



Pension News

UBC Faculty Pension Plan
First Quarter 2008 Edition

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Tax-Free Savings Accounts

In the February 2008 budget, the federal government announced a new tax-assisted savings incentive, the Tax-Free Savings Account (TFSA). This article describes some of its features.

The new TFSA

The new TFSA is intended to help Canadians save throughout their lifetime, not only for retirement, but for large purchases, such as a new home or car, or for unanticipated expenses. Starting in 2009, Canadian residents over the age of 18 will be eligible to contribute to a TFSA. Some of the features of the TFSA will be:

- Contributions of up to \$5,000 per year will be allowed. The \$5,000 limit will be adjusted for inflation each year.
- If the maximum contribution is not made in a year, the unused contribution room can be carried forward to a future year.
- TFSA contributions are not deductible from taxable income, and the investment earnings are not taxed.
- Withdrawals can be made at any time, and are not taxed.
- Amounts withdrawn may later be re-contributed without adverse consequences.
- A broad range of investments are allowed, similar to those allowed in an RRSP.
- Neither income earned within a TFSA nor withdrawals from it will affect eligibility for federal income-tested benefits and credits.
- Contributions to a spouse's or common-law partner's TFSA will be allowed, and TFSA assets will be transferable to the TFSA of a spouse or common-law partner on death.

Unlike the impact your FPP participation has on your eligible RRSP contribution amount, your participation in the FPP will not have any impact on the amount you may contribute to a TFSA.

Tax

The Canadian income tax system is complex: most sources of earnings such as salary, business income, investment earnings are taxed, often at different rates. The system also has a range of tax credits and deductions from income. The important feature of the TFSA that creates the incentive to save is that the investment earnings on TFSA assets are not taxed. Table 1 shows the tax treatment of different savings vehicles.



Impact of Tax

Table 2 shows examples of different savings vehicles, assuming that an individual has \$3,000 to save each year for 25 years. The income tax rates are assumed to be:

- 40% on salary
- 30% on non-registered plan investment earnings, reflecting the favourable tax treatment of certain types of investments such as dividend income and capital gains
- 0% on registered plan investment earnings
- 30% on retirement income.

Investments are assumed to earn 6% per year before tax. For illustrative purposes, the accumulated balance is assumed to be paid out after 25 years as a lump sum.

The table shows a significant advantage (more than \$23,000) of investing in a TFSA than through non-registered savings. The table also shows that the pension plan or RRSP is still the most favourable tax-assisted savings vehicle, but the advantage over the TFSA is significant only if the tax rate in retirement is lower than before retirement. In the example above, had the tax rate after retirement been 40% (the same as before retirement) rather than 30% (as assumed), the accumulated value after tax would be the same as that for the TFSA (\$101,700).

Advantages and Disadvantages

Table 3 (next page) compares the features of the various plans. The advantages are highlighted; the disadvantages are shown in plain type.

Table 1

	Pension Plan / RRSP	TFSA	Non-registered Savings*
Contributions	deductible from income	not deductible from income	not deductible from income
Investment earnings	not taxable	not taxable	taxable
Payments from the plan	taxable	not taxable	not taxable

* Savings that are not sheltered from taxes.

Table 2

	Pension Plan / RRSP	TFSA	Non-registered Savings*
Income available for saving each year	\$3,000	\$3,000	\$3,000
After-tax contribution each year	\$3,000	\$1,800	\$1,800
Total contributions for 25 years	\$75,000	\$45,000	\$45,000
Net investment earnings after tax	\$94,500	\$56,700	\$33,600
Accumulated value after 25 years	\$169,500	\$101,700	\$78,600
Accumulated value after tax	\$118,650	\$101,700	\$78,600

* Savings that are not sheltered from taxes.

Making a decision

The new FSAs come into effect in 2009. It is expected that most financial institutions (banks, credit unions, insurance companies) will offer them, likely with a full range of investment options. FSAs will provide an additional opportunity to save not only for retirement, but for shorter-term or unanticipated expenditures. To the extent that savings may not be needed over the short term, investing in an RRSP may provide more tax savings if the tax rate in retirement is lower than that before retirement. For short-term needs, however, the tax incentives of the FSA make it a much better option than a standard non-registered savings account.

This article was prepared by Satanove & Flood Consulting Ltd. Comments should be sent to: fpp@hr.ubc.ca



Table 3

	RRSP	TFSA	Non-registered Savings
Contribution amount	subject to limits, with carry forward	subject to limits, with carry forward	no limits
Deductibility of contributions	deductible	not deductible	not deductible
Withdrawals	allowed, but taxable, with some exceptions	allowed, not taxable	allowed, not taxable
Re-contribution of withdrawals	not allowed	allowed	allowed
Maximum age for contributions	age 71	no restriction	no restriction
Investments	subject to RRSP rules	subject to RRSP rules	no restrictions
Taxation of investment earnings	not taxable	not taxable	taxable
Taxation of payments	all payments subject to tax, except if transferred to another tax-sheltered vehicle	not taxable	not taxable

Voluntary Contributions

Did you know that voluntary contributions are allowed in the Faculty Pension Plan? Any member whose annual pensionable earnings are less than \$150,000 may be eligible to make voluntary contributions.

Take advantage of the calculator on the FPP website to calculate what your contribution room may be.

FPP Open House

The Faculty Pension Plan is having an Open House on Thursday, May 15, 2008, from 2:00 to 4:00 pm at St. John's College Social Lounge. Please join us and meet the trustees and staff of the FPP. At 2:30 pm, Joost Blom, Chair of the Faculty Pension Plan, will do a presentation on the performance and accomplishments in 2007 and outline the Plan's initiatives for 2008. Please confirm your attendance with Shirley Lim at 604-822-8100 or e-mail shirley.lim@ubc.ca

Contact information needed for the following Deferred/Retired Members

The following members have account balances in the Faculty Pension Plan, but we can't locate them. If you have any information about any of these members, would you please e-mail us at fpp@hr.ubc.ca, or contact Louise Mah at 604-822-6015.

Begum, Anjuman Ara; Biochemistry & Molecular Biology

Ashley, Madge E. (surviving spouse of Ashley, Leslie F.); Education

Brown, Barbara A; Education

Cho, H J Peter; Forestry

Chung, Ilchoo; Commerce

Du Mont, Gertraude E; Nursing

Haddock, Christopher; TRIUMF

Henderson, Robert C; Forestry

Herbst, Karl Peter; Law

Khalil, Mohamed R; Civil Engineering

Knight, Peter; Zoology

Law, Wai-Ming Martin; TRIUMF

Lerner, Leonard; Chemistry

Lumsden, H D; Theatre

Matsuyama, Akihiko; TRIUMF

Michaels, Geoffrey; School of Music

Milsum, Catherine; English

Reid, Gregor Scott D.; Paediatrics

Ribkoff, Fred; English

Sullivan, Daniel J; Commerce

Varma, Devinder; Academic Planning

Wang, Jian; Pharmacy

Zahn, Rainer; Oceanography

Zhang, Li; Biochemistry & Molecular Biology



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Market commentary

The first quarter of 2008 was extremely volatile with significant daily swings in stock prices and concern over the U.S. economy. World equity indices posted their weakest quarterly performances in years. Commodity prices increased significantly while interest rates dropped. Gold soared to over U.S. \$1,000 per ounce and oil reached U.S. \$110/barrel.



Due to the strong performance of commodities and oil, the Canadian equity market outperformed most other world equity markets during the quarter with the S&P/TSX composite index returning -2.8%. Energy (1.2%) and materials (7.3%) were the best performing sectors. The consumer discretionary sector returned -14.3% and telecommunications returned -12.0% during the quarter.

The U.S. and EAFE markets came under significant pressure and the S&P 500 returned -5.9% while the MSCI-EAFE index returned -5.3% (both in Canadian dollars).

Bonds outperformed equities during the first quarter. The Bank of Canada cut short term interest rates by 75 b.p. in the quarter and fears of spreading financial crisis drove yield spreads much wider. The DEX Universe Bond Index returned 3.0% for the first quarter, with the Government bond index returning 3.8% as contrasted to the Corporate bond index returning 2.1%. Long term bonds underperformed shorter term issues, with mid term bonds posting the best results (4.0%). The DEX Real Return Bond index returned 5.9% during the first quarter. The Canadian dollar weakened relative to the U.S. dollar and closed the quarter at 97.24 cents U.S.

Performance of Funds for periods ending March 31, 2008

	3 Months	1 year	3 years	5 years	10 years
Balanced Fund - gross	-0.85%	0.42%	8.89%	10.81%	6.38%
Balanced Fund - net	-0.98%	-0.15%	8.39%	10.33%	5.95%
Composite Index 1	-0.29%	0.55%	8.02%	10.72%	6.17%
Canadian Equity Fund - gross	-3.88%	3.40%	14.76%	19.19%	9.04%
Canadian Equity Fund - net	-3.98%	2.98%	N/A	N/A	N/A
Composite Index 2	-2.77%	4.60%	14.18%	18.61%	8.06%
Foreign Equity Fund - gross	-5.64%	-15.55%	3.52%	8.26%	1.71%
Foreign Equity Fund - net	-5.73%	-15.86%	N/A	N/A	N/A
Composite Index 3	-5.26%	-13.74%	3.73%	9.04%	1.93%
Bond Fund - gross	3.30%	6.07%	5.42%	6.07%	6.11%
Bond Fund - net	3.22%	5.82%	5.20%	5.83%	5.86%
Composite Index 4	3.34%	5.86%	5.13%	6.21%	6.21%
Short Term Investment Fund - gross	0.98%	4.39%	3.85%	3.38%	4.28%
Short Term Investment Fund - net	0.95%	4.25%	3.68%	3.19%	4.00%
Composite Index 5	0.90%	4.27%	3.77%	3.30%	3.82%

Composite Index 1: 33% DEX Universe, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60, 15% S&P 500, 15% MSCI-EAFE, 2% DEX 91-Day TB, 10% IPDCPI, 5% DEX Real Return Bonds

Composite Index 2: 50% S&P/TSX Capped, 25% S&P/TSX, 25% S&P/TSX 60

Composite Index 3: 48% S&P 500, 48% MSCI-EAFE, 4% DEX 91-Day TB

Composite Index 4: 86.8% DEX Universe, 13.2% DEX Real Return Bonds

Composition of Funds as at March 31, 2008

	Market Value (\$ Millions)	% of Fund
Balanced Fund		
Equities - Canada	217.8	20.4%
Equities - U.S.	132.4	12.4%
Equities - EAFE	142.4	13.3%
Absolute Return Hedge Fund	21.1	2.0%
Real Estate - Canada	127.9	12.0%
Fixed Income	371.3	34.8%
Real Return Bonds - Canada	50.3	4.7%
Cash & Short term	4.4	0.4%
Total Balanced Fund	1,067.6	100.0%
Canadian Equity Fund	80.6	100.0%
Foreign Equity Fund		
Equities - U.S.	15.1	46.3%
Equities - EAFE	16.2	49.7%
Absolute Return Hedge Fund	1.3	4.0%
Total Foreign Equity Fund	32.6	100.0%
Bond Fund		
Fixed Income	27.3	88.1%
Real Return Bonds - Canada	3.7	11.9%
Total Bond Fund	31.0	100.0%
Short Term Investment Fund	44.8	100.0%