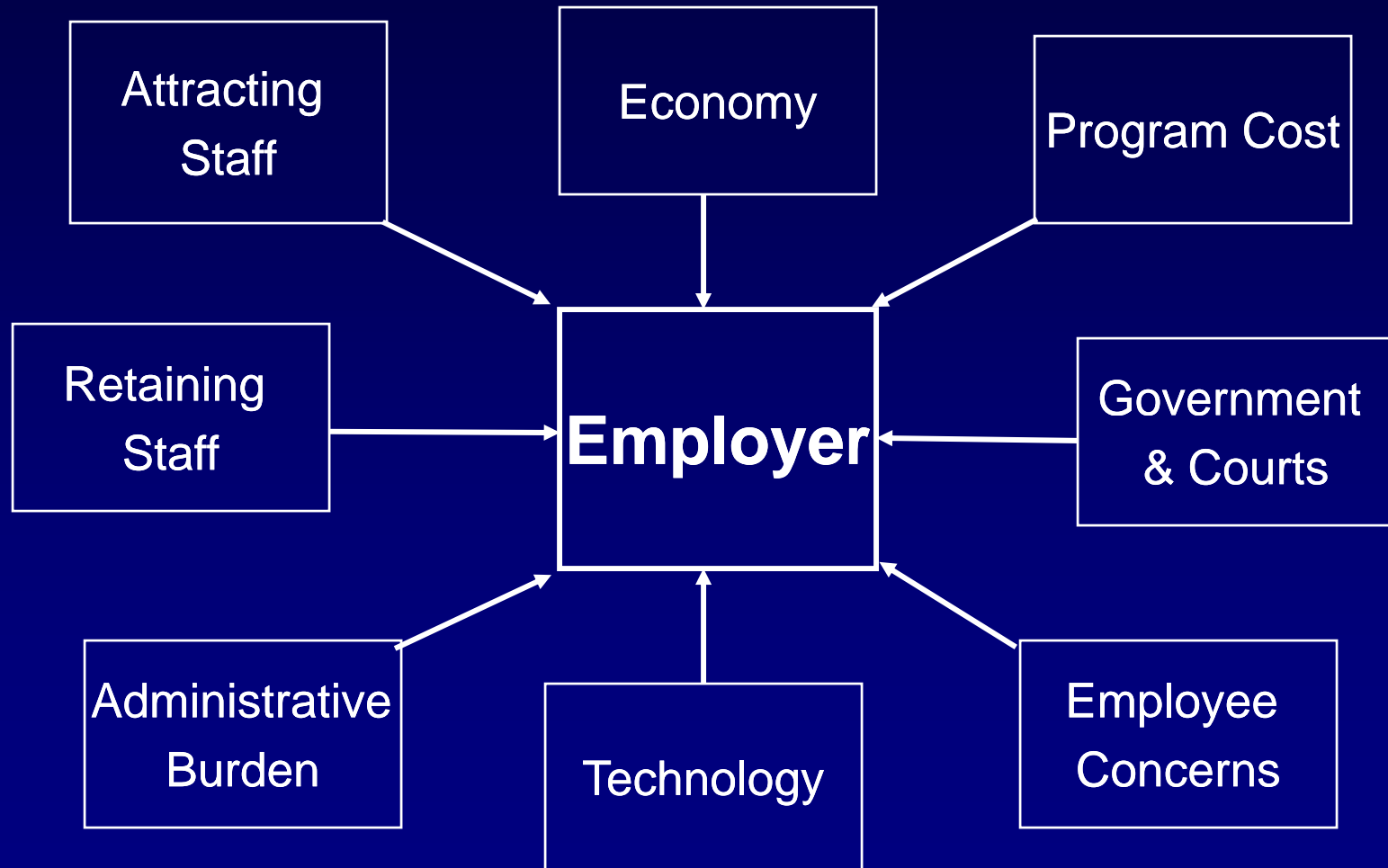
- Pros and Cons
 - For the employer
 - For the employee
- Investments
- Risk
- Cost
- Administration

Agenda

- Pension Arrangements in an Association
- Benefit Arrangements in an Association
- Getting Started
- Questions



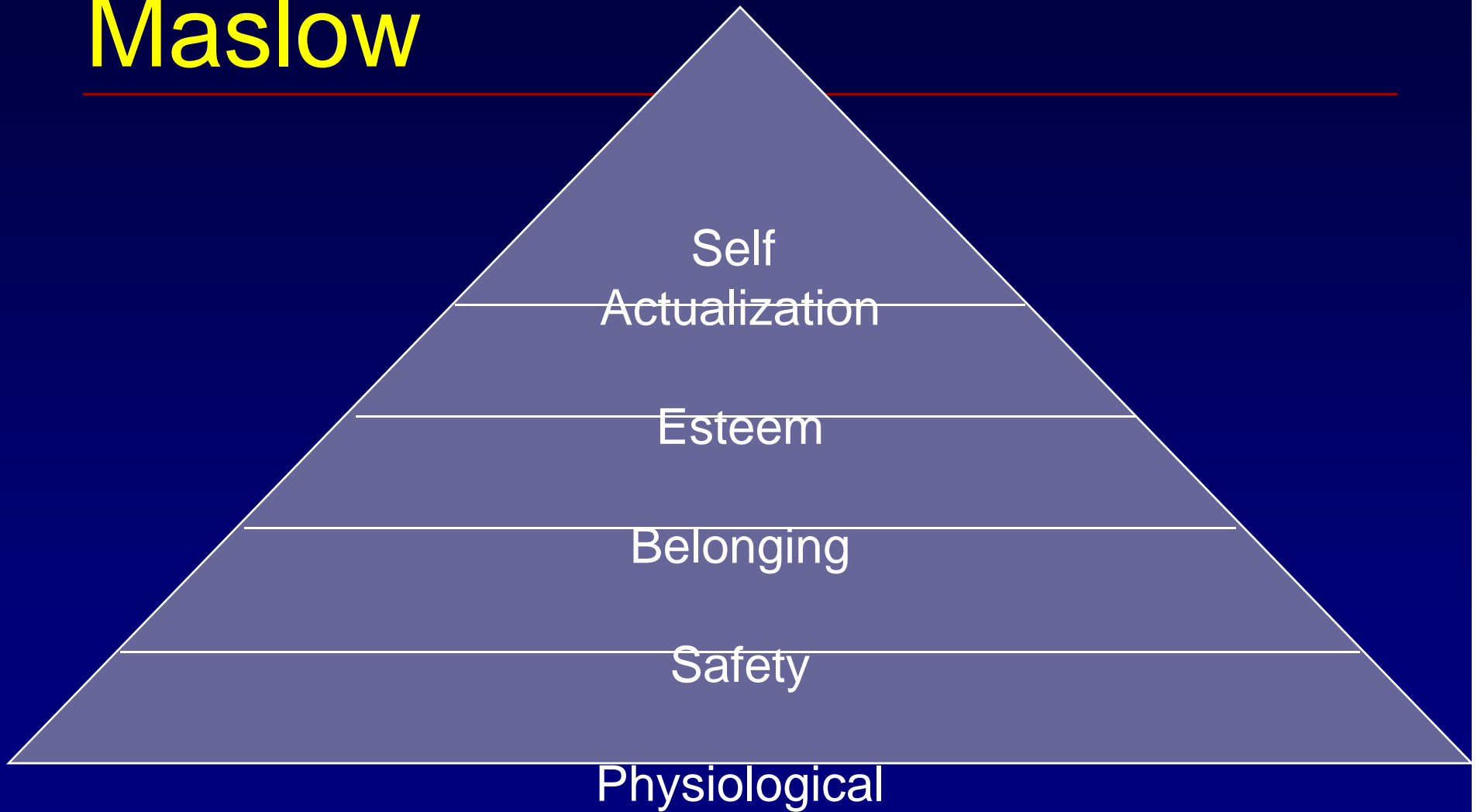
Pressures Faced by Employers



Why sponsor a Pension or Benefit Program?

- Attraction
- Retention
- Meet basic personal needs, thereby allowing other engagement programs to thrive

Maslow



What is a Pension Plan?

- A formal arrangement structured to provide a future income for a person
- A deferral of wages that become payable in the future

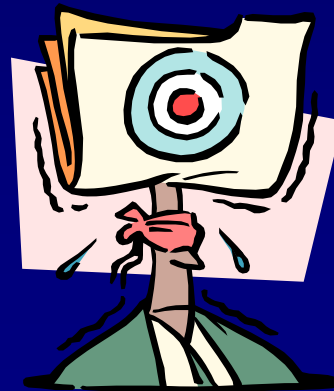
Pension Arrangements

- 3% to 13% of Payroll



Hot Issues

- Fiduciary Responsibilities
- Benefit Adequacy
- Investment Communication
- Investment Volatility



Types of Pension Plans

Defined Benefit (DB):

- The employer **defines the benefit** the employee will receive and the cost element is variable.

Defined Contribution (DC):

- The employer **defines the contribution** and the pension benefit the employee receives is variable.

Pension Arrangements

Defined Benefit

Career Average

Final Average

Flat Benefit

Defined Contribution

Defined Contribution

Group RRSP

DPSP

Defined Benefit Pension Plan

- Defines the amount of benefit an employee receives at retirement
- Pension is paid until death of the employee or death of the employee spouse if surviving the employee
- Benefit is defined/cost is unknown
- Money is “vested” and must be used for a retirement income
- No individual investment choice

Defined Benefit Pension Plan

Career Average Plan:

The pension amount is determined by annually earning credits that are multiplied by the number of years of service. (i.e. 2% of salary for each year of service)

Final or Best Average Plan:

The benefit amount is the average earnings of the last five years or greatest five earning years, multiplied by the number of years and by a benefit formula.

Flat Benefit:

Employees receive a flat benefit amount times the number of years of service.

Municipal Pension Plan

- 2% x number of years worked x 5 year highest average salary (less integration)
 - 25 years, average salary \$50,000
 - $.02 \times 25 \times \$50,000 = \$25,000/\text{year}$

- * All figures are estimated and rounded for illustration purposes

Municipal Pension Plan

■ Contribution rates

- Employee 6.99%
- Employer
 - 6%-7% under age 50
 - 10% - 11% over age 50

- * All figures are estimated and rounded for illustration purposes

Pension Challenges

- Conference Board found that 30% of surveyed large employers have/are in the process/or are planning to wind up their DB plans, moving to DC

Pension Challenges

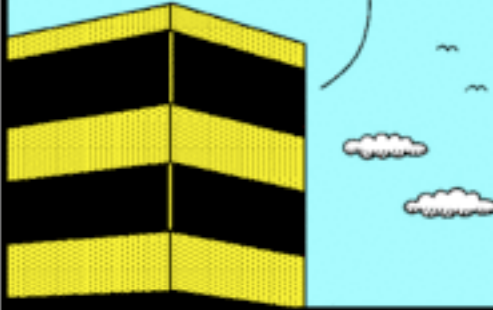
- Low interest rates
- Volatile markets
- Accounting rules

MANAGEMENT IS PLEASED TO ANNOUNCE THAT IT HAS A PLAN TO MAKE YOUR PENSION FUND SOLVENT.



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OUR CEO REMINDS YOU THAT SMOKING IS COOL.



Defined Contribution Pension Plan

- Benefit is unknown/cost is defined
- Works like a bank account
- Money is “vested” and must be used for a retirement income
- Individual investment choice

Group Registered Retirement Savings Plan

- Benefit is unknown/cost is defined
- Works like a bank account
- This program is similar to the individual RRSP, but is administered on a group basis.
- Individual investment choice

Pros - Employer

Defined Benefit

- ✓ Will attract senior mid-career employees

Defined Contribution

- ✓ Inexpensive administration
- ✓ Predictable cost

Cons - Employer

Defined Benefit

- ✓ Cost is impacted by investment earnings
- ✓ Communication challenges
- ✓ Volatile contribution amounts
- ✓ Expensive administration

Defined Contribution

- ✓ Less appearance of guarantee
- ✓ Benefit is not easily predictable
- ✓ Communication challenges

Pros - Employee

Defined Benefit

- ✓ Better benefits for older employee (+45)
- ✓ Benefit is predictable based on earnings
- ✓ Benefit amount is guaranteed - to the extent of the strength of the employer

Defined Contribution

- ✓ Bank account metaphor
- ✓ Better for younger mobile employees
- ✓ Investments and time may create a better retirement
- ✓ More flexibility at retirement
- ✓ Individual management

Cons - Employee

Defined Benefit

- ✓ Younger employees fund the cost
- ✓ Difficult to understand

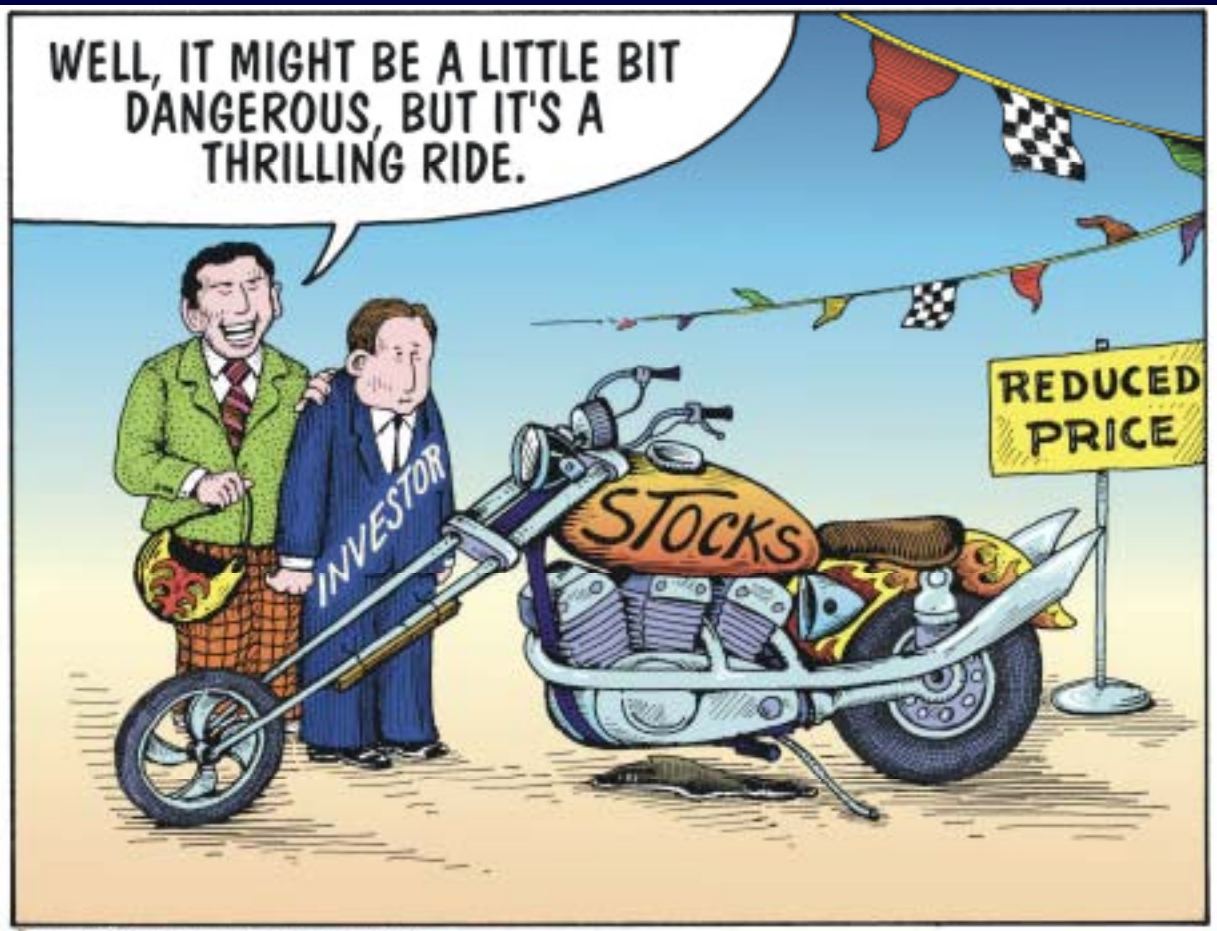
Defined Contribution

- ✓ Ultimate benefit is not guaranteed
- ✓ Must manage own investments

The GRRSP

- Advantages:
 - Defined contribution amount is planned and defined. Contribution requirements are not subject to investment fluctuation.
 - Less fees
 - Less regulation
- Disadvantages
 - The development of a vesting schedule is administrative only

WELL, IT MIGHT BE A LITTLE BIT DANGEROUS, BUT IT'S A THRILLING RIDE.



Investment

- Range of investment alternatives
 - Guaranteed
 - Equity
 - Fixed income
 - International
 - Lifecycle Funds
- Communication and Education is vital

Risk

- Defined Benefit Plan
 - Investment risk lies with the employer
- Defined Contribution Plan
 - Investment risk lies with the employee

Cost

- Defined Benefit Plan

- Cost is volatile based on investments, terminations, mortality

- Defined Contribution Plan

- Cost is defined as chosen by the employer

Administration

- Simple is better
- Employee education and communication is key



"I lift, you grab. ... Was that concept just a little too complex, Carl?"

Administration

■ Vesting

- Possible under a Registered Pension Plan
- Not possible under a Group RRSP, but can be managed

Employee Vesting

- Employees are vested immediately upon receipt of employer contributions. However, funds cannot be withdrawn while the individual is employed, except under special circumstances.
- If funds are withdrawn, the employee forfeits the right to employer contributions for the next 12 months

Association Style Pension Arrangements

- Economies of scale - increased purchasing power
- Employee portability (if appropriate)
- Funding consistency
- Governance and Oversight

Association Style Benefit Arrangements

- Economies of scale - increased purchasing power
- Spread of risk
- Employee portability (if appropriate)
- Funding consistency
- Governance and Oversight

Next Steps

- Form a working committee to establish
 - Key opportunities
 - Areas for collaboration
 - Target Funding Requirements

Discussion



POINTBREAK
human resource and financial consultants in employee benefits