Financial Surpluses for the University and our Pension Plan: Why the 2013 pension cuts need to be revisited

York's Growing Financial Surplus

As many of you know, the 2017 financial statements indicate that York University currently enjoys an extremely healthy balance sheet. Over the last four years the university's revenues have increased by 11.4%, while expenses have gone up only 7.3%. As YUFA has reported in the past, the university's growing operating surplus is largely attributable to major changes that were made to the York University Pension Plan in 2013. As a result, in 2017 the university ran a surprisingly large $36.4M surplus, which, as the following table shows, was the fourth and largest surplus in the last five years:

Annual Operating Balances (from York's 2017 financial statements)

	2013	2014	2015	2016	2017
Revenue	$983.1M	$1,016.9M	$1,017M	$1,041.2M	$1,095.1M
Expenses	$985.9M	$1,012.6M	$997.1M	$1,017.9M	$1,058.7M
Surplus/Deficit	**($2.80M)**	**$4.30M**	**$19.9M**	**$23.3M**	**$36.4M**

York's unions agree that the 2013 pension changes need to be reviewed. They have imposed costly sacrifices on York employees, both in terms of higher contributions and other new provisions that will either diminish the pension income of many members or offset that pension income by mandating much higher pension contribution rates over one's years of employment.

These changes were negotiated between the administration and York's unions at a time when the Pension Plan was running a deficit following the severe market downturn of 2008-9. At the time, the university was warning of years of red ink and projected sub-par investment returns and therefore called upon employee groups to make sacrifices. The goal was to allow the university to qualify for a government supervised reduction in "special payments" to address the pension deficit (and the solvency deficit in particular). Some of the most significant changes included increases to employee contributions from 5.5% to 8.35% of salary and a new indexing formula that, among other things, will reduce the amount of the Plan's investment returns that are allocated to indexing pensions of members in the first five years of retirement.

The following chart, taken from the annual audited financial statements, illustrates the large impact of higher employee contribution rates and other changes since 2013:

	2012-3	2016-7
Employee contributions as % of salary	5.5%	8.35%
Pension surplus or (deficit)	($177,247,000)	$195,069,000
Funded Status	90%	108%
Annual Employer contributions	$65,017,000	$46,500,000
Employer pension contributions as % of total salary and benefits costs	9.4%	5.9%

A major impact of the 2013 solvency relief agreement has been a reduction in the employer's share of funding the costs of the York pension plan, which has now declined from an historical average of approximately 67% to only 57.5% by the end of 2016. At the same time, the Pension Plan's financial health has steadily improved to the point where an 8% going concern surplus was reported as of December 2016. There will likely be an even larger surplus, at the beginning of 2018. Moreover, the provincial government has announced its intention to provide much more flexible solvency funding requirements for pension plans, making it far less likely that York will need to make special payments after reporting a 'solvency' deficit. This policy recognizes the fact that so-called 'going concern' valuations – where York enjoys a surplus – is a much more meaningful indicator of a pension plan's level of financial health than solvency valuations.

At the time of the 2013-14 solvency relief agreement it was understood that if the Pension Plan returned to a surplus position, discussions would take place to review various options, including changes to the savings measures that were adopted. YUFA and other employee groups at York have begun this process under the auspices of the All University Pension Committee (AUPC). The AUPC is a body that includes members of York's employee groups and the administration and which has an advisory role in relation to the York Pension Plan and can make recommendations for pension plan changes. At the December AUPC meeting employee members raised concerns about the price that current and future retirees will be paying for the pension plan changes that have taken place in the last four years. There was a strong feeling that at least some of these plan changes are no longer warranted considering the healthy financial status of the university in general, and the York pension plan in particular.

We have also made preliminary suggestions for modifications to reverse the most damaging and costly changes for our members. We hope that members will find the time to attend our Special Meeting on Wednesday January 24 (see full details below) to further discuss this matter and to provide input into possible pension proposals that may come before the AUPC. Any changes to the provisions of the pension plan must be approved by YUFA, and they would therefore be

brought to members for ratification. In the meantime, the section below provides a more detailed summary of the most significant changes and their impact.

Three key pension changes: Understanding the details

To understand what follows, we must remember that the York pension plan is a hybrid plan where your pension at retirement is the higher of two calculated amounts:

(i) a money purchase pension (or defined contribution pension) based on accumulated contributions and the fluctuating investment returns of the Plan.

(ii) a minimum guarantee pension (or defined benefit pension) calculated using a formula where benefits are accrued based on years of service and highest years of salary (neither of which are dependent on the fluctuating earnings of the Plan).

Hybrid plans typically feature a defined benefit component that has a less generous guaranteed benefit formula than a “pure” defined benefit plan, but allows for the potential to receive a higher pension based on the earnings of the plan. As with a pure defined benefit pension plan, members have a very important stake in how well pensions are indexed in retirement, and this is where we find some of the most problematic features of the York pension plan.

A. ***Weakened pension indexing***. It is important to remember that, without indexing of pension income in retirement, the real inflation-adjusted value of our pensions would shrink significantly throughout our retirement years. The York Pension Plan does not provide an annual inflation-based indexing provision like the CPP or like faculty pension plans at many other universities (Ryerson, U of T, Ottawa, etc.). Instead, the annual pension adjustments (indexing of benefits) are calculated using an average of the plan’s investment earnings over the previous five years, less 6%, which is the baseline of annual expected earnings of the plan. The average level of earnings of the plan has typically been above 6% and so in the average year this “excess earnings” model has yielded positive indexing. Unfortunately, for most periods during the last 20 years indexing has tracked below the average inflation rate of 1.9%. The recent changes to our pension adjustment formula from the solvency relief agreement will make indexing worse. This is because the 2013-14 pension changes introduced a new stipulation that the five years before you retire are 'deemed' to be years in which the plan’s earnings are only 6% for the purposes of calculating indexing. Of course, each 6% 'deemed' pre-retirement year adds a zero weighting to the moving average calculation that determines your pension adjustment.

The new pension adjustment formula makes it highly likely that most members who have retired after 2015 will have suppressed levels of pension indexing for the first 1-5 years of their retirement. If plan earnings remain similar to their historical average over the last decade or two, the cumulative negative impact of this change couldbe significant, roughly between $60,000 - $100,000 over the course of one's retirement. Several options are available to revise the indexing formula, including using the more common method of linking pension adjustmentsto the Consumer Price Index (CPI) or moving toward an indexing formula similar to the one used for the faculty pension plan at Windsor.

B. ***Increased Non-Reduction Levy charged to members***. Members of the York Pension Plan are protected from pension reductions during their retirements even in years when the moving average of the previous five years of the plan's investment return falls below the assumed return of 6%. In many years this non-reduction guarantee is self-funded because any 'would-be' reduction to a retiree's pension is deferred, and then tracked as a reduction applied against future positive pension adjustments. However, since this deferral method may not pay for the full non-reduction guarantee, the pension actuary assigns a percentage amount – currently 6% - to deduct as a levy from *every member's* money pension account upon retirement as insurance to fund the full non-reduction guarantee. Until the 2013 pension changes members's money purchase accounts were only charged 2% for the non-reduction levy, the rest of which was paid by the university. Now, however, there is a new stipulation according to which the university does not pay any portion of the levy and and an even higher levy of 6% must be deducted from the employee's money purchase account. Members who would have retired on a minimum guarantee pension without the increased levy are not affected, but many recent retirees have seen their pensions reduced by up to 4% more per year than earlier retirees because of this change.
Given the potentially very large negative impact of the non-reduction levy on pensions, and given the fact that the finances of the Plan and the University are both in surplus, it is clear that the University can afford to resume covering a significant portion of the non-reduction guarantee.

C. ***Higher contributions***. Monthly pension contribution increases of 50% have eroded approximately half of our members' salary increases over the four years. It should be mentioned that although the employer's total contributions to the Plan have declined significantly, the 2013 pension agreement required that a higher proportion of employer contributions must get deposited into members' money purchase accounts. For many members the higher contributions have been and will be very costly, especially if they are retiring on the minimum guarantee pension, in which case higher contributions to one's money purchase account have provided no benefit since one's pension is based on years of service and five highest years of salary. The new higher contribution rates mean that

some proportion of employees, especially those in the earlier stages of their careers, will have a greater chance of retiring on a higher money purchase pension instead of a minimum guarantee pension, especially if the Plan's financial performance is good. This advantage is partly because the York Pension plan's minimum guarantee (or 'defined benefit') formula is lower than most other university pension plans. In many cases, however, the cumulative cost of higher employee contributions, greater average longevity as well as the indexing changes outlined in A and B above, will offset all or most of the benefits of larger money purchase accounts.

Conclusion

The combined impact of higher contributions, weaker pension indexing and lower money purchase pensions represents a significant reduction in many of our member's pensions and lifetime compensation. It is important to remember that pensions can amount to approximately 30% of the lifetime compensation our members will receive from their employment at the university. The trimming of our pension plan's already comparatively weak 'conditional' indexing provisions is especially problematic. The changes that York's employee groups agreed to in 2013-2016 were intended to respond to a supposed long-term structural funding problem for the York Pension Plan which has not materialized. While some increase in pension contributions may have been necessary, the reductions in benefits have not been.

As part of this process for revisiting the 2013 pension changes the YUFA Executive believes it is important to consult with members. We therefore invite all member to attend the Special meeting on January 24 (see below). Another message and meeting package will be sent out at least one week before the meeting.

Special Meeting on Pensions

1:30-3:30 pm

Wednesday, January 24

152 Founders College