



Fees matter

What is management expense ratio (MER)?

“There is no free lunch” is a phrase often heard when discussing investments. No matter where you invest your money (CSS Pension Plan, financial institution, or mutual fund dealer, to name a few), you will pay fees for the products and services you receive. The term management expense ratio (or MER) is commonly used in the investment industry; it measures the total investment management fees and other investment-related expenses you pay as a percentage of your average investment assets. It can be a useful measure when comparing investment options.

Why should fees matter to you?

The examples below show why it is very important to understand what is included in the investment fees you pay, how those fees are charged, and the overall impact of those fees on the performance of your investments. Understanding fees and their impact will help you determine whether those fees are competitive and determine whether the products and services you are paying for are providing you appropriate value.

Example one:

The table below shows how an investment of \$100,000 earning 6% per year would grow after 20 and 40 years assuming fees of 0.4%, 1.0%, and 2.0% are deducted each year from investment earnings.

MER	0.4%*	1.0%	2.0%**
Annual Net Return (6% - MER)	5.6%	5.0%	4.0%
Cost of fees over 20 years	\$23,356	\$55,384	\$101,601
Net asset value after 20 years	\$297,357	\$265,330	\$219,112
Cost of fees over 40 years	\$144,359	\$324,573	\$548,470
Net asset value after 40 years	\$884,213	\$703,999	\$480,102

Example two:

The table below shows how a steady contribution of \$300/month earning 6% per year for 20 and 40 years would grow assuming investment fees of 0.4%, 1.0%, and 2.0%.

MER	0.4%*	1.0%	2.0%**
Annual Net Return (6% - MER)	5.6%	5.0%	4.0%
Cost of fees over 20 years	\$6,384	\$15,302	\$28,580
Net asset value after 20 years	\$132,228	\$123,310	\$110,032
Cost of fees over 40 years	\$61,014	\$139,641	\$242,859
Net asset value after 40 years	\$536,433	\$457,806	\$354,588

* CSS Pension Plan Balanced Fund MER in 2018 was 0.41%

**Median asset-weighted expense ratio for combination equity and fixed-income funds = 2.02%; [Morningstar](#), 2017

Fees are necessary but, as you can see in the examples above, the level of fees you pay can have a very significant impact on how much you will have available to fund your retirement.

Pro tip: When viewing rates of return – whether CSS Pension Plan investment returns or investment returns on other assets you may hold outside the Plan – always ensure you are viewing net returns. Net returns represent your investment return after fees are deducted. In other words, the return that you actually receive.

The CSS Pension Plan fee advantage

The CSS Pension Plan offers four investment funds – the Balanced Fund, Money Market Fund, Equity Fund, and Bond Fund – that members can use to implement their own personalized investment portfolio. There are two key characteristics of CSS investment funds that allow them to deliver better value to members compared to typical products available in the retail market:

- 1) Lower fees; and
- 2) Broader diversification.

Depending on the Plan investments chosen, fees range from 0.14% to 0.41% of average investment assets. This is a fraction of the fees charged for retail mutual funds and is made possible by CSS' low overhead* and the size** of our investment portfolio. In addition, CSS employs much broader and more sophisticated diversification strategies (both asset class and asset manager diversification) than is available in typical retail mutual fund products.

It is important to note that the fees, or MER (the 0.14% to 0.41% mentioned above), can change from month to month based on the actual costs incurred by the Plan. The current MER is reported on a quarterly basis and is always available under the [Investing](#) section of the website.

The CSS MER covers the cost of the following:

Investment management and choice: The CSS Pension Plan utilizes leading global investment consultants to construct sophisticated investment portfolios and to assist us in managing and overseeing the external investment managers with whom we work. The external managers are responsible for selecting investments within their mandate as well as the day-to-day investment decisions necessary to achieve specified performance targets. The investments are the backing assets used to construct our four customized investment funds.

Member services and communication: Making fully informed investment and retirement income decisions can be quite complex. We provide our members with access to retirement income options workshops and other pension information sessions, one-on-one meetings to assist with investment and retirement income decisions, and member communications, tools, and information through the Plan's website, social media, e-newsletters, and other communication channels.

Recordkeeping and administration: The CSS Pension Plan is responsible for collecting member contributions from our over 330 employers and recording them to individual member accounts. The Plan is also responsible for calculating investment earnings, issuing annual statements to members, and administering retirement income to retiree members of the Plan.

Custodial services: The assets of the CSS Pension Plan are held with and secured by CIBC Mellon. The Plan's custodian is responsible for valuing and reconciling the investments held with our external asset managers and reporting that information to the Plan on a daily basis so that we can value our four investment funds daily.

Co-operative governance: The Board of Directors is responsible for oversight of the Plan's administration and investment activities and reports out annually. As a member-owned and controlled co-operative, our delegate body represents the interests of members at our meetings, elects the Board of Directors, and decides what changes are made to the Plan's rules and regulations, amongst other things.

Other considerations - comprehensive financial advice

A financial advisor is a professional who provides personalized financial guidance and advice to their clients based on identified needs and objectives of the client. This can include advice with respect to financial products and services, investments, retirement plans, taxes, insurance, estate planning, mortgages and debt management, child education savings, and more.

In addition to the CSS Pension Plan Consultants available to all members to assist with their pension investment and retirement income decisions, many members make use of financial advisors outside the Plan. Research*** in recent years shows that financially advised households tend to accumulate wealth significantly better than non-advised households. A key consideration is to ensure you understand what you are paying for and how you are being charged so that you can make a fully informed decision on whether you feel you are receiving value for any advisory fees you are paying.

It is very important to understand what fees you are paying and what value you are receiving for those fees. Members of the CSS Pension Plan should feel good about the fees they pay on their Plan investments in comparison to fees charged for comparable retail investment products.

*CSS is a non-profit organization that does not incur sales force and fund distribution costs so our overhead costs are lower than is typical in the retail environment.

**CSS has over \$4.6 billion under management which allows the Plan to negotiate significantly lower investment management fees than in the retail environment.

*** CIRANO, 2016.

CSS Pension Plan office

(306) 477-8500 | 1-844-4CSPEN | css@csspens.com | www.csspens.com |



PENSION PLAN

Strength in Numbers.