Pension News

UBC FACULTY PENSION PLAN | First Quarter 2011 Edition

Feeling Good About Fees

Services that we receive usually have a cost or fee associated with them. Often, the only times we feel good about the fees we pay are when we are aware of how much we pay, confident that we are receiving good value for the services rendered, and assured that the fees are lower than comparable fees that might be paid elsewhere.

Fees we pay to banks and other financial institutions can sometimes become buried in the various documents we receive from them. Investment fees in particular can eat into your returns so it is important to find out how much is being charged.

This article deals with the fees paid by members of the UBC Faculty Pension Plan and compares them with fees paid for similar investments on a retail basis from financial institutions (generally through mutual funds).

THE COST OF INVESTMENT SERVICES

You need to be aware of what services are covered by the investment fees you pay, and how those fees are charged. The costs of investing include custodial charges and operating costs, manager expertise in the selection of securities and broker services for buying and selling securities. The fees for these services are often bundled together and charged as a percentage of assets and deducted directly from your investment earnings. This percentage is referred to as a Management Expense Ratio (MER). For example, the average Canadian equity mutual fund MER is about 2.5% annually, which means that when the return of the fund is 8.0% (gross return), you receive 5.5% (net return).

In addition to the MER charged to investors, there may be acquisition costs that are usually charged separately. For example, a commission may be charged at the time of the purchase, which is referred to as a "front-end load." There may also be a deferred sales charge or "back-end load" if the investment is redeemed before a minimum number of years. In addition, there may be transaction fees for changing your investment allocation or for partial withdrawals.

There is no escape from investment fees: do-it-yourself investors who buy individual securities also face investment fees, often for transactions and sometimes for administration and custody. A somewhat recent investment innovation, exchange traded funds (ETFs), can provide a do-it-yourself investor with broad diversification, at a lower cost than mutual funds.

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IMPORTANCE OF FEES

Since MERs are expressed as percentages they may seem smaller than if they were expressed in dollars. A $500,000 investment with a 2.5% MER costs $12,500 in management fees every year. As the account balance grows from additional contributions and investment returns, the fees will also grow. As well, MERs are charged regardless of whether there is a negative or positive return in a year since they are based upon asset values.

The importance of fees can be seen by examining their impact over the long term. The following table shows how much an investment of $100,000 earning 7% per year would grow after 20 years assuming fees of 0%, 0.5%, 1.5% and 2.5% are deducted each year from investment earnings.

	Value of $100,000 investment after 20 years with 7% return			
MER	0%	0.5%	1.5%	2.5%
First-year cost	$0	$500	$1,500	$2,500
Total cost over 20 years	$0	$34,600	$95,190	$145,800
Net Asset Value after fees	$386,970	$352,370	$291,780	$241,170

The fund that is charging a fee of 0.5% is earning an average annual return of 6.5% after fees whereas the fund charging 2.5% is earning an average of 4.5% per year after fees. After 20 years the account balance in the fund charging 0.5% is more than $100,000 higher than the account balance in the fund charging 2.5%. Clearly the level of fees charged can have a significant impact on your savings.

Fees can also be negotiated, particularly for larger investment amounts. Because of the significance that fees can have on our investments, we have nothing to lose by asking for a reduced fee.

UBC FACULTY PENSION PLAN (FPP) FEES

The FPP provides a means for you to accumulate retirement assets, and does not charge members for individual transactions. Members can make investment allocation changes as often as they feel necessary without incurring an administration charge. As well, when funds are withdrawn from the FPP, there are no charges incurred by the individual member. The cost of investment and administration services are charged as a percentage of assets (MER).

The MER of each of the investment funds of the FPP are outlined on our website and in 2010 were as follows:

UBC FPP Funds	MER
Balanced Fund	0.56%
Bond Fund	0.33%
Canadian Equity Fund	0.47%
Foreign Equity Fund	0.79%
Short Term Investment Fund	0.16%

The FPP MERs are significantly lower than those charged by retail mutual funds for two main reasons:

- **Size.** The FPP has more than $1.4 billion invested with the various investment managers, so it receives economies of scale.
- **Lower overhead.** Retail institutions usually have sales commissions and advertising expenses to pay, as well as shareholder profits to consider.

The FPP fees include:

- **Governance and oversight.** The Trustees are responsible for the management of the FPP. They are responsible for hiring, monitoring and, if necessary, terminating the external investment managers, each under the terms of a written investment mandate. The Trustees have hired an Executive Director, Investments, who is responsible for monitoring investment performance.
- **Custodial services.** The assets of the FPP are held and secured by CIBC Mellon, a large financial firm. CIBC Mellon reconciles the investment manager statements to their records and provides detailed statements of each investment to the Trustees.
- **Investment management services.** The day-to-day investment decisions are made by external investment managers hired by the Trustees, under the oversight of the Executive Director, Investments. The external investment managers are responsible for selecting investments within their mandate to meet specified performance targets; more information about the investment management structure is available on the FPP website.
- **Benefit recordkeeping and administration.** The Pension Administration Office is responsible for collecting member contributions, depositing them to the Plan, recording the amounts to member accounts, calculating and adding investment earnings to account balances, preparing the quarterly benefit statements, and administering benefit payments when a member terminates or retires.

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- **Member communication.** The Pension Administration Office is also responsible for preparing communication material and communicating with the Plan members. The FPP also provides investment information about each of the funds, including the investment management structure and performance of each fund. Most of this information is available both online as well as in print. The FPP does not provide personalized one-on-one financial advice; members are instead encouraged to seek advice from independent financial advisors.

FINANCIAL ADVICE

Fees should be justified by the services that are provided. For mutual funds, they will often include the cost of advice from a professional, and this can be an important component. A financial advisor will examine your entire financial situation, will ask you when you wish to retire, the level of income you wish to have when you retire, and develop an appropriate program.

Financial advisor services may be charged in several ways:

- a fee for service, usually based on an hourly rate
- sales charges or commissions on the purchase or sale of securities or mutual funds, charged at the time of purchase or delayed until the investment is sold
- the MER, described previously, equal to a percentage of invested assets

It is important to note that an investment advisor or broker that sells mutual funds often might only provide advice that relates to their own products. For completely independent advice on the relative merits of the FPP funds versus other funds, an advisor should be paid directly by you ("fee for service") and not by a mutual fund company through a commission.

FPP members should feel good about the fees they pay in comparison to fees charged for retail investments. Fees are of course necessary but it is important to first be aware of how they are assessed and the amount they translate to in dollar terms. When viewing rates of return, it is advisable to request the net returns (after fees) in addition to the gross returns. Always remember that actual investor returns equal the market return on your investment, minus cost. ■

This article was prepared by Jim Loughlean, Member Services Specialist for the UBC Faculty Pension Plan and Satanove & Flood Consulting Ltd. Comments should be send to: fpp@hr.ubc.ca

Retirement Counselling Funding for Faculty Association Members

The University provides several resources to support members with their retirement, one of which includes funding for financial and retirement counselling.

UBC will reimburse Faculty Association members for counselling services from a UBC-approved financial consultant up to a maximum of 3 hours ($750 limit) per member. For more information and to request reimbursement, please refer to the 'Planning for Retirement' section at **www.hr.ubc.ca/faculty_relations/retirement/**.

Annual Report Online

The 2010 Annual Report is available online now at the FPP website. The report format has changed this year and the publication has been integrated with the FPP website as a separate section called "2010 Year in Review." This online format allows members to find information more easily, and as part of the University's sustainability commitment, it also allows members to select and print specific sections of the report, rather than printing the full report, as was required in previous years.

Visit the FPP website and follow the link from the main page to view the report.

MARKET COMMENTARY

THE FIRST QUARTER OF 2011 provided a test of investors' confidence with the geopolitical unrest in Northern Africa and the Middle East, the continued European sovereign debt crisis, and the devastating natural disaster in Japan. All of these events have economic repercussions. Oil prices moved into triple digit figures and Canada was seen as a net beneficiary of this increase.

The Canadian stock market had another strong first quarter returning 5.6%, increasing the one-year return to 20.4%. The current bull market rally from the lows of March 2009 has been one of the strongest in the last 50 years. Two of the three largest industry sectors (i.e. Energy and Financials), which together make up over 56% of the index, both returned in the 9% range in Q1. The other large industry sector, Materials, did not fare as well in Q1 as base metals and gold stocks dropped in value in the first quarter.

The U.S. stock market also had a strong first quarter, up 5.9% and the one-year return was 15.6% in U.S. dollar terms. Due to the continued strength of the Canadian dollar (or weakening U.S. dollar), this translated into lower returns of 3.7% for the first quarter and 10.9% for the one-year period, in Canadian dollar terms. Non-North American equities (as measured by the EAFE index) returned a weak 1.0% and 1.5% over the first quarter and one-year period respectively, in local currency terms. These returns were 1.2% and 5.9% over the first quarter and the one-year period respectively, when converted into Canadian dollars. The weakness in the Japanese stock market was a large contributor to this subpar performance.

The Canadian Bond market had another negative return of -0.3% in the first quarter as interest rates were volatile and finished the quarter slightly higher. However, this still produced a reasonable 5.1% return over the one-year period. Long Term Bonds performed the weakest in Q1 at -1.4% but this was the strongest bond sector over the one year at 8.2%. In terms of returns by issuer, Provincial bonds were the weakest in Q1 at -0.7%. Real Return Bonds returned 0.5% in Q1, while still producing a strong one-year return of 10.6%. Inflation, as measured by the CPI, remained low at 2.2% over the one-year period. ■

PERFORMANCE OF THE FUNDS
FOR PERIODS ENDING MARCH 31, 2011

	3 months	1 year	3 years*	5 years*	10 years*
Balanced Fund - gross	2.21%	10.96%	3.52%	4.45%	6.13%
Balanced Fund - net	2.07%	10.32%	2.98%	3.93%	5.65%
Composite Index 1	2.34%	10.51%	3.39%	4.11%	5.73%
Bond Fund - gross	0.02%	6.93%	6.07%	5.88%	6.25%
Bond Fund - net	-0.06%	6.58%	5.73%	5.59%	5.97%
Composite Index 2	-0.10%	6.23%	5.45%	5.39%	6.16%
Canadian Equity Fund - gross	5.54%	20.59%	5.46%	6.70%	10.44%
Canadian Equity Fund - net	5.42%	20.04%	5.00%	6.25%	N/A
Composite Index 3	5.66%	19.67%	4.71%	6.05%	8.95%
Foreign Equity Fund - gross	2.28%	9.26%	-2.19%	-2.16%	0.12%
Foreign Equity Fund - net	2.07%	8.33%	-2.78%	-2.67%	N/A
Composite Index 4	2.65%	8.84%	-1.61%	-1.25%	0.69%
Short Term Investment Fund - gross	0.32%	0.85%	1.16%	2.41%	2.70%
Short Term Investment Fund - net	0.27%	0.69%	1.00%	2.25%	2.51%
Composite Index 5	0.26%	0.65%	0.90%	2.22%	2.55%

The Average Rate of Return for the FPP funds are updated on a monthly basis and are available under the QuickFind menu on the FPP website.

**Annualized returns*

Composite Index 1: 32% DEX Universe, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60 Capped, 6% S&P 500, 21% MSCI World Ex Canada, 3% Dex 91-Day TB, 10% IPDCPI, 8% DEX Real Return Bonds

Composite Index 2: 80% DEX Universe, 20% DEX Real Return Bonds

Composite Index 3: 25% S&P/TSX, 50% S&P/TSX Capped, 25% S&P/TSX 60 Capped

Composite Index 4: 73% MSCI World Ex Canada, 21% S&P 500, 6% DEX 91-Day TB

Composite Index 5:** DEX 91-Day TB Index until August 2007, DEX 30-Day TB Index from September 2007 to January 2011, DEX 91-Day TB Index commencing February 2011.

*** Composite Index 5 has changed as of February 1, 2011 to reflect investment changes within the Short Term Investment Fund.*

COMPOSITION OF THE FUNDS
AS AT MARCH 31, 2011

	Market Value ($ Millions)	% of Funds
BALANCED FUND		
Equities - Canada	254.0	22.3%
Equities - Non-Canadian	302.0	26.4%
Absolute Return Hedge Fund	32.9	2.9%
Real Estate - Canada	108.1	9.5%
Fixed Income	349.5	30.6%
Real Return Bonds - Canada	90.3	7.9%
Cash	4.6	0.4%
Total Balanced Fund	1141.4	100.0%
BOND FUND		
Fixed Income	46.1	79.1%
Real Return Bonds - Canada	11.9	20.4%
Cash	0.3	0.5%
Total Bond Fund	58.3	100.0%

	Market Value ($ Millions)	% of Funds
CANADIAN EQUITY FUND		
Equities - Canada	120.4	99.3%
Cash	0.9	0.7%
Total Canadian Equity Fund	121.3	100.0%
FOREIGN EQUITY FUND		
Equities - Non-Canadian	38.2	93.2%
Absolute Return Hedge Fund	2.0	4.8%
Cash	0.8	2.0%
Total Foreign Equity Fund	41.0	100.0%
SHORT TERM INVESTMENT FUND		
Total Short Term Invest. Fund	49.7	100.0%

UBC Faculty Pension Plan Open House 2010 Year In Review

Please join us at the Open House and meet the trustees and staff of the Faculty Pension Plan. There will be presentations on the Plan's performance in 2010, and a discussion of initiatives for 2011. Light refreshments will also be served.

Date: Wednesday, May 25, 2011
Time: 10:30 am to 12:30 pm
(The presentation will start at 10:45 am)
Location: Ponderosa centre - Arbutus Room
2071 West Mall (at University Boulevard)

RSVP by May 18 to:

pensions@hr.ubc.ca | 604-822-8100

2011 Variable Payment Life Annuities (VPLA)

Aon Consulting has calculated the changes in the VPLA values for 2011. The increases were effective with the April 1, 2011 retirement payment.

Option	Increase in Value
4% VPLA	4.05%
7% VPLA	1.16%

Voluntary Contributions

Did you know that voluntary contributions are allowed in the Faculty Pension Plan? Any member whose annual pensionable earnings are less than $163,885 may be eligible to make additional voluntary contributions (AVCs) up to the limit set by the Income Tax Act.

Take advantage of the Contributions Estimator on the FPP website to calculate what your contribution room may be. The FPP calculators are available under the QuickFind menu.

New Member and Retirement Workshops

"You & Your Pension Plan" workshops for new members or members wishing to learn more about the Plan are available throughout the year, as well as "Understanding Your Retirement Income Options" workshops for members approaching retirement.

Upcoming Workshops
Understanding Your Retirement Income Options - August 24, 12 pm to 3 pm
You & Your Pension Plan - September 29, 9:30 am to 11:30 am

For more info or to register for one of the sessions above, please contact Jim Loughlean at jim.loughlean@ubc.ca. Please refer to the Workshops page on the FPP website for up-to-date workshop information and dates.

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