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Increase in Funding Contributions to the Desjardins Group Pension Plan (DGPP)

BACKGROUND

The financial crisis that has prevailed since 2008 has had a major impact on various economic areas. This crisis was characterized by a pronounced slump in stock markets and a steep drop in interest rates. These two factors combined have had a powerful, negative effect on the financial position of all pension plans, especially defined benefit plans, such as that of Desjardins Group. Already, many employers have chosen to reduce the benefits of their defined benefit plan, or even, in some cases, to convert their defined benefit plan into a defined contribution plan. As for Desjardins Group, it is taking steps to preserve the financial sustainability of its plan and to continue to provide financial security to its employees in their retirement.

SOUND AND PRUDENT MANAGEMENT

Since the DGPP came into being in 1979, it has always been managed in a strict and professional manner. Desjardins Group can be proud of the quality of the administration carried out by its Retirement Committee, which is a model of sound governance.

For many years, the actuarial valuations of the DGPP showed substantial surpluses. Those surpluses were used to fund many improvements to the plan, and on various occasions to grant contribution holidays to employees and employers, while abiding by the cost-sharing arrangement for the plan’s funding set forth in the DGPP Regulation, i.e. 65% borne by employers and 35% by DGPP members. During the period from 1996 to 2003 alone, $529 million were allocated to contribution holidays, including $185 million to employees and $344 million to employers.

HARD ECONOMIC TIMES

The changes that were made to the DGPP in January 2009 have nothing to do with the deterioration of the plan’s financial position. Its deterioration is entirely due to the problematic economic factors besetting defined benefit plans, which now have capitalization and solvency rates well below the balanced level of 100%. In fact, many defined benefit plans find themselves in such precarious positions that the governments of all Canadian jurisdictions have elected to take action to relieve the tax burden of companies whose plans are showing significant solvency deficits. Without government intervention, some of those companies could have been driven into bankruptcy!

As at December 31, 2006, date of the latest valuation filed with the Régie des rentes du Québec, the DGPP was financially sound, with a capitalization rate of 103.6% and a solvency rate of 98.8%. The data of the actuarial valuation projected to December 31, 2009 provide a better picture of the combined effects of the stock market slump in 2008 and the low interest rates that have persisted to the end of 2009. As of today, an estimate of the plan’s financial soundness shows a capitalization rate of 91% and a solvency rate of 71%. Therefore, in order to meet legal requirements, the plan must receive special contributions starting in 2010, in order to begin offsetting the serious solvency deficit observed at the end of 2009.

INCREASE IN CONTRIBUTION RATES: A DECISION BY THE BOARD OF DIRECTORS

At its meeting on November 12, 2009, the Board of Directors decided to increase the plan’s contribution rates starting in 2010, and asked that a brainstorming project on the plan’s funding be undertaken as soon as possible. This exercise will identify the financial issues surrounding the DGPP and propose viable solutions to continue promoting the plan’s financial sustainability.

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Overall, in order to offset a portion of the solvency deficit in 2010, we must pay additional contributions of $114 million, i.e. the equivalent of 6.3% of total pensionable earnings. Since the plan's cost-sharing arrangement will also be applied to these extra contributions, employers will bear 65% of the total (i.e. $74 million or the equivalent of 4.1% of pensionable earnings). The employees' share, 35% of the total, will amount to $40 million representing, overall, 2.2% of pensionable earnings.

NEW CONTRIBUTION FORMULA

The employee contribution formula that was applied in 2009 (4.25% / 7.65%) will thus be replaced, effective January 3, 2010, with this new employee contribution formula:

6.45% of salary up to 65% of maximum pensionable earnings (MPE)
(65% of the MPE of $47,200 = $30,680 in 2010)

+

9.85% of salary in excess of 65% of MPE

As for the contributions required of employers starting in 2010, they will be equal to 1.85 times the employee contributions arising from the new contribution formula shown above.

The table below shows the effect of the change in the contribution rate for various salary levels, before and after tax.

Salary earned	Variation before tax	Net variation	Salary earned	Variation before tax	Net variation
$20,000	$440	$314	**$60,000**	$1,320	$814
$25,000	$550	$393	**$70,000**	$1,540	$949
$30,000	$660	$472	**$80,000**	$1,760	$1,085
$35,000	$770	$550	**$90,000**	$1,896	$1,029
$40,000	$880	$629	**$100,000**	$2,031	$1,103
$45,000	$990	$610	**$120,000**	$2,301	$1,249
$50,000	$1,100	$678			

CONTRIBUTIONS MAY BE ADJUSTED IN 2010

The increase in contributions in 2010 is based on an estimate of the DGPP's financial position as at December 31, 2009. It is primarily intended to combat the deficit as quickly as possible in order to avoid the even more serious consequences that would result from a delay in applying the new employee contribution formula. Once the official actuarial valuation is filed with the Régie des rentes du Québec in March 2010, further adjustments to contributions may be required. In this event, we will inform all employers as soon as the information becomes known. In implementing this increase in contributions, Desjardins Group is pursuing its prudent and responsible administration of the DGPP.

NO CONTRIBUTIONS DURING THE 53RD WEEK

The week of December 27, 2009 to January 2, 2010 constitutes a 53rd week for the DGPP. Therefore, in accordance with section 5.1 of the DGPP Regulation which recognizes service for a maximum of 52 weeks in a given year, this 53rd week is exempt from contributions by employees and employers. Therefore, no contribution will be payable to the DGPP on the base salary during that week, and no service will be recognized. However, if a lump sum on which DGPP contributions are payable is paid out during that 53rd week, the contribution rates set for 2010 will apply.

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FOR MORE INFORMATION

Should you have any questions, do not hesitate to contact the DGPP Member Service team at 1-866-434-3166.