Brock University

Brock University Pension Plan Member Update

New mortality table to be introduced for the Plan

To continue our ongoing efforts to provide information to Plan members of the Brock University Pension Plan ("the Plan"), this update explains the impact on your pension of the adoption of a new mortality table for pension calculations. You may already be aware of this change if you attended the Annual Pension Meeting on June 19, 2015.

Earlier this year, the Financial Planning, Investment and Human Resource (FPIHR) Committee, on recommendation from the Pension Committee, approved the implementation of an updated mortality table for the Plan, as recommended by Mercer, the actuary for the Plan. This change is required to ensure that Plan members receive the appropriate pension based on anticipated average life expectancy.

Improvements in life expectancy

The new mortality table reflects improvements in life expectancy in Canada as measured by the recently released Canadian Pensioners' Mortality (CPM) study by the Canadian Institute of Actuaries (CIA). While it is good news in general that Canadians are living longer, increased longevity also makes pensions more costly. A longer lifespan means that the assets built up in Plan members' Money Purchase Accounts must be allocated over a longer time period.

Adjusted pension calculations become effective July 1, 2016

Effective July 1, 2016, Brock will use the new mortality table to convert Money Purchase Account balances into mortality rate-adjusted pensions and to determine other actuarial equivalent calculations. Money Purchase Pension amounts will decrease to account for members' anticipated longer life expectancy.

What does the new mortality table mean to you?

For Active and Deferred Plan members

The new table will come into effect immediately on July 1, 2016.

The decrease to your Money Purchase Pension amounts calculated at retirement will vary depending on your age and the year your pension starts.

What is a mortality table and why does it matter?

A *mortality table* shows the rate of deaths occurring in a defined population during a selected time interval, or survival from birth to any given age. Statistics included in the mortality table show the probability of a person's death before their next birthday, based on their age.

Mortality is a key assumption in any pension plan calculation and a mortality table is used in several significant ways. Pension plan administrators and actuaries use a mortality table to more accurately project life expectancy based on gender. They also use mortality tables to convert Money Purchase Account balances to pensions, calculate commuted (lump-sum) values at termination for members who are transferring their benefit out of a plan, and to determine the long-term cost of pension plans in actuarial valuations.

Example of change: Meet fictional Plan member Emma

Emma is looking forward to enjoying her retirement years with her spouse, starting in the summer of 2016.

When Emma retires next year on or after July 1, 2016 at age 65, with a joint-and-survivor 60% pension, she would experience a 3.8% decrease in her starting Money Purchase Pension amount compared to the amount produced by the current mortality tables.

This reduction would account for Emma living longer than previously anticipated and would enable her pension, and her spouse's survivor's pension following her death, to be paid over what is expected to be their longer life span in retirement.

Emma's monthly Money Purchase Pension would be $3,169, based on a Money Purchase Account balance of $500,000 at retirement. (Previously, Emma's monthly Money Purchase Pension would have been $3,294, for a difference of $125 per month.)

For Pensioners

Pensioners in receipt of pension as of June 30, 2016 will have the new table phased in over a maximum of three years starting on July 1, 2016, as shown in the example below.

The change will result in approximately a 4% decrease in your monthly Money Purchase Pension and will be phased in gradually at a rate of 1.3% to 1.4% per year over a maximum of three years (or sooner if the pension fund's rate of return exceeds 6%).

Example of change: Meet fictional Plan member Jakob

Jakob retired from Brock University several years ago and in addition to a monthly benefit from the Canada Pension Plan and Old Age Security, he receives a pension from the Plan.

The following table shows how Jakob's current monthly Money Purchase Pension of $4,000 will gradually decrease to $3,841 as the change is phased in over the next three years (or sooner if the pension fund's rate of return exceeds 6%) to account for the anticipated longer life expectancy of all Plan members.

THREE-YEAR PHASE-IN OF NEW MORTALITY TABLE	Monthly pension from July 1, 2016 to June 30, 2017	Monthly pension from July 1, 2017 to June 30, 2018	Monthly pension from July 1, 2018
Current monthly pension: $4,000	$3,947	$3,894	$3,841
Decrease:	$53	$53	$53
Approximate % change:	1.3%	1.3%	1.4%

Possible shortening of the phase-in schedule

In the event that the pension fund's rate of return is higher than 6%, any excess amount would be applied to shorten the phase-in period for the mortality table changes. Therefore, if the pension fund rate of return is higher than 6%, the changes could be phased in sooner than the three years originally scheduled.

Questions & Answers

If you have any questions about the new mortality table or are considering retirement in the near future, please contact Janice Facey (see contact information at the end of this document) for a pension projection. Questions & Answers are also included below for your reference and more detailed information related to the operation of the Plan can be found in the Plan Booklet located on the pension website www.brocku.ca/webfm_send/15609.

1. **What aspects of the pension plan will change on July 1, 2016?**

Updated mortality tables will be implemented for the calculation of Plan members' Money Purchase Pension amounts.

2. **Does this impact the calculation of my Minimum Guaranteed Pension amount?**

No. There is no impact to the calculation of Minimum Guaranteed Pensions.

3. **How have life expectancies changed, according to the new mortality table?**

The new mortality table indicates that the life expectancy for males after reaching age 65 is +23.1 years (or age 88.1), which is an increase of +2.0 years over the life expectancy that was projected using the previous mortality table.

For females, life expectancy after reaching age 65 is + 25.0 years (or age 90.0), which is an increase of +1.6 years over the life expectancy that was projected using the previous mortality table.

4. **What is the impact of the new mortality table?**

On one hand, the new mortality table represents a positive change for people in general – because it shows we are living longer. But on the other hand, a longer average lifespan also means a pension has to be calculated assuming it will be stretched over a longer period, resulting in a downward adjustment on each monthly payment.

As a result of implementing the new table, monthly Money Purchase Pension amounts for all members will decrease to account for the anticipated longer life expectancy.

For active and deferred members, Money Purchase Pension amounts calculated at retirement will decrease. The amount of the decease will vary depending on age and year of retirement.

For pensioners, Money Purchase Pensions will decrease by aproximately 4%. This decrease will be phased in gradually over a maximum of the next three years (or sooner if the pension fund's rate of return exceeds 6%) to account for pensioners' anticipated longer life expectancy. The gradual phase-in of these changes is designed to give pensioners more time to adapt to the adjustment in income.

5. **Is this the first time the mortality table used by the Plan has been changed?**

No, the Plan's mortality table changes periodically based on recommendations from the Plan's Actuary. The current mortality table is based on studies originating back to 1994. It was adopted on July 1, 2010 and was implemented immediately for active and deferred members. Initially, it was planned to be phased in over three years for pensioners; however, the actual phase-in period for pensioners spanned only two years due to excess fund returns over 6% during that time period.

6. **Why change the mortality tables now?**

For many years, Canadian pension actuaries accessed primarily U.S.-based pension mortality tables to help them arrive at their assumptions. Recently, updated Canadian mortality information has become available. The Canadian Institute of Actuaries (CIA) issued its first-ever Canadian Pensioners' Mortality experience report in February 2014 based on its study of Canadian registered pension plans mortality experience. The report included mortality tables by sector as well as scales for projecting future improvements in mortality.

7. **How are pensions in the Plan adjusted annually?**

The pension amount you receive from the Plan is the greater of the annuity that can be provided by your Money Purchase Account and the Minimum Guarantee Pension. After your pension starts, the Money Purchase

Pension and Minimum Guarantee Pension are adjusted every July 1.

The **Money Purchase Pension** is adjusted (up or down) if the Plan's experience differs from the assumptions used in calculating the starting pension, that is:

- If the fund rate of return is different from 6%, and
- If the mortality of the pensioner group is different than assumed.

The **Minimum Guarantee Pension** is increased by the lesser of 2% and the change in the Consumer Price Index (CPI).

After both pension amounts have been adjusted, they are compared to see which is greater; the greater amount becomes the pension payable starting July 1.

Contact Information:

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