in concert

Helping you understand your pension plan

June 2013

Musicians' Pension Fund of Canada

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in concert covers general pension issues and explains how your pension plan works.

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Recapping recent Plan changes

As announced in December 2012, changes were made to the Plan effective January 1, 2013 to comply with provincial funding requirements and help protect the Fund's long-term sustainability. This article summarizes the key changes and responds to questions and comments submitted by members.

Putting Plan benefits on a self-funding basis

How benefits were funded before 2013

The Plan benefit has been calculated as $3.25 of monthly pension for every $100 contributed. This "$3.25 per $100" formula is just a way of expressing the *amount* of benefit, not how much it *costs* to provide. The actual average funding cost of a $3.25 monthly lifetime pension is $165. Therefore, every $100 coming into the Fund required an extra $65 from the Fund's surplus to pay for the full cost of providing the pension.

Since the surplus has shrunk considerably in recent years, this situation could not continue much longer, and pension legislation prohibits the Fund from using surplus to fund benefits. Something had to be done to bring contributions and benefit costs into balance.

Funding benefits on and after January 1, 2013

As of January 1, 2013, the benefit will still be calculated using the "$3.25 per $100" formula, but now only half the contributions made on the member's behalf will be used in this calculation. In effect, this reduces the benefit by one-half. The full amount of contributions is still required to fund the cost of the benefit.

With this change, contributions coming into the Fund are expected to be sufficient to fund the full cost of the benefit as it is being earned.* This means the Plan benefits will be self-funding.

** As determined by the Fund's actuary using a number of assumptions, including average investment returns of 6.5% per year, with a small buffer for unpredictable variations.*

Other Changes

Early retirement reduction:

If you retire early, a full actuarial reduction will apply to your post-2012 benefit to account for the cost of paying your pension for a longer time. This allows members to select the retirement age that's best for them while having a neutral effect on the cost to the Plan. (The portion of any pension earned before 2013 can still qualify for a Special Retirement pension.)

Single benefit rate:

The same rate – $3.25 per month per $100 – now applies to all regular contributions, including those between 10% and 12% of scale, as well as those above 12% of scale.

Note: Contributions are determined by the applicable collective bargaining agreement and are subject to a limit of 18% under income tax law.

For more information about the recent Plan changes, see "You asked us" on the next page.

You asked us

Why were changes needed?

The benefits that were being earned prior to 2013 were so generous that they cost much more than the contributions on which they were based. The benefit rate was even questioned in the past by the Canada Revenue Agency (CRA) for being so high.

Fundamental adjustments were needed soon to bring the Fund's income and expenses into balance (see "The Bottom Line" below) and to adjust to the prevailing conditions in which the Fund must operate (see sidebar).

Why was such a big change made all at once?

Recent changes to Ontario pension law, as applied by the Pension Regulator, require benefits and expenses to be funded **only** by the contributions made while the benefits are being earned and by the investment income these contributions are expected to generate, and **not** by any surplus. Our Plan is registered in Ontario and must comply with this law no later than January 1, 2013. (Most other provinces have similar requirements.)

Why didn't the Trustees just cut the benefit accrual rate in half?

This would indeed be simpler and have the same result as using only 50% of contributions to calculate the benefits. However, if conditions were to improve in the future and we tried to raise the rate again, we might be more likely to run into problems with the CRA.

Are these changes fair to all members?

Whether you are just starting out or approaching retirement, you will earn the same amount of benefit for each dollar of contributions made on your behalf for post-2012 engagements.

Benefits earned in prior decades were accumulated during a time when investment earnings were higher and pension costs were lower. The contributions made to the Fund and investment earnings on these contributions were more than sufficient to support the cost of benefits being earned. This generated a large surplus which, in more recent years, helped fund the benefits

of members – both younger and older – when contributions and investment earnings had fallen well below the actual cost of the benefits (see page 1).

With the January 1, 2013 changes, the benefits provided by the Fund will once again be in line with the amount of contributions coming in to support them.

Does that mean my own contributions are directly funding my benefits?

Not exactly. In an RRSP or Defined Contribution Pension Plan, each person's retirement income depends entirely on the funds accumulated in their own individual account. By contrast, our Fund provides predictable benefits based on a formula, and all contributions made on behalf of our members go into the Fund to provide these benefits.

(cont. on page 3)

Adjusting to Prevailing Conditions

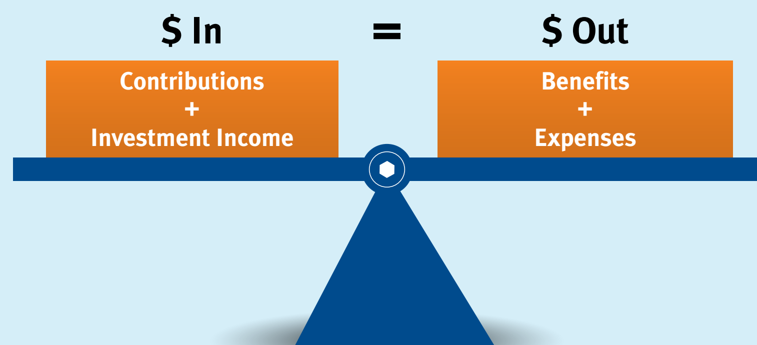
Investment conditions have been very challenging for pension funds in the past few years. Our Fund's recent results are encouraging (10.5% for 2012), but they are still a long way from making up the investment losses incurred in recent years. Financial markets continue to be quite volatile and, on average, are generating lower rates of return than in earlier decades, even after adjusting for short-term fluctuations.

At the same time, extremely low interest rates have greatly increased the cost of providing monthly pension payments. Individuals are also living longer, so they receive more pension payments. All of these factors make pensions more costly to provide.

Like other pension plans in Canada and around the world – especially those that aim to provide predictable, formula-based benefits – we need to adjust to today's realities in order to keep the Fund healthy and sustainable for many years to come.

The Bottom Line of Multi-Employer Pension Plan Funding

In many ways, MPF (Canada) works like a Defined Benefit (DB) pension plan sponsored by a single employer: it has predictable benefits based on a formula, takes advantage of economies of scale that come from being part of a large pool (e.g. for investment management and administration), and operates under professional oversight. However, unlike a regular DB plan, our Fund has many participating employers whose only commitment is to remit contributions as set out in a collective bargaining agreement – we can't go back to them for more money if there is ever a shortfall. That's why the Trustees must be prudent and maintain a balance between the money coming into the Fund and the money flowing out:



All risks (e.g., investment results, interest rates) are equally shared by all Plan members. The Trustees manage the Fund carefully to try to ensure that the funds available will be sufficient to provide every member's benefits.

Why weren't accrued benefits reduced?

Certain provinces restrict the Fund's ability to reduce benefits that have already been earned, and the Trustees wanted to maintain harmonized benefit levels across the country. In any case, the Fund still has the resources to fund the cost of accrued benefits, so no reduction is needed.

If only 50% of contributions are used to calculate benefits, where does the other 50% go?

All contributions go to the same place – into the Fund to be invested and fund the cost of your benefits.

Am I still getting good value?

The benefits provided by our Plan are in line with, and even above, the benefits earned under many other pension plans.

> *The fact that only half of the contributions are now used to calculate benefits, yet the results still compare well with other plans, shows just how generous our Plan was before and how it continues to deliver good value.*

Another way to measure the value of our Plan's benefit is to compare it to investing in an RRSP. In a number of examples prepared by the Fund's actuary, the MPF (Canada) pension outperforms the income that would be provided by investing 100% of contributions in an RRSP. These examples are available on request and also on the website.

Check the Fund Website

More information about the Plan and the recent Plan changes is available at mpfcanada.ca

Other News and Information

What happens to my pension if my marriage breaks down?

The treatment of pension benefits on marriage breakdown varies by jurisdiction. In general, the benefits you accrue during your marriage are considered part of "family property". Depending on the situation, this may result in your MPF (Canada) pension being divided between you and your former spouse on marriage breakdown.

If you go through a marriage breakdown, there are many factors to consider and you will need to seek independent legal advice.

In the provinces where it is required, the Fund office will provide benefit valuations on request for any member going through a marriage breakdown, and will charge the member for this service where applicable.

Would my new common-law spouse be entitled to survivor benefits if I still have a legal spouse?

The definition of "spouse" varies by province. In many cases, the current common-law spouse who meets the "spouse" definition would qualify for spousal benefits on the member's death. However, a recent court decision in Ontario produced a very different result in a situation where the married couple were no longer together but had never actually divorced or established a separation agreement, and the beneficiary designation still named the original spouse.

Your pension benefit and potential survivor benefits can be a big part of your family assets. It's important to be very clear about how these benefits will be dealt with. The best way to do this is through a separation agreement or divorce settlement and by ensuring that your beneficiary designation is up to date.

Please take the time to regularly review your spousal and beneficiary information as shown on the Fund's records and to advise the Fund office promptly whenever any changes are needed.

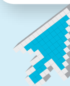
Let's connect by email!

If you have not already done so, please take a minute to send us your email address. Simply send an email to:

info@mpfcanada.ca

with the subject line:

in concert



We are planning to send future communications out by email, including **in concert**, updates and notices. This will help us keep you better informed on a more timely basis, reduce the Fund's expenses, and help the environment as well.

About this newsletter

This publication was prepared on behalf of the Trustees of the Musicians' Pension Fund of Canada. It provides summary information about the Fund in plain language. This publication is not intended to provide advice. If there is a discrepancy between this document and the legal documents that govern the Fund, the legal documents will apply. The Trustees expect to maintain the Fund indefinitely. However, they reserve the right to change or cancel any or all benefits under the Fund for active or retired members and their survivors and dependents.