



# pension perspectives

Winter 2019

## Tell me more, tell me more

The Public Employees Pension Plan (PEPP) has free presentations for members at every career stage:

- **Kick Start Your Financial Future** – ideal for younger members and their spouses, in their 20s-30s. You'll be empowered to take ownership of your financial future and understand the importance of having a personal financial game plan.
- **Ready Set PEPP** – for members who are new to the Plan or who just want a better understanding of how the Plan can work for you;
- **RetireWithEase Workshop** – This is our most popular session. It focusses on preparing for, and living in retirement. Participants and their spouses frequently say 'I wish I had gone to this years ago' so don't wait – start preparing now.

Presentations are held throughout the province and vary from one hour to all day. By attending a presentation you'll recognize the value of your pension plan, and more importantly, you'll learn how to manage your pension account to get the most from it.



For many of us, our pension will be our largest asset at retirement – don't wait until five years from retirement to take an interest in your future. Check out PEBA hosted presentations on our website for a date and location that may work for you and register today!

## Stay the course Billy!

At times, the wisest decision when the stock market drops is to stick with your original investment plan and stay the course. While volatility may be unsettling, it is not unusual. If you have a diversified portfolio with PEPP and are comfortable with your time horizon and risk level, sticking to your original plan may be a wise move to reach your long-term financial goals.

It's the amount of time in the market that will make you money, not timing the market. Some members react when there are dips in the market and sell their investments which locks in their losses and may also incur transfer fees. Making emotional decisions during dips in the investment market may also hinder your ability to recover from the dip when markets turn around.

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# Investment Fund Review

In late 2017 and through 2018 AON Canada performed a Strategic Investment Fund Review for the Public Employees Pension Board. AON's recommendations were approved by the Board and will begin to be implemented April 1, 2019.

## Bond Fund changes

The fixed income portfolio for the Bond Fund will be changed so it matches the fixed income portfolio of the asset allocation funds. This will:

- diversify the Bond Fund's investment exposures;
- improve expected returns; and
- reduce expected volatility.

The fund's fees will go up moderately, but long-term returns are expected to increase and volatility is expected to decrease.

## Asset allocation fund changes

PEPP's asset allocation funds will go from a two portfolio structure - growth and fixed income, to a three portfolio structure – equity, fixed income and alternatives. Along with the restructure, three new asset classes will be introduced – private equity, global real estate and infrastructure. The amounts distributed to each asset class within each fund will be adjusted.

These changes are designed to:

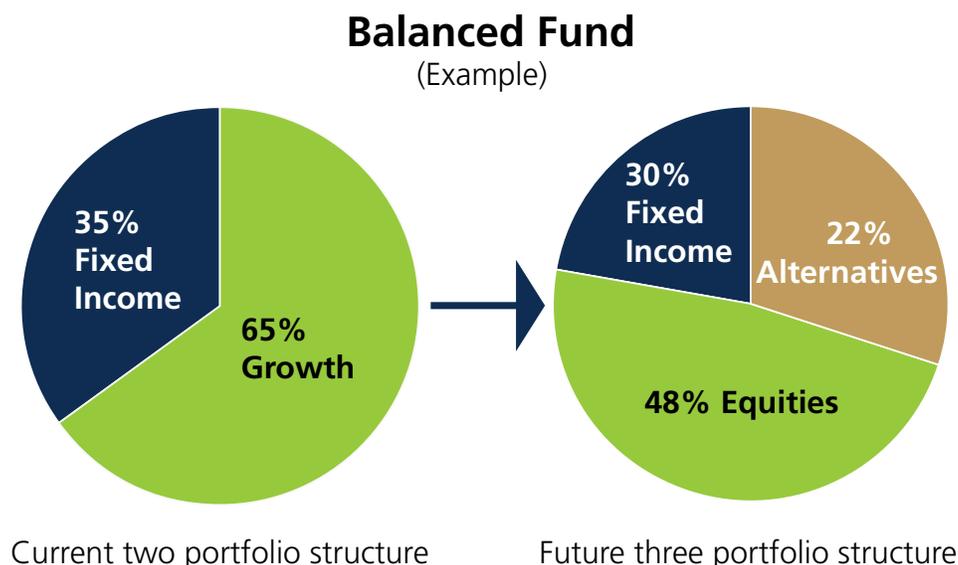
- improve member's expected retirement outcomes;
- improve expected risk-adjusted returns; and
- further diversify the Plan's investments with new asset classes and managers while considering costs and efficiencies.

These changes will lead to moderately higher fees with the benefit of improved expected risk-adjusted returns.

In its simplest definition, risk-adjusted return is how much return your investment has made relative to the amount of risk the investment has taken over a given period of time. If two or more investments have the same return over a given time period, the one that has the lowest risk will have the better risk-adjusted return.

Below is an example of the targeted investment allocation of the Balanced Fund as it exists now, and as it will exist once implemented. There are Fund Fact Sheets posted to the website with details on each of the PEPP funds available.

There is nothing expected of you for this transition; it will simply happen. We do suggest you review your PEPP member statements when they come and complete a PEPP Investor Profile annually to re-assess whether your investment fund choice is still appropriate for your risk tolerance and time horizon.



# FEES MATTER! PEPP fees are low, low, low, low, low

Like many other investments, pension plans must charge fees for managing your investment. PEPP fees vary between investment funds and range from 0.12 per cent to 0.75 per cent.

**PEPP charges low fees because the Plan only covers actual costs and does not generate a profit.**

There are two types of fund fees:

- Administration fees - salaries, benefits, computer systems and general expenses of operating the plan.
- Investment fees - fees for investment managers, asset consultants and custodians.

All PEPP funds incur a common administration fee, but each fund is charged a different investment fee based on asset allocation and manager styles. Bond funds are less risky and generally passively managed so incur lower fees. Equities tend to generate better returns and are actively managed so they have higher fees.

These two fees (administration and investment) are combined and deducted from the fund prior to declaring the unit value.

*PEPP fees are considerably lower than many outside investment funds with similar asset mixes.*

Current PEPP fees range from about 0.12 to 0.75 per cent of fund assets. Comparable mutual fund fees average 2.15 per cent annually.

If you invested \$8,100 annually in PEPP for 40 years with a five per cent gross rate of return, you would accumulate a balance of \$840,000 after fees. In a mutual fund, the same investment with the same gross return would accumulate \$590,000 after fees which is \$250,000 lower than PEPP.

The writing is on the wall. Stick with PEPP in retirement and keep more of your money for yourself! Perhaps you may want to consider transferring in your other registered investments and decrease your outside annual fees.

The only additional fees a member would pay are transaction related fees shown in this chart.

## Member Transaction Fee Listing

Transaction	Fee
Lump sum transfers	First transaction per fiscal year* is free. Subsequent transactions are \$60 each.
Marital breakdown calculations	First calculation is free. Subsequent calculations are \$60 per hour (billed in half-hour increments).
Inter-fund transfers	First two transfers per fiscal year* and all online transfers are free. Subsequent transfers are \$30 per manual transaction ( <i>Investment Option Changes form</i> )
Maintenance orders	The cost of complying with a maintenance order is \$45.

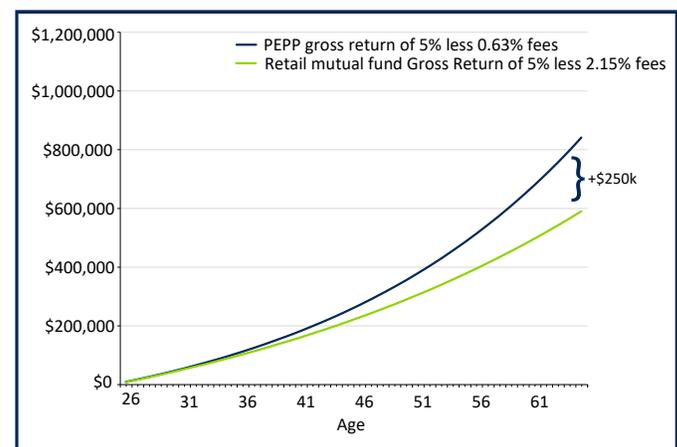
**In addition, these fees apply to Variable Pension Benefit (VPB) payroll:**

Lump sum payment requests	First transaction per fiscal year* is free. Subsequent transactions are \$60 each.
Payment schedule change†	First transaction per fiscal year* is free. Subsequent transactions are \$25 each.
Change of fund from which payments are made	First transaction per fiscal year* is free. Subsequent transactions are \$25 each.

\* Fiscal year is April 1 to March 31

## Investment Earnings (after Admin. and Inv. fees)

(based on a five per cent gross rate of return and an \$8,100 annual contribution)



## Stay the course continued....

Until you actually transfer or sell your funds, all losses and gains are only on paper. Depending on your time horizon, dips in the market are a bargain shoppers dream. Your contributions are used to purchase units at a reduced price so you get more units for the same amount of money. Once the market turns around you have more units increasing in value than you would have had otherwise.



PEPP has CERTIFIED FINANCIAL PLANNER® professionals on staff to answer any questions you may have about your PEPP investments. PEPP funds are managed and monitored by professional investment managers. Funds are rebalanced when required to maintain an asset mix similar to the targets mentioned in the Fund Fact Sheets. Fund Fact Sheets are available on the website.

Generally, pensions are long-term investments and sailing through the turbulence is often the best option.

### Choose paper-free



Be in the know! E-Comm members get advance notice by email that Plan news and personal information (like your member statement) is available on the website or in your PEPPAccess account. To sign up, click on the E-Comm logo on the PEPP homepage.

**Interesting fact:** Plan costs are reflected in the unit values. PEPP operates on a cost-recovery basis. If everyone signed up for E-Comm about \$140,000/year would be saved on postage alone.

## New Year's Resolutions

Pensions can be a bit intimidating because most of us don't fully understand them. We are always here to help. While it's not necessary to fully understand PEPP, members are still responsible to make decisions. All members should:

1. Name beneficiary(ies) for your account
2. Actively choose an investment fund. Do the *My PEPP Investor Profile* on our website – this takes 5 – 10 minutes and may help you choose an investment fund
4. Go to a presentation – take ownership of your financial future – register online
5. Sign up for E-Comm (see below)
6. Register for PEPPAccess so you can monitor your pension and make changes online

Then let it ride... pensions are long-term investments; review your statements and newsletters when they come and relax. If your life circumstances change, then re-evaluate and see if your pension investment or personal information needs to be tweaked.

### Tell us what you think!

We value your feedback. Please take a few moments to complete our two-question survey regarding the quality of communication material, services and client service you receive from PEPP.

The survey link can be found on the PEPP Home Page under **Follow Us!**

### Welcome Video

Take two minutes (literally!) of your time and watch the video called **Welcome to PEPP**.

Penny here will give you general information about the Public Employees Pension Plan.

Videos are available on the PEPP website under the member tab.



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