Backgrounder

Over the past two years, the York University All-Union Pension Group ("YUPG") has engaged in negotiations with the University on changes to the York University Pension Plan (the "Plan"). During these negotiations, YUPG sought to obtain an agreement that would reduce current Plan deficits, would be affordable, would be structured to maintain acceptable levels of risk and, at the same time, would achieve the savings target defined by the Ontario Government so as to render the Plan eligible for solvency relief.

"Solvency relief" is a recent government program designed to extend the time period available to re-establish plan solvency. Under pension law, a solvency deficit gives rise to an obligation to make special payments to retire the deficit. Normally, these special payments are amortized over five years. Under solvency relief, if a plan demonstrates meaningful progress towards attaining the savings target, the special payments required to retire the deficit can be extended to ten years. If eligible, the University would be able to extend the time period so as to reduce the amount of the annual special payment. Based on the 2011 actuarial valuation, the Plan's solvency deficit is $386.5 million. Consequently, obtaining solvency relief would result in a substantial reduction in the additional contributions the University would be required to make to the Plan.

1) The Agreement

The YUPG has entered into a Memorandum of Agreement that has been approved by each of the participating Unions' executive. Each Union is now in the process of informing its membership. This Backgrounder is intended to provide Union members with an overview of the Agreement.

The key terms of the Agreement are as follows:

- **Contribution Increases.** On a 50/50 cost sharing basis for the Money Purchase Component of the Plan, the Member and University contribution rates will be increased. The current contribution rate is set at 4.5% of the Year's Maximum Pensionable Earnings (YMPE) and 6% above the YMPE. The increase will be phased in five increments starting on March 1, 2014 and ending on March 1, 2016. The March 1, 2016 contribution rate will be 6.75% to the YMPE and 9.15% above the YMPE.
- **Non-reduction Reserve Funding.** The University's contribution toward the Non-reduction Reserve, which was 3% of the required Member contributions for the Money Purchase Component of the Plan will be eliminated effective January 1, 2014.
- **Indexing of Post-Retirement Pensions.** For retirements on and after January 1, 2015, the Moving Four-Year Average Fund Rate of Return will be lengthened to a five-year moving average. The rate of return for any year within the five-year period that predates the commencement of a pension shall be assumed to be 6%, the rate of return assumed in the pension plan text.

- **Contingent Changes.** If the change in the contribution rates and the change in the moving average fund rate of return are not sufficient to achieve the savings target based on the December 31, 2013 actuarial valuation, the YUPG has agreed that the moving average can be lengthened to six years.
- **Response to Government Refusal.** If the above changes are considered by the Government to be insufficient for meeting the savings target, the YUPG and the University will reconvene within two weeks of the Government notification to discuss how to address additional pension changes that may be required to achieve solvency relief.
- **Other Key Changes.** The University has agreed to significant changes in other areas:
  - **Prior Disclosure of Plan Changes.** Any future University proposals for changes in Plan provisions and Plan actuarial and administration practices must be provided to the All University Pension Committee prior to submission to the Board of Governors. The University is compelled to provide information to the All-University Pension Committee (AUPC) at least 60 days prior to presentation to the Board of Governors on the rationale for change, the cost/benefit/administration implications, and a blackline of any Plan wording changes that accompany the proposal. Any member of the AUPC has a corresponding opportunity to present Plan change proposals to the AUPC.
  - **Use of Surplus.** Should the Plan return to a surplus funding position in the future, the University is prohibited from using surplus funds to fund any University matching contributions to the Money Purchase Component.
- **Further Plan Change Discussions.** The YUPG and the University have agreed to meet no later than October 1, 2013 to discuss further Plan amendments.

2) Commentary

The YUPG made materials available to the respective Union memberships prior to concluding the Agreement with the University that indicated that our proposal would seek to increase University and Member contributions on a 50/50 basis and, only if required in addition to contribution increases to meet the savings target, lengthen the moving average fund rate of return. The Agreement is consistent with these commitments and, at the same time, has obtained significant concessions on other issues.

a) Contribution Increases

Relative to other University pension plans, York University's Plan has one of the lowest member contribution rates. In addition, the contribution rates are significantly below the rates levied in major public sector plans as is evident in the following table.

Ontario public sector pension plans
Contribution rate comparison (as shown on plan websites as of March 31, 2013)

	Member		Employer		*Notes*
	up to YMPE	above YMPE	up to YMPE	above YMPE	
Ontario Teachers' Pension Plan	11.5%	13.1%	11.5%	13.1%	*Rates effective Jan. 1, 2014*
Public Service Pension Plan	6.4%	9.5%	6.4%	9.5%	
OPSEU Pension Plan	9.4%	11.0%	9.4%	11.0%	
Healthcare of Ontario (HOOPP)	6.9%	9.2%	8.69%	11.59%	*Employer rate = 126% of member rate*
OMERS - age 65 normal retirement	9.0%	14.6%	9.0%	14.6%	
OMERS - age 60 normal retirement	9.3%	15.9%	9.3%	15.9%	
Colleges of Applied Arts and Technology (CAAT)	11.2%	14.8%	11.2%	14.8%	*Rates effective Jan. 1, 2014*

The move to a 6.75% to the YMPE and a 9.15% above the YMPE contribution rate (effective March 1, 2016) remains significantly lower than the contribution rate paid by most broader public sector employees. That said, it is important for members to understand the dollar impact of the proposed contribution changes. The following table shows estimates of the cumulative change in the contribution amount for an employee earning at the YMPE level in each year ($52,122 in 2014, for example) and for an employee earning $100,000 per annum. We have assumed that the YMPE will increase by 2% per year for 2014 through 2016. Members should also recognize that contributions to the Plan are tax deductible. The after-tax cost of the contributions will be less than the dollar amounts shown in these tables.

Member Annual Earnings at YMPE (Range $52,122 to $54,227)		
Date of Change	**Contribution Rate**	**Monthly Increase**
March 1, 2014	4.95% to YMPE/6.63% Above	$19.55
September 1, 2014	5.4% to YMPE/7.26% Above	$39.09
March 1, 2015	5.85% to YMPE/7.89% Above	$59.81
September 1, 2015	6.3% to YMPE/8.52% Above	$79.75
March 1, 2016	6.75% to YMPE/9.15% Above	$101.68

Member Annual Earnings at $100,000 (YMPE Range $52,122 to $54,227)		
Date of Change	**Contribution Rate**	**Monthly Increase**
March 1, 2014	4.95% to YMPE/6.63% Above	$44.68
September 1, 2014	5.4% to YMPE/7.26% Above	$89.36
March 1, 2015	5.85% to YMPE/7.89% Above	$133.58
September 1, 2015	6.3% to YMPE/8.52% Above	$178.10
March 1, 2016	6.75% to YMPE/9.15% Above	$221.83

It is notable that the University will still be required to match dollar for dollar the member's money purchase contribution. The 50/50 cost share with an increased contribution rate means that more money will be deposited into your Money Purchase Account each year to be used in your retirement.

On and after March 1, 2016, Plan members will have approximately 1.5 times the amount of contributions deposited into their Money Purchase Accounts than they would have under the current contribution formula. This result can be contrasted with the result of solvency relief negotiations in the Queen's University Pension Plan where, for example, the University money purchase contribution rate is now less than the member's.

b) Protecting Future Surplus

Many of you are aware that the University took extensive contribution holidays during the years when the Plan was in surplus. 63% of all of the contribution holidays taken by the University related to the University's money purchase contribution obligations. In other words, the University used the Plan's surplus to make its contribution to the money purchase component of the Plan during those years. The University has agreed that surplus will not be used to fund the money purchase obligation of the University in the future. While we do not foresee surplus arising in the near future (even with the higher contributions), this is nevertheless a significant concession that can work to prevent future diminution of fund assets.

c) The Obligation to Consult with the YUPG

We have been frustrated in the past when Plan amendments, changes in actuarial assumptions or administration practices have been invoked by the University without consultation. One of the objectives of YUPG in engaging in these negotiations was to establish a protocol which would improve transparency in Plan oversight and administration. The University is now obligated to present changes to the Plan, actuarial assumptions and administration practices in advance to the AUPC. Moreover, the changes have to be presented with sufficient background information to enable adequate analysis and response. The Agreement also ensures that the terms of the protocol cannot be changed without the consent of the AUPC. This change should better enable Union representatives to advocate on behalf of Plan members not only on explicit Plan changes but also on how the Plan is administered day-to-day.

d) Indexing of Post-Retirement Pensions

The Fund Rate of Return Moving Average is used to calculate indexing post-retirement. The rate of return for any year within the five-year period that predates the commencement of a pension shall be assumed to be 6%, the rate of return assumed in the pension plan text. The change essentially ensures that the averaging period will be back-filled for the years immediately prior to pension commencement, so that the resulting indexing adjustment will reflect investment returns above or below 6% only during periods after the pension has started (ignoring returns before the pension started and within the averaging period).

e) Elimination of the Additional University NRR Contribution

The Non-reduction Reserve is used to maintain pensions at their current level if the returns fall below 6%, the amount the fund is assumed to earn when your initial pension amount is calculated. Currently, members' Money Purchase Accounts are charged 4.5% at retirement to partially fund this reserve. The University provides an additional contribution equal to 3% of the members' contributions (or approximately 0.25% of the total pension contributions). The University NRR contribution will be eliminated. It is estimated that the Members' Money Purchase Account will be charged an additional 0.9% assuming a five-year averaging period (less if there is a six-year averaging period). We note that the levy is charged only on the Money Purchase Account balance. Members retiring on the Minimum Guarantee will see no such charge. We note too that the University contribution to the NRR was also eliminated at Queen's University as part of the solvency relief negotiations.

f) Future Consultations

This Agreement is not an end in itself. YUPG has agreed to engage in follow-on talks not only to discuss future structural changes to the Plan but also to raise issues related to "non-cost" Plan changes – changes that can improve, for example, the administration of the Plan without increasing funding costs. Both the Unions and the University agree that the current Plan text is out-of-date and does not necessarily accord with current employment practices (for example, the elimination of compulsory retirement and its implications on Plan provisions). This further dialogue with the University provides YUPG with a forum to challenge certain Plan administrative practices and seek change.

3) Conclusion

We expect that the implementation of the Protocol should be sufficient to achieve the savings necessary for the granting of solvency relief. At the same time, the Protocol provides new avenues for Union representatives to protect and advance member interests. As a final point, one should not lose sight of the fact that the increase in pension contributions will result in more money being credited to your money purchase account on a tax-deferred basis. While the increased contribution rates will result in incrementally larger pay cheque deductions, the funds deducted and contributed to the pension plan remain your money, as do the matching University contributions.