All-Union Pension Discussions
Update to our Members

CUPE 1356 – CUPE 3903 – IUOE 772
– OHFA – YUFA – YUSA

March 1, 2013
York University All-Union Pension Group (YUPG)

• Includes representatives of
  – CUPE 1356 (Custodial Services, Housing, Grounds, Maintenance)
  – CUPE 3903 (Contract faculty, TAs, GAs)
  – IUOE 772 (International Union of Operating Engineers)
  – OHFA (Osgoode Hall Faculty Association)
  – YUFA (York University Faculty Association)
  – YUSA (York University Staff Association)

• Retains independent actuary (from Eckler) and legal advisor (from Sack Goldblatt Mitchell), with additional expert advice provided by CUPE - National
The Problem

• Size of plan’s deficits → Employer obligations → substantial budget challenges for University
• Government pension legislation requires the underfunded amount be resolved by additional payments by the University in a fixed time period
• “Solvency relief” is a recent government program designed to extend the time period available to reestablish plan solvency
  – Stage 1 Solvency Relief application granted
    www.yorku.ca/hr/documents/Pension_Submission.pdf
Actuarial Valuation of York’s Pension Plan

• Pension Assets fund 82.5% of the estimated payments from the Plan at December 31, 2011 → YU plan under-funded by 17.5%

• Market Value of Assets at 12/31/11 falls short of the estimated present value of benefits to pensioners (current and future) by $283M
  • Market Value of Assets $1,337.5M
  • Less Estimated Pensioner Liabilities: ($639M)
  • Less Estimated Active Members Liability: = $1,620.5M
    – Money Purchase Balances ($726.3M)
    – Minimum Guarantee Liability ($255.2M)
  • Equals “Going-Concern” Deficit = $283M

• On average for 2005/06/07/10, the underfunded ratio was 5.1% of benefits, which then defines York’s Solvency Relief Savings Target
## Process to Date

<table>
<thead>
<tr>
<th>Meetings</th>
<th>Winter 2011</th>
<th>Fall 2011</th>
<th>Winter 2012</th>
<th>Fall 2012</th>
<th>Winter 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mercer + University &amp; Employee</td>
<td>2010 Plan Valuation</td>
<td></td>
<td>2011 Plan Valuation</td>
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<tr>
<td>Reps</td>
<td></td>
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<tr>
<td>Aon Hewitt + University &amp;</td>
<td>Solvency Relief Legislation Application</td>
<td></td>
<td>University/Aon Hewitt proposes plan changes</td>
<td></td>
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<tr>
<td>Employee Reps</td>
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<tr>
<td>YUPG</td>
<td>YUPG Objectives &amp; Protocols identified</td>
<td>Possible plan changes identified, independent</td>
<td>YUPG develop proposals for plan changes</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>cost estimates obtained and reviewed by YUPG</td>
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</table>

YUPG: Ylwuniversity of Pennsylvania Graduate
YUPG Objectives and Considerations

• Discuss YUPG principles for pension plan changes, share information, obtain and review independent costing of plan changes

• Seek mutual agreement with the Employer on changes to the York University Pension Plan that
  – will reduce the current pension plan deficits,
  – are affordable, and
  – are structured to maintain acceptable levels of risk.

• Compare cost estimates of plan changes with the 5.1% Savings Target
YUPG and University Guiding Principles

(differences)

<table>
<thead>
<tr>
<th>YUPG</th>
<th>University Application for Solvency Relief March 22, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Open, transparent, consultative process</td>
<td>• Open, transparent, consultative process</td>
</tr>
<tr>
<td>• No changes for existing pensioners</td>
<td>• No changes for existing pensioners</td>
</tr>
<tr>
<td>• Protection of accrued benefits (per pension law)</td>
<td>• Protection of accrued benefits (per pension law)</td>
</tr>
<tr>
<td>• Maintain hybrid nature of plan</td>
<td>• Maintain hybrid nature of plan conditional on limiting University’s downside risk</td>
</tr>
</tbody>
</table>
YUPG and University Guiding Principles (cont’d)  
(differences)

<table>
<thead>
<tr>
<th>YUPG</th>
<th>University Application for Solvency Relief March 22, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensure plan affordability</td>
<td>• Ensure plan sustainability</td>
</tr>
<tr>
<td>• Meet savings target for solvency funding relief</td>
<td>• Meet metrics for solvency funding relief (savings target, reduce plan’s risk)</td>
</tr>
<tr>
<td>• Protect initial pension as at date of retirement</td>
<td>• Protect initial pension as at date of retirement</td>
</tr>
<tr>
<td>• Provide demographic equity</td>
<td>• Provide demographic equity</td>
</tr>
<tr>
<td>• <strong>Consider increased—and fairly allocated—contributions as the primary means of achieving affordability</strong></td>
<td>• <strong>Change plan governance to reflect risk sharing structure</strong></td>
</tr>
<tr>
<td>• <strong>When pension plan in a surplus position, member contribution increases to be reversed</strong></td>
<td></td>
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Possible Changes to the Pension Plan
YUPG and University Proposals (*differences*)

**YUPG**
- Increase employee and University contributions to Money Purchase (MP)
- Conversion of MP balance to pension: ensure reasonable mortality assumptions
- Lengthen indexation averaging period
- Normal Form: no changes

**University Proposals**
- Increase employee and University contributions to Money Purchase
- Conversion of MP balance to pension: *decrease interest rate*, increase mortality rates used for conversion
- *Remove non-reduction guarantee post retirement only (initial pension guaranteed)*
- Lengthen indexation averaging period
- *Normal Form: change 50% joint-and-survivor pension to life only or life guaranteed 10 years*
## Possible Plan Changes: Estimated Member Costs

<table>
<thead>
<tr>
<th>Sample Salaries</th>
<th>Current Provisions</th>
<th>Increased Contributions</th>
<th>AON/Hewitt Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,100 = 2012 Year’s Maximum Pensionable Earnings (YMPE)</td>
<td>$2255/year or $188/month</td>
<td>$3507/year or $292/month</td>
<td>$3131/year or $261/month</td>
</tr>
<tr>
<td>$100,000</td>
<td>$5249/year or $437/month</td>
<td>$7998/year or $667/month</td>
<td>$7373/year or $614/month</td>
</tr>
</tbody>
</table>
“Normal Form” versus Spousal Pension Benefits

• “Normal Form”
  – is the usual way a member’s pension will be calculated, per plan text
  – defines the base line pension benefit for retiring members
  – is currently 50% Joint and Survivor (JS50) for married retirees and life only for single retirees

• Spousal Benefits - Pension legislation requires that the amount of pension payable to a surviving spouse must not be less than 60% of the pension paid to the member, unless explicitly waived by spouse on member’s retirement

• At retirement, each member has a number of options for how exactly she/he wants their pension paid out: JS50, JS60, JS100, life only, life+10 etc. Monthly pension paid is adjusted so that expected actual payments under a retiree’s chosen option are of equivalent value to the pension payable calculated for the normal form (but with some exceptions).
Normal Form of Pension – An Illustration

My minimum guarantee formula pension is $1,000 per month.
How would my pension be adjusted based on a "Life 10" normal form?

<table>
<thead>
<tr>
<th></th>
<th>Married Member</th>
<th>Single Member</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>current plan</td>
<td>illustrated alternative</td>
</tr>
<tr>
<td>Life only</td>
<td>$1,000*</td>
<td>$1,025</td>
</tr>
<tr>
<td>Life 5</td>
<td>$1,000*</td>
<td>$1,018</td>
</tr>
<tr>
<td>Life 10</td>
<td>$1,000*</td>
<td>$1,000</td>
</tr>
<tr>
<td>Life 15</td>
<td>$1,000*</td>
<td>$974</td>
</tr>
<tr>
<td>J&amp;S 50%</td>
<td>$1,000</td>
<td>$960</td>
</tr>
<tr>
<td>J&amp;S 60%</td>
<td>$987</td>
<td>$948</td>
</tr>
<tr>
<td>J&amp;S 100%</td>
<td>$940</td>
<td>$903</td>
</tr>
</tbody>
</table>

Calculations are for illustration only. Actual calculations would depend on ages of member and spouse, and on actuarial assumptions adopted for administration of the York plan.

*Under current plan, married members whose spouses waive the J&S benefit entirely do not receive a pension higher than the normal form. This is a restriction of the Income Tax Act.

Illustration assumes member and spouse both age 65, discount rate 6%, and mortality based on 50-50 male-female blend of 70% GAM-94 table with generational improvements after 2000.
What Queen’s University did...

• Increased contribution rates:
  – from 4.5/6 to 7/9 for members
  – from 6/7 to 6/7.5 for Employer
  – Eliminated University contribution to non-reduction guarantee, funding it instead by a surcharge on money purchase balances at retirement

• Decreased prospective benefits:
  – Eliminated indexing on Minimum Guarantee pension
  – Lengthened the averaging period from 4 to 6 years

• No change to:
  – Minimum Guarantee formula (1.4% ≤ YMPE + 1.8% > YMPE)
  – Normal form = Life guaranteed for 10 years
Current Status of YUPG Deliberations

• Savings from alternative Plan changes suggest further calibration needed

• To achieve affordability will require significant increases in contributions

• Should we consider changes that reduce future liabilities/benefits?
  – Eliminate indexing on Minimum Guarantee pension or at least increase the indexing threshold to > 6%?
  – Convert Normal Form of JS50/Life to Life10 for all?
For more information...

- On-line Pension and In-person Information from Pension and Benefits Office, including Pension Basics [http://www.yorku.ca/hr/services/employees/benefits.html](http://www.yorku.ca/hr/services/employees/benefits.html)
- CUPE [http://cupe.ca/pensions](http://cupe.ca/pensions)
- OCUFA [http://ocufa.on.ca/tag/pensions/](http://ocufa.on.ca/tag/pensions/)
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