

To Plan members, employers, unions  
and associations  
From Municipal Pension Board of Trustees  
September 22, 2010



### **Contribution rates increasing on July 1, 2011**

Municipal Pension Plan member and employer contribution rates are increasing on July 1, 2011 as a result of the recent valuation. Member contribution rates and employer contribution rates for member groups 1, 2, 3, and 4 will both increase by 0.81 per cent of salary. Member and employer contribution rates for member group 5 will increase by 0.86 per cent of salary.

The contribution rate increase follows an actuarial review of the Plan's funding status, which occurs every three years. This independent actuarial valuation showed the Plan had an unfunded liability for basic pension benefits of approximately \$1,024 million on December 31, 2009. An unfunded liability occurs when the money projected to be available to pay future pensions (assets) is less than the projected costs of paying for those pensions (liabilities).

The unfunded liability is a result of several factors, including impacts from the recent global financial crisis, lower expectations for future investment returns and increased retiree longevity.

The Municipal Pension Plan is stable and secure and remains properly funded while navigating in an extremely challenging global economy. The Municipal Pension Board of Trustees (MPBT) is acting prudently to ensure the Plan is able to guarantee the basic pension benefits promised to all of its members.

The Plan's current financial position is changed from 2006, when the Plan had a surplus of \$438 million. While there was no change to the contribution rates in 2006, there had been an increase after the 2003 valuation.

Under provisions of the *Pension Benefits Standards Act* (PBSA) and the Joint Trust Agreement, the MPBT is required to hire an actuary to conduct a valuation of the pension plan at least every three years. In undertaking the valuation, the actuary must follow the requirements of the PBSA and other legislation, and is guided by professional standards set by the Canadian Institute of Actuaries.

The full valuation report is available on the Plan's website, [mpp.pensionsbc.ca](http://mpp.pensionsbc.ca), under Plan Governance/Board Governance/Board Policies and Documents.

See page 2 for questions and answers about the contribution rate increase.

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## Questions and Answers

**Q** *As a Plan member, what are my new contribution rates going to be?*

**A** That depends on which of the five member groups you belong to. The majority of Plan members are in groups 1 and 4. Group 3 is a small, closed group. Groups 2 and 5 are limited to police officers and firefighters. You can confirm which group you belong to by referring to your *Member's Benefit Statement* or checking with your employer.

### Contributions to the basic account as a percentage of salary

	Member groups 1, 2, 3 and 4		Member group 5	
	Old rates	Rates effective July 1, 2011	Old rates	Rates effective July 1, 2011
Below YMPE*				
Basic	5.99%	6.8%	7.46%	8.32%
Above YMPE*				
Basic	7.49%	8.3%	8.96%	9.82%

\* The YMPE is the Year's Maximum Pensionable Earnings for the Canada Pension Plan. The YMPE for 2010 is \$47,200. The YMPE for 2011 will be announced later this year.

**Q** *Why are member group 5's contribution rates higher than the other member groups?*

**A** Group 5 is a new member group for police officers and firefighters that was recently approved by the MPBT. This group has a higher pension accrual rate, which requires higher contribution rates.

**Q** *Do I make any other contributions to the Municipal Pension Plan?*

**A** Yes. You also contribute an additional one per cent of your salary toward the Plan's Inflation Adjustment Account (1.42 per cent if you are in group 5). These percentages have not changed as a result of the 2009 actuarial valuation. The inflation adjustment account (IAA) is used to fund cost-of-living adjustments.

Future cost-of-living adjustments are not guaranteed, but once granted they become part of your guaranteed basic pension benefit.

The MPBT must annually consider all relevant factors to determine if a cost-of-living adjustment will be provided. Future cost-of-living adjustments are granted at the discretion of the Board, subject to the limits in the Plan Rules and the *Income Tax Act*.

**Q** What is the total percentage of my salary that will be going toward the Municipal Pension Plan as of July 1, 2011?

**A** 7.8 per cent of your earnings below the YMPE and 9.3 per cent of your earnings above the YMPE if you are in member group 1, 2, 3 or 4.

9.74 per cent of your earnings below the YMPE and 11.24 per cent of earnings above the YMPE if you are in member group 5.

**Q** What are the rates for employers going to be?

**A** Basic employer contribution rates for each employee group (1, 2, 3, 4 and 5) are contained in the Plan Rules and are set by the Board. However, individual blended employer contribution rates are calculated annually based on the group, age and salaries of the Plan members who work for the employer. This composite rate is provided each year by June 1 for use as of July 1st.

The valuation results also impact the blended rate. In 2011, the blended rate will increase as a result of the 0.81 per cent increase in employer rates (0.86 per cent increase for group 5).

The IAA rate is added to the blended rate to determine the overall employer contribution rate.

**Basic Employer Contribution Rates effective July 1, 2011**

	Age	Group 1 (%)	Group 2 (%)	Group 3 (%)	Group 4 (%)	Group 5 (%)
Under YMPE	Under 50/45*	5.20	8.80	5.90	5.70	10.32
	Over 50/45	10.10	17.30	11.50	11.10	18.82
Over YMPE	Under 50/45	6.70	10.30	7.40	7.20	11.82
	Over 50/45	11.60	18.80	13.00	12.60	20.32
IAA rate on full salary		1.00	1.00	1.00	1.00	1.42

\* The age for "doubling" of employer contribution rates is 50 for groups 1 and 4, and 45 for groups 2, 3 and 5. Group 1 includes males other than police officers and firefighters. Groups 2 and 5 include male and female police officers and firefighters. Group 3 is a closed group of females. Group 4 includes females other than police officers and firefighters.

**Q** Why are the rates going up?

**A** In order to guarantee payment of the pension benefits you are earning today we must put more money into the Plan. With lower rates of return expected in the future, retirees living longer and relatively weak investment performance over the past several years, we have seen an erosion in the funding for pension benefits. Taking this all into account, the MPBT has determined we will need this extra money to ensure your pension benefit is there when you need it.

**Q** *Should I be worried about whether there is enough money in the Plan to provide the benefit I was promised?*

**A** No. There is no need to be worried. Current and future pensions will continue to be paid according to the Plan Rules. However, the board is required to take steps to return the Plan to a fully funded position. That means an increase in contribution rates on July 1, 2011.

**Q** *I didn't get a salary increase or cost-of-living adjustment this year. Why shouldn't employers have to pay the full increase in the cost of my benefits?*

**A** If the valuation shows that an increase is required, the Joint Trust Agreement requires that all base contribution rate increases be split equally between members and employers.

**Q** *How much will my pension be worth when I retire?*

**A** Your pension is based on your salary and years of service while contributing to the Plan. Log in to My Account on the Plan's website to access your personalized pension estimator. You can run unlimited scenarios based on when you might choose to retire. My Account also gives active members access to service and salary information as well as their annual *Member's Benefit Statement*.

**Q** *What about Special Agreement (SA) contributions? Are they changing?*

**A** No. An SA is an agreement entered into by the Board with an employer that provides for employer and member contributions in addition to those required to fund the basic pension benefit. SAs are money purchase arrangements, meaning that the member's benefit is based on the value of the contributions made and the investment return on those contributions. SA rates do not change as a result of an actuarial valuation of the basic account.

**Q** *I am planning to purchase some past service. Will the change in contribution rates have any effect on my purchase cost?*

**A** Yes. Purchase of service will cost more after June 30, 2011.

For more information, visit the MPP website at [mpp.pensionsbc.ca](http://mpp.pensionsbc.ca).

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