

Pension revisited.

Bargaining Bulletin - 2014-09-12

For all but a handful of SFUFA members¹, the SFU Pension Plan is a Defined Contribution (also known as a Money Purchase) Plan. Under this plan, SFU contributes just under 10% (excluding an initial CPP offset) of your basic salary to the SFU Academic Pension Plan. This money is invested under the direction of the Pension Trustees in the Balanced Fund or into a set of investment options under your direction. When you decide to take retirement, your contributions and investment returns on these earning provide a (locked-in) lump-sum whose subsequent withdrawals of principal and further investment income provide a retirement income stream.

A breakdown of the amounts currently held by members in the Plan in June 2012 and in April 2014 are shown below (figures provided by SFU):

Average fund balance (EXcluding voluntary contributions) for Academic Plan members as of June 2012.			Average fund balance (INcluding voluntary contributions) for Academic Plan members as of April 2014.			
Age Class	Number of members ^a	Average balance (\$ '000) ^b	Number of members	Average balance (\$ '000) ^b	10 th percentile (\$ '000) ^b	90 th percentile (\$ '000) ^b
20 - 29	8	8	13	15		
30 - 34	53	19	46	25	3	63
35 - 39	148	46	130	58	8	117
40 - 44	190	66	174	102	23	182
45 - 49	175	80	167	122	21	222
50 - 54	203	122	183	188	61	362
55 - 59	211	135	163	278	65	505
60 - 64	151	235	143	389	45	812
65+	125	421	118	551	92	1042
^a 2012 count includes members who have “retired” from SFU but have not withdrawn their funds from the Plan; 2014 count is only active members.						
^b 2012 excludes voluntary contributions; 2014 includes voluntary contributions. The 2013 Academic Pension report indicates that voluntary contributions formed less than 3% of plan balances.						

While a direct comparison is difficult because of the difference in the types of members included, average balances have increased since April 2012 primarily due to the improved stock market over this time. Of course, in the event of an economic downturn, these balances may also change.

¹ There are fewer than 5 faculty hired prior to 1973 who are still on the defined benefit plan.

How much of a retirement income stream does \$500,000 at age 65 get you? If you use the retirement calculator at SunLife or other similar calculators such as at http://www.lifeannuities.com/annuity_rates/joint10yrregistered.html, these calculators show that a joint life (payments continue to your partner in case of your death) annuity purchased at age 65 with a guaranteed payout of 10 years will return an income stream of less than \$35,000/year for the rest of your life without inflation protection². Hardly a luxuriant amount! [This does not include retirement income from CPP or other sources.]

These computations scale directly for different plan balances and as a rough rule of thumb, the yearly retirement income stream (under the above assumptions) is about 6% of the initial plan balance. So, you would expect to need about \$800,000 in plan assets to provide about \$50,000/year retirement income stream for the rest of your life with no protection from inflation. [An inflation rate of 2.5%/year is expected to double prices in under 30 years!]

The implications of the above are clear. SFUFA members need to save substantially more outside of the SFU Pension Plan to increase their retirement income. This is difficult with our wages have been frozen for many years and with our low salary ceilings. These features also directly affect the contributions to the Plan and the eventual lump-sum available for retirement income. It is not surprising that some members decide not to retire because of insufficient retirement income.

Disclaimer: I and SFUFA are not a financial planners and the above should not be construed as financial advice. SFUFA members should consult with their own financial advisors.

² Some additional options are found on page 11 of the 2013 Academic Pension Plan report available at <http://www.sfu.ca/human-resources/faculty/pensions.html>. They show that \$750,000 will give you an annual pension income between \$32,000 and \$42,000 depending on the option.