member news

Municipal Pension Plan

Municipal Pension Plan Pensions are Secure

The current turmoil in the financial markets has generated concern among pension plan members about the impact that this volatility may have on their pensions.

Speaking on behalf of the Municipal Pension Board of Trustees, Board Chair Ken Bayne said, "It is important to remember that the basic pension benefit for plan members is guaranteed. This means that even when there is short term volatility in the financial markets, basic pension benefits will not be affected. The Board would like to reassure plan members that their pensions are secure."

As a member of the Municipal Pension Plan, your defined benefit pension guarantees you an income for life after you retire. The amount of that pension payment will depend on your years of service and earnings while you worked, not the state of the markets at any time before or after your retirement.

When you retire, we will confirm the exact amount of the pension you will receive and when the payment will arrive, and you can be assured the payment will continue, unaffected by the markets.

The Municipal Pension Board of Trustees works with the Plan's investment agent, the British Columbia Investment Management Corporation (bcIMC), in making prudent investment decisions about the Plan's assets of over $25-billion. Those investment decisions are made within the investment policy framework set by the Municipal Pension Plan trustees.

In the fiscal year ending December 31, 2007, the Plan's investments generated a 4.4 per cent return to the Plan. Over the last decade, the annualized rate of return has been 7.5 per cent.

The Plan's funds are invested through bcIMC. Although bcIMC expects market volatility to continue into 2009, bcIMC and the Board of Trustees believe that the Municipal Pension Plan is well placed to weather this environment in a number of ways:

- bcIMC had been expecting this market correction for some time and positioned the Plan's investments defensively (for example, underweighting equities and increasing cash);
- The Plan's investments are well-diversified across a wide range of asset classes including cash, government bonds, stocks, real estate, and infrastructure (e.g., utilities, roads and bridges); and
- bcIMC is not directly exposed to the risky products at the root of the upheaval such as subprime mortgages, non-bank sponsored asset backed commercial paper, credit default swaps, or hedge funds. Furthermore, bcIMC does not use leverage, or borrowing, in the public markets.

However, while the long-term outlook for the Plan's investments is positive, they are not completely immune from broad market impacts. Short-term volatility will impact short-term performance, but the long-term investment returns of the Plan remain strong and, as a long-term investor, the Plan is well positioned to weather the recent events of the financial markets.

We have attached some member questions and answers for additional information.

Municipal Pension Plan

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What Members Are Asking

Q *Who guarantees the pension—provincial or federal government?*

A Your pension is guaranteed because the nature of the pension plan is a defined benefit: your pension is based on a formula that takes account of your years of pensionable service (the amount of time on which you made contributions) and your highest average salary at retirement.

In addition, the Plan's Joint Trust Agreement requires the Trustees to raise the contribution rates if the actuary determines there is not enough money in the Plan to pay the guaranteed pension benefit.

Inflation adjustments (increases to pensions to offset inflation) become part of the basic pension once they have been applied. However, future inflation adjustments are not guaranteed. Post-retirement group benefits (extended health and dental coverage) are not pension benefits and are not guaranteed. These health benefits and any subsidies that may be provided for them can be changed by decision of the Board of Trustees at any time.

Q *What amount is guaranteed?*

A The amount that is guaranteed is the basic pension, which is calculated in accordance with the formula described above, and any inflation adjustments that have been made to a pension. As noted above, future inflation adjustments and post-retirement group benefits are not guaranteed.

Q *What types of funds is the money invested in?*

A You can review the Plan's asset allocation on the Plan website. Click on **About the Plan** and then **More** in the Investment Holdings portal. You will see that the Plan's investments are diversified between fixed income (cash, money market, bonds, etc) and equities (shares in companies in Canada, the United States and across the world) as well as real estate and alternative assets.

Q *If the invested pension funds are reduced significantly, to a point where the fund cannot pay all of the required pensions, what happens? Are pensions still guaranteed, and how?*

A The Municipal Pension Plan is a very large plan with retirees and active members at various stages in their pension life cycle. Although the markets are down at this point in time, the Plan has a very long-term time frame over which to take in contributions, invest them and pay out pensions.

Every three years there is an actuarial valuation of the Plan. The actuary estimates the total dollar value of:

- the pensions that are being paid,
- the pensions that have been earned to date by active members (but are not yet being paid), and
- future basic pensions.

The actuary also estimates:

- the total dollars available to pay these pensions, including money already invested,
- contributions that will be made by members and employers, and
- anticipated investment returns on those contributions.

If the estimated amount of pensions is less than the estimated dollars available to pay pensions, there is a surplus. If the estimated amount of pensions is more than the estimated dollars available to pay pensions, there is an unfunded liability. When there is an unfunded liability, contribution rates for active plan members and employers are increased so that, over a 15-year period, this unfunded liability is paid off.