YUFA Pension FAQ – 2018

What kind of Pension Plan do we have at York?

The York Pension Plan (YPP) is common to all employee groups of York University. At York the pension plan is what is known as a "hybrid" plan where, in effect, two pensions are calculated for each employee and the higher one is used to determine your pension upon retirement. The first pension – a money purchase pension - is calculated from the money that has been accumulated from your contributions and the university's contributions over the years, plus the earnings. The second pension - a minimum guarantee pension - is based on your years of service and the five highest years of salary. The retiring member receives the highest number, and hopefully further increases in retirement based on pension adjustments described below.

There are some advantages in a hybrid plan, as it provides the potential to share in positive earnings of the plan beyond a fixed formula. The negative side is that the so called "defined benefit" formula is often weaker than in a pure defined benefit plan. For example, the YPP's minimum guarantee formula yields a pension that is roughly 5% less than the defined benefit formula of the pension plan at Ryerson or University of Ottawa. In addition, in a hybrid plan indexing is often based only on the "excess" earnings of the plan, which means the portion of earnings that exceeds the baseline "assumed" rate of plan earnings. In the last two decades this has led to below-inflation post-retirement indexing.

How is the Plan funded?

To see how your retirement pension and indexing is determined it is important to understand that there are three separate types of funds associated with individual pre-retirees, for actuarial purposes:

1. **Individual Money Purchase Accounts (MPA**) – used to calculate the money purchase pension from combined contributions by employees and the employer and based on factors such as (a) age at retirement (b) spousal arrangements and (c) expected return on investing the funds in your MPA.
2. **Minimum Guarantee Fund (MGF)** – supplements the money purchase pension if one's minimum guarantee pension is higher than one's money purchase pension. Employer is responsible for making sure this fund is large enough after all required contributions by employees are made.
3. **Non-Reduction Reserve (NRR)** – pays cost of guaranteeing no reduction of pensions after one retires. Employer is responsible for making sure this fund is large enough after all required contributions by employees are made.

The reason for the third fund is to pay for the non-reduction guarantee, which ensures that your pension will not be reduced even if the earnings of the plan are low or negative during some periods of your retirement. Prior to 2014 a levy of 2% was charged to everyone's money purchase account to pay the cost of guaranteeing non-reduction.

Since that time the levy has been increased to 6%, which has a significant impact on many of our members' pensions because it reduces the size of the money purchase account. The method for calculating the Money Purchase pension has remained the same, which is based on your age at retirement, spousal arrangements and an assumption of a return of 6% on the remaining funds in your MPA..

When the Plan earnings were low or negative after the 2008 financial crash a majority of members retired with a minimum guarantee pension, bnut in recent years higher contributions and better investment returns have allowed a majority (60%) of members to retire on a money purchase pension. Those figures are for all York employees. Relative to other employee groups, more faculty members will retire on a minimum guarantee pension because the final five years of income (used to calculate the minimum guarantee) is much higher than income in earlier years.

Is the Plan indexed in retirement?

A key feature of any pension plan is indexation. Typically defined benefit plans, which simply have a minimum guarantee, like Ryerson or University of Toronto or University of Otttawa, have indexation that is strictly tied to inflation or the consumer price index (CPI). York's plan is indexed in a way that is tied to the (fluxuating) earnings of the Plan, like a pure money purchase or "defined contribution" pension plan. If the annual returns on the pension funds exceed 6% (on a five-year average basis), your pension is increased. A major money-saving change was made in 2015 which involved "deeming" the five years immediately preceding retirement to be years when the plan earned only 6%. On average, we can assume that many members will have reduced pension income as a result of this change, especially if one retires soon after years when the Plan's earnings have been high (as in recent years) and therefore would have yielded healthy positive indexing.

It is important to remember that, if the Plan's returns fall below 6%, your pension is not decreased. This non-reduction guarantee is not "free" for members, and is actually paid for in two ways. First, even though your pension is not reduced, the shortfall is tracked (the "Shadow Pension") and you only receive increases once the shortfall is made up. Secondly members' money purchase accounts are charged a 6% non-reduction levy upon retirement as described above.

Is there an alternative way to index a hybrid pension plan?

One major drawback to the York pension plan is that whether one retires on a money purchase pension or a minimum guarantee pension is a matter of timing and luck in relation to financial market cycles. The hybrid pension plan at the University of Windsor has a more advantageous formula of hybrid indexing to match the hybrid nature of the plan. Each year after retirement a new calculation is made to determine whether one will receive a money purchase or minimum guarantee pension (whichever is higher). There is no levy to pay for a non-reduction reserve, so one's initial pension is likely to be higher. The downside is that there can be fluctuations from year to year, but this is

offset in two ways: (a) the pension “baseline” is higher and (b) the minimum guarantee pension provides a floor and is tied to CPI like most defined benefit pensions.

What is a pension deficit or surplus, and is the York plan financially healthy?

When the MGF and NRR do not have sufficient funds to meet assumed liabilities for future retirees the Plan would be in deficit. When there is a deficit in an employer-sponsored plan like York’s the law requires the Employer to make up these deficits over a given period. Currently the pension plan has a reasonably healthy surplus, presumably because the Plan contributions (monthly contributions and the 6% non-reduction levy) and plan earnings are more than enough to cover the plan’s assumed liabilities. For this reason YUFA and York’s other unions are proposing that pension-reducing changes to the Plan that were made since 2013 should be revisited.

(This pension FAQ has been prepared by Richard Wellen, but relies heavily on an earlier version of a pension primer first published by YUFA in 2012 by Al Staufer, Arthur Hilliker and Walter Whiteley).