YUFA

Special Membership Meeting on Pensions

January 24, 2018

Proposed Agenda

1. Review of York Pension Plan
2. Importance of pension indexing and impact of recent changes
3. Comparison with other university pension plans
4. Possible proposals to revise the York Pension Plan
5. Recent pension developments in Ontario university sector

Context

- York University Pension group- YUPG (York's unions) -met to discuss pension changes.
- All University Pension Committee -AUPC– an advisory body to York pension plan.
- Next meeting: Friday.
- Seeking to review 2013 changes

Other key monetary issues

- Salary
  - Reverse years of salary settlements below CPI
- Progress-through-the-ranks (PTR)
  - Annual increments have declined from 2.2% of mean salary to 1.8% (career earnings profile now has much flatter slope).

York Pension Plan – (Hybrid plan)

- Most Plans:
  - either Defined Benefit or Defined Contribution
  - DC: accumulated contributions plus earnings
    - employees bear investment risk
  - DB: formula factoring # of yrs and 5 highest salary years
    - Employer sponsored DB: employer bears investment risk.
  - Most DB plans have indexing linked to CPI

YPP as Hybrid Plan – Both DC and DB

- Money purchase or minimum guarantee pensions – whichever is higher.
- Advantages:
  - Minimum guarantee but:
  - Positive earnings can go beyond fixed formula.
  - Higher earners not constrained by statutory DB maximums.
- Disadvantages:
  - Most have ‘lower’ DB formula than pure DB plan.
  - Indexing usually not guaranteed.

Using Pension planner website

- Living example of plan’s hybrid features.
- Adjust assumptions: plan earnings, retirement date, etc..
- Default assumption is 6% earnings (well below historical average).
- Fast fact:
  - Now: 60% of York employees retire on MP pension (but probably less for faculty members).

Basics of YPP Indexing

- Excess interest indexing
  - Plan assumes 6% earnings will pay for pensions without indexing.
  - Pension adjustments (in retirement) roughly based on average of previous five years plan earnings less 6%.

Some recent history

decade	Avg. pension adjustments (indexing)	Avg. CPI
1987-1996	5.3%	3.1%
1997-2006	2.3%	2.1%
2007-2016	0.3%	1.6%

Non-Reduction Guarantee

- Ensures no reduction of pensions in retirement
- Paid for by:

1. *non reduction levy* taken from our money purchase accounts upon retirement.
2. shortfall from ‘negative’ years tracked and deducted from later ‘positive’ years.

Indexing – who bears the investment risk?

- Employees bear full risk, despite hybrid nature of plan.
- Do we need a hybrid indexing formula (like at Windsor)?

2013 Solvency Relief Agreement

- Solvency deficits and pension regulations.
- In wake of financial crisis
- Requirement for large special payment
- York unions agreed to pension changes.
- University qualifies for solvency relief
  - Allowed smaller amortized payments over ten instead of three years.
  - 2018: Gov’t expected to relax solvency funding requirements.
  - York has good ‘going concern’ pension surplus.
  - Gov’t may require enhanced going concern cushion.

What did we agree to?

- Large employee contribution increases from 5.5% → 8.3%.
    - Employer matches amount going to money purchase accounts.
- Non-reduction levy no longer shared by employer – 6% taken from MP account upon retirement.
- Weaker indexing.
- Changes should be reviewed if plan returns to surplus

Impact of Pension changes on York's Operating Surplus

	2013	2017
Overall York Surplus / deficit	($2.8M)	$36.4M
Employee pension contributions as % of salary	5.5%	8.35%
Pension surplus/deficit	-$177.2M	+$195.1M
Funded status of the Plan (on a going concern basis)	90%	108%
Annual Employer contributions	$65M	$46.5M
Employer contributions as % of salary and benefits costs	9.4%	5.9%

Employee Salary and Benefits Cost as % of University Expenses

2013	74.8%
2017	67.6%

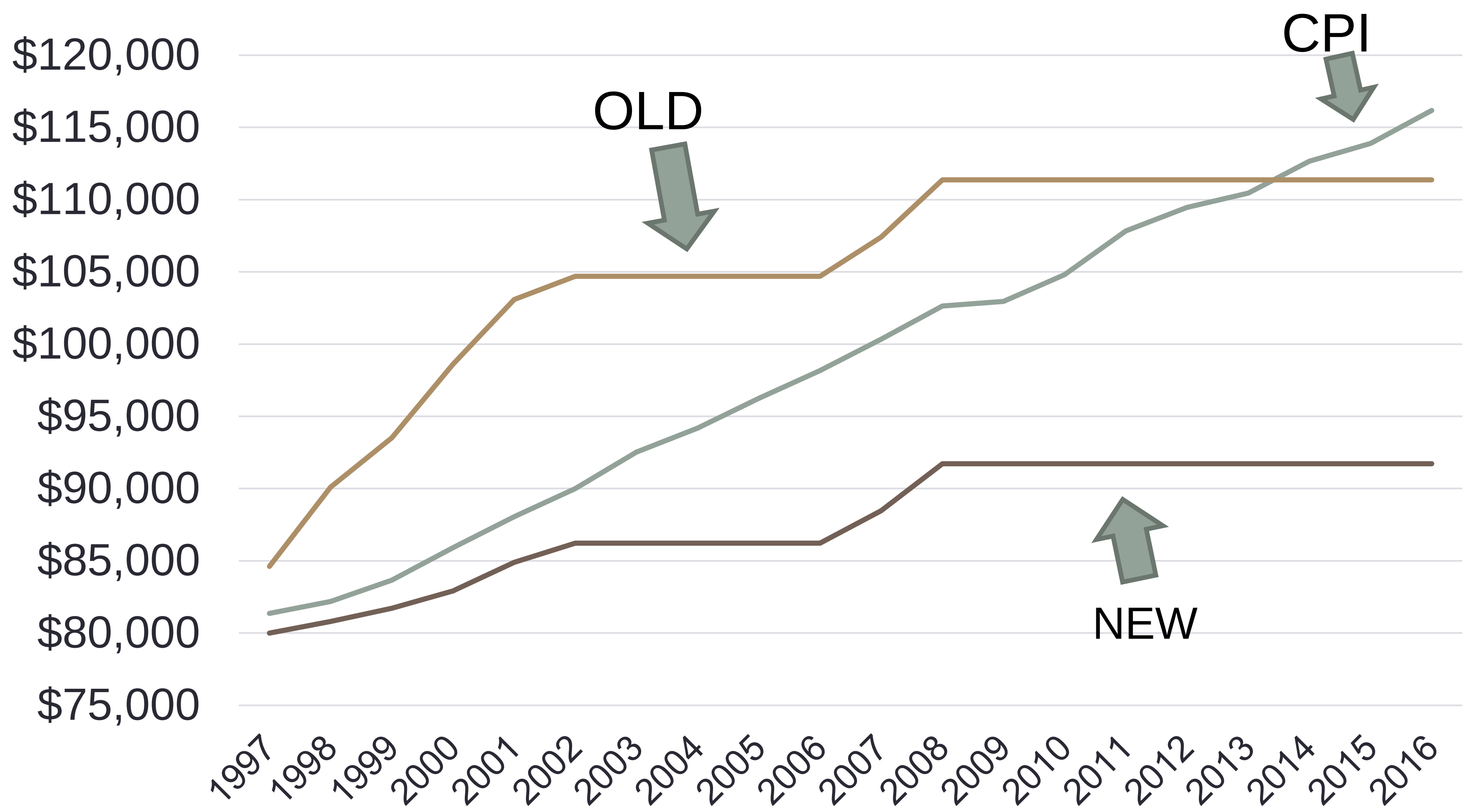
Review of indexing changes

- Change from 4 to 5 year moving average.
- New Deemed rate:
  - Five years prior to retirement backfilled at 6% for purposes of calculating indexing.
  - If plan earnings in those years averaged below 6% the effect would be good, if above 6% then bad.

Pension adjustments for 1997 retirees. What if new ‘deemed’ rate had applied?

	Average Annual Adjustment	Initial pension at 65 yrs	Pension at 85 yrs
Actual indexing	1.7%	$80,000	$111,335
CPI	1.9%	$80,000	$116,176
If New Indexing had applied	0.7%	$80,000	$91,718

Applying new “deemed” rate for 1997 retirees



Include increased non-reduction levy (assume 3% lower pension)

York Retirees in 1997	Average Annual Adjustment	Initial pension at 65	Pension at 85
Actual indexing	1.7%	$80,000	$111,335
CPI	1.9%	$80,000	$116,176
Applying New Indexing	0.7%	$80,000	$91,718
New Indexing plus non-reduction levy	0.7%	$77,500	$88,852

Is there a better way? Some options

- Negotiate major plan changes?
  - CPI-linked indexing?
- Eliminate deemed rate
  - But our indexing is still weak, especially in low interest rate environment.
- Deemed rate = CPI?
- Employer to pay all or part of non-reduction levy.
- Better approach according to YUPG:
  - Windsor model.
  - Hybrid plan with true hybrid indexing
  - No need for non-reduction reserve (and 6% levy).

University of Windsor Faculty Plan

- Hybrid design, similar to YUPP
- Money purchase and minimum guarantee pensions are compared at retirement, and are also ***separately tracked*** and ***compared annually*** after retirement
  - Pension paid each year is the greater of:
    A. indexed money purchase pension, or
    B. indexed minimum guarantee pension

University of Windsor Faculty Plan (cont'd)

MP and MG indexed differently (MG is 'floor')

MP indexing formula:

– Plan earnings minus 6% (no moving average)

– Can fluctuate up or down (no non-reduction guarantee)

MG indexing formula:

– Full CPI increase between 0% and 2%

– Pension increase of 2% if CPI increases between 2% and 4%

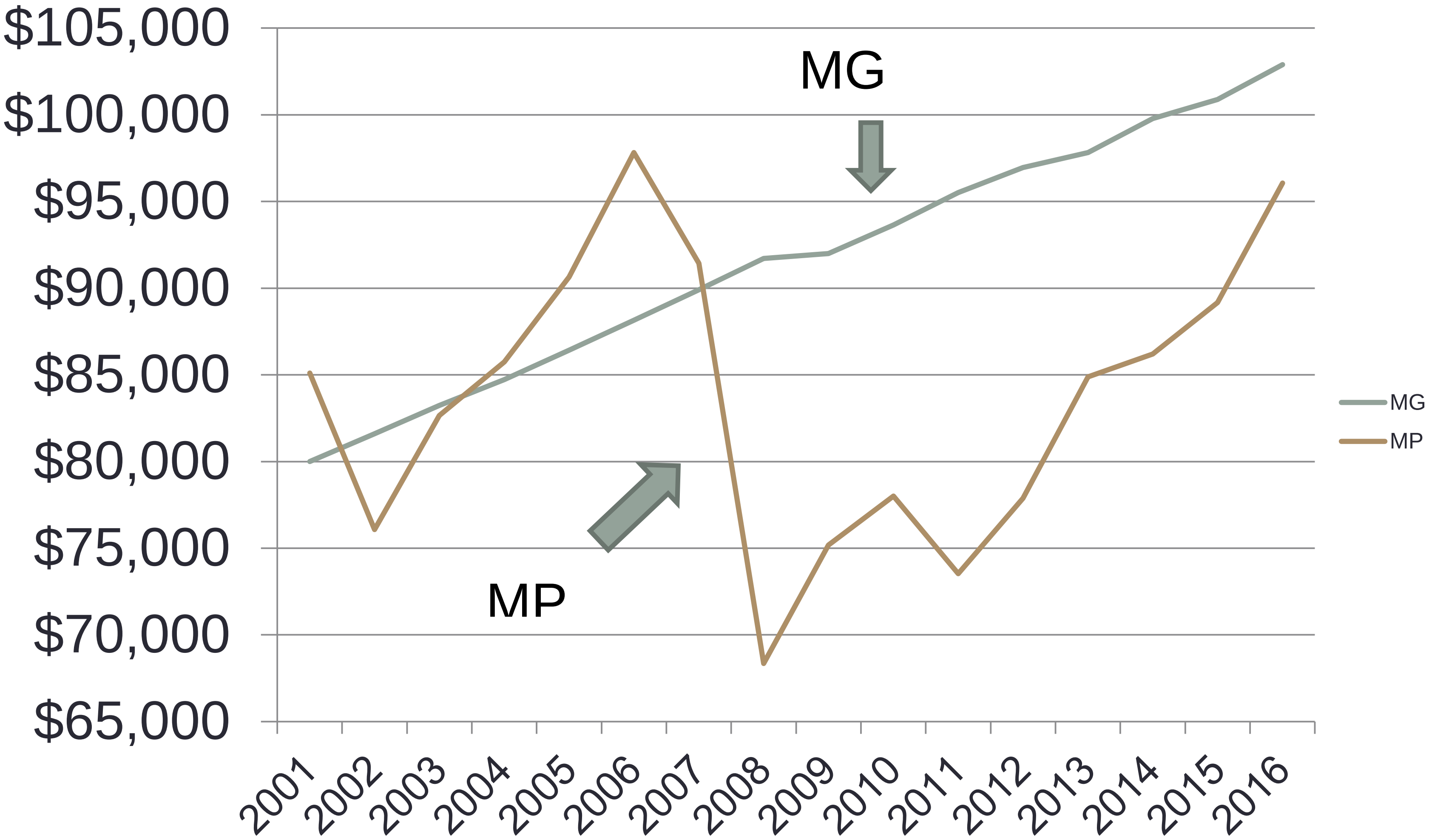
– Pension increase of 50% of CPI if CPI increases between 4% and 8%

– Pension increase of 4% if CPI increases by 8% or more

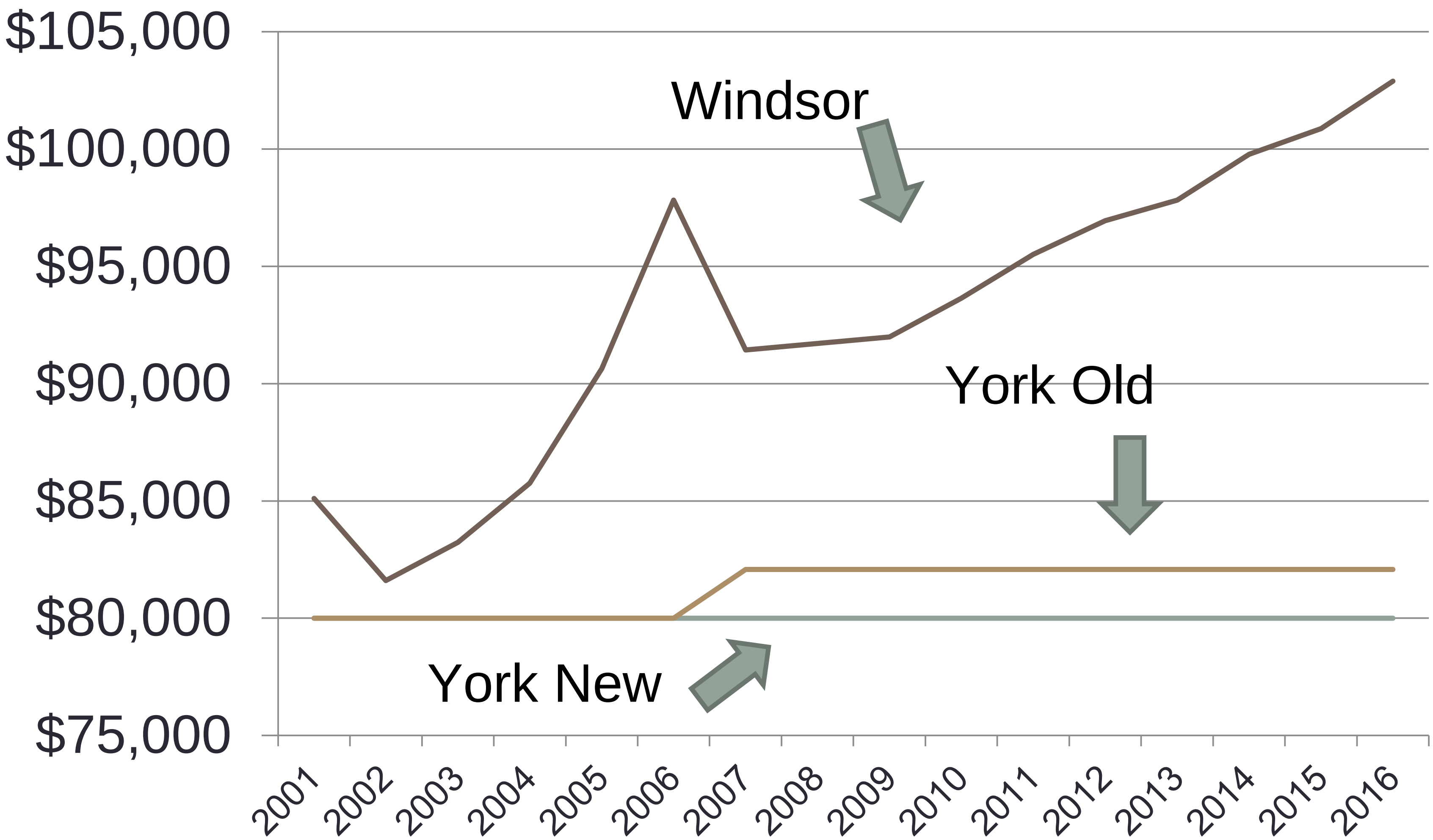
Pros and cons of Windsor model

- No NR levy
  - starting pension can be much higher.
- Only MP pension is indexed according to investment returns
  - MG has CPI-linked indexing
- Can fluctuate but MG serves as a floor
  - Windsor’s MG is higher floor
- Need to remind people that fluctuation is a trade-off for other good things.

Windsor: Minimum guarantee and Money purchase (MG as floor) – Retiree in 2001



Comparative illustration for Retirement date of 2001



Some recent Pension administration issues

- Miscalculation of division of pension assets upon divorce.
- Failure to credit earnings to members for last month prior to retirement

University Pension Project

- Employer and Employee groups at Queen’s, UofT and Guelph, where pension plans have major deficits.
- Soon-to-be-announced multi-employer joint sponsored Plan (JSPP).
- DB plan, but employees shoulder 50% of funding and investment risk.
- Permanently removes pensions from bargaining.
- We would lose our veto over pension changes.

Plan Structure of UPP

- 5% better minimum guarantee (defined benefit) formula.
- Indexed in retirement at 75% of CPI.
- Contribution rates are over 10% of salary and are almost 25% higher than York’s.
- Not a hybrid plan: no money purchase.