FPSE Federation of Post-Secondary Educators of BC

Our Pensions: Safe From Inflation or Not?

Will your pension be indexed to the cost of living?
The answer is: it depends.

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Introduction

When you retire you will have a number of things to think about - and one of the most important will be income security. We are all members of a defined benefits pension plan and as such, we probably think that income security is not an issue. Unfortunately, that perception is wrong for two reasons. Firstly, many people in our pension plan retire with less than 20 years of service and as such, their pension income will likely be less than 40 percent of their pre-retirement income. Secondly, even if our initial pension is reasonably good, the purchasing power of that pension may decline because of inflation.

This article will discuss the potential effects of inflation on our pensions. It will also discuss options and questions that you may want to raise with both Pension Trustees and your executive.

Impact of Inflation

Once you retire, if you have been contributing to the College Pension Plan, you will be eligible for a pension. The value of that pension depends on the amount of pensionable service you have as well as your highest average salary and, if you are under 60, your age. The amount of that pension is guaranteed. Unfortunately, over time, the effects of inflation will reduce the purchasing power of the guaranteed pension. At the latest inflation rate reported by Statistics Canada, the purchasing power of your pension would be cut by almost half in 20 years. In other words, twenty years from now, your pension would buy half as much as it can buy today.

Even at a modest inflation rate of 2.5% per year, your pension would lose 40% of its purchasing power over twenty years. That's like taking a $2500 a month pension and cutting it to $1500 a month. Ouch!

The Inflation Adjustment Account

So, how do we deal with reduced purchasing power? Fortunately, many years ago the College Pension Plan established the Inflation Adjustment Account (the "IAA"). To date we have been able to fully index the pensions of existing retirees.

In other words, we have been able to maintain the purchasing power of our pensions by increasing pension payments at the same rate as inflation.

So far, the IAA has had adequate resources to fully index retiree's pensions because of the very strong market performance during the 1990s and the fact that we did not have very many retirees.

Unfortunately, the very poor investment returns in the earlier part of this decade combined with the fact that the number of retirees is growing very quickly means that the IAA will not be able to continue full indexing of retiree pensions. The College Pension Plan is predicting that if we continue fully indexing retiree pensions then the IAA may run out of money in less than twenty years. As such, the only money available for indexing pensions would be current contributions to the IAA. Those contributions are inadequate to cover the cost of inflation.

Options

The current contributions to the IAA are inadequate to allow for full indexing. The College Pension Plan has identified three options to deal with this problem:

1. Continue to provide full indexing until the IAA runs out of money.

2. Reduce the amount of indexing so that the amount of indexing that is done can be done for a longer period of time.

3. Increase the contributions to the IAA.

Although options one and two are within the power of the College Pension Board, neither of these is a true solution to the problem of inflation. Only option three has the potential of solving the inflation problem. Unfortunately, option three must be agreed to by both our employers and our unions. Even if we agree to increase the contributions to the IAA, we must still ask whether we want to make indexing a guarantee. A guarantee of inflation protection would require a significant increase in contributions. Consequently, if we want inflation protection to be guaranteed, it will have to be bargained.

What can you do?

Although there is a substantial amount of money in the IAA, it, combined with current contributions to the IAA, is not enough to guarantee that our pensions will be protected against inflation. Many of us will be retiring in the next ten years. If we want to address the inadequacy of current IAA contributions, now is the time while the costs of guaranteeing inflation protection are not as high.

You can make a difference by raising the issue of inflation adjustment with your local executive, your FPSE Pension Advisory Committee Representative, or with your College Pension Plan Trustees. It's your pension. Make sure your voice is heard.