Memorandum of Agreement re: Amendments to the York University Pension Plan

Between

CUPE 1356 – CUPE 3903 – IUOE 772 – OHFA – OPSEU 578 - YUFA – YUSA

and

York University

Signed June 25, 2013

Outline

- Overview of Pension Issues
- “Deficits” and Options
- YUPG Negotiations and the MOA
- Answers to members’ questions

Pension Issues	Status / Process
Pension Deficit : Stage II Solvency Relief	Seek agreement on changes necessary to meet Stage II Solvency Relief before any discussion of structural amendments. **Memorandum of Agreement June 25, 2013**
Pension Deficit: Structural amendments to advance longer-term affordability of the Plan	Postpone discussions until after Stage II Solvency Relief requirement has been met
Ontario Pension and Benefits and Income Tax Acts: recent changes require compliance	Compliance changes presented to and reviewed by **AUPC June 9, 2013**, in accordance with MOA protocol.
Administrative issues: need mechanism for review of controversial administrative practices	1. Identify key personnel to participate in these discussions. 2. Identify protocol for reaching agreement on amendments to Plan admin practices. 3. Review administrative practices , including timing and sequencing of key decisions and calculations.

2012 Actuarial Valuation of York's Pension Plan

- Pension Assets fund 87.3% of the estimated benefits earned under the Plan **at December 31, 2012 → YU plan under-funded by 12.7%**
- Based on ***long-term economic assumptions***, Market Value of Assets at 12/31/12 falls short of the estimated present value of earned benefits to pensioners (current and future) by $220M = Going Concern Deficit – *primary concern of members*
- Based on ***current market conditions***, if the pension plan were suddenly wound up and benefits were settled at current interest rates on 12/31/12,the current value of assets in the plan falls short of current liabilities by $354M = Solvency Deficit – *primary concern of government*
- On average for 2005/06/07/10, the underfunded ratio was **5.1%** of benefits, which then defines York's **Solvency Relief Savings Target**

What does a Going-Concern Deficit mean?

- ***Deficit*** means we have bought something but haven't paid for it
- ***Going-Concern Deficit*** means we have "bought" pension benefits but haven't paid for them

- **If we don't want to lose these benefits, some how, some one has to pay for them. How? Who?**
  1. Investment returns increase enough to generate more plan revenue?
  2. Members contribute more to pay for benefits *already promised?*
  3. Employer takes money out of the operating revenue to cover the pension shortfall?
  4. Government bails out the pension plan?

YUPG Negotiations with Employer

- Executives of 7 Employee Unions mandated YUPG to negotiate the pension changes needed to pay for our pension benefits – first by targeting the savings needed to secure Stage II Solvency Relief
- Initial YUPG and YU proposals contained some significant areas of disagreement
- Final MOA delivers on all YUPG “must haves”
- YUPG-YUFA caucus recommends this Agreement to YUFA members

What we achieved with this MOA

- Phased-in increased contributions to 6.75% to YMPE and 9.15% above YMPE, on a 50/50 cost sharing basis – meets Savings Target for Stage II Solvency Relief; reduces (but does not eliminate) Going-Concern Deficit
- Indexing averaging period extended to 5 years (so now investment returns above 6% for an average of 5 years, instead of 4 years, will trigger a pension income increase for retirees)
- Future surplus cannot be used by the University to fund its matching contributions to members’ individual Money Purchase Accounts
- Protocol for future Plan amendments

- *YMPE = Year’s Maximum Pensionable Earnings*
- *NOTE: Contribution rate increases will not affect current retirees*

Members’ General Questions

1. How much will I have to pay each month?
2. How will the increased contributions affect my pension income?
3. Why should we increase contribution rates at all? Why now? If the Solvency Deficiency decreases by say 50% in the December 2013 valuation, do the problems go away?
4. Do we still have to make higher contributions if the Plan returns a surplus? Is there a sunset clause?
5. With higher contributions rates, why didn’t we negotiate better benefits?!
6. How does this compare with other university plans?

Proposed Plan Changes: Estimated Member Costs

(NOTE: Increased member costs to be matched by Employer)

Sample Salaries	**Current Provisions** 4.5% up to YMPE, 6% above YMPE	**Higher Member Contributions to Own Retirement Savings** 6.75% ≤ YMPE 9.15% > YMPE	**DIFFERENCE - Increase in Member's Contributions to Own Retirement Savings**
$50,100 *= 2012 Year's Maximum Pensionable Earnings (YMPE)*	$2255/year or $188/month	$3382/year or $282/month	$1127/year or $94/month
$100,000	$5249/year or $437/month	$7948/year or $662/month	$2699/year or $225/month

Impact on a Member’s Pension Income?

- The older the member, the higher the pension benefits accumulated to date, the less time before a member draws her pension … the more likely this MOA means she will be paying more for pension benefits already promised.
- The younger the member, the lower the pension benefits accumulated to date, the more time before a member draws his pension … the more likely this MOA means an increase in his Money Purchase Account balance and so a higher expected pension income in the future.
- The “Retirement Planner” (https://www.yorku-ret.ca/) can help members estimate their own individual answer.

Increasing contributions by <u>each</u> of us means …

- …current and future benefits are affordable for <u>all</u> of us
- …we are paying for benefits already promised to <u>all</u> of us
- …yes, some older plan members expecting to receive only a Minimum Guarantee pension at the time they draw their pension will be paying higher contributions rates now for no change in pension income in the near future
- *NOTE: a key choice for some more senior plan members may be whether to stop pension contributions at age 65 and put the difference into voluntary contributions*

Why Now? Why not wait until investment returns restore solvency?

- Without higher contributions, Going-concern deficit remains large, and future solvency deficits remain volatile
- Stage II Solvency Relief will be granted (or not) based on Solvency Deficit at 12/2013 valuation
- **If** “progress toward” Savings Target deemed inadequate by December 2013, Solvency Special Payments must be made to eliminate solvency deficit over 5 years (instead of 10 years)
- Solvency special payments paid from operating revenue means ***additional*** cuts to funding for paying faculty and staff

If the Solvency Deficit decreases by say 50% in the December 2013 valuation, do the problems go away?

- ***Without*** Stage II Solvency Relief…
  - solvency special payments must be spread over 5 years. This would require an ***additional*** estimated $14M annually to be paid from the University's operating budget = an additional ~2% budget cut
  - solvency special payments are required ***in addition to*** estimated going concern special payments of $24.4M annually
  - There is greater risk of direct government intervention in the pension plan affairs of York University
- ***With*** Stage II Solvency Relief, solvency payments would be spread over 10 years, and is covered by other budgeted amounts. No additional budget cuts required. 10-year payment period ensured for later Solvency Deficits, if any.

Is there a sunset clause to higher contribution rates? What happens if/when the plan returns a surplus?

- The MOA proposes higher contributions by plan members <u>matched by higher Employer contributions </u>to our Money Purchase Accounts
- The MOA proposes to restrict the University’s use of any plan surplus
- An automatic reversal (“sunset clause”) would mean an automatic cut in our benefits since it would reduce Employer contributions to our individual retirement savings (Money Purchase) accounts

With higher contribution rates, why not negotiate better benefits?

- The higher contribution rates are just to catch up…to pay for the higher cost of existing benefits.
- Any *new* benefits improvements must be fully funded, with even higher contributions (or with gains from favourable investment or demographic experience)
- If/when the plan returns a surplus, we can explore the possibility of negotiating improved benefits.

Comparison with new Queen's U Pension Plan

For other plans see http://ocufa.on.ca/members-area/collective-bargaining/pension-and-retirement-plans

Plan characteristic	YU Pension Plan – MOA Proposed changes	QU Pension Plan (2012)
Contributions – Members	6.75% ≤ YMPE 9.15% > YMPE	6.00% ≤ YMPE 9.00% > YMPE
Contributions - Employer	6.75% ≤ YMPE 9.15% > YMPE	7.00% ≤ YMPE 7.50% > YMPE
Employer contributions to Non-reduction guarantee	Eliminated	Eliminated
Minimum Guarantee Indexing	Retained	Eliminated
Indexing averaging period	5 years (up from 4)	6 years (up from 4)
Minimum Guarantee Formula	1.4% ≤ YMPE + 1.9% > YMPE	1.4% ≤ YMPE + 1.8% > YMPE
Normal Form	JS50 (married) Life only (single)	Life guaranteed for 10 years

Members' Technical Questions

1. Is it realistic to assume a 6% investment return (as is assumed in pension plan calculations)?
2. What is the estimated progress towards the Savings Target of the higher contributions? *(If Solvency Relief Savings Target = $77M, why did we allow the Employer to achieve 30% more than that (i.e., $100M) in savings?)*
3. What will become of previous University contributions to the Non-reduction Reserve (for covering the Minimum Guarantee payments)?

What is the estimated progress towards the Savings Target from the higher contributions?

	Without higher contributions	**With** higher contributions	Estimated Employer savings
Present value of future benefits for active members at Dec. 31, 2011			
- money purchase accounts	$622.6M	$622.6M	-
- future member contributions	$211.9M	$315.3M	-
- future Employer contributions	$218.3M	$315.3M	($97.0M)
- future cost of minimum guarantee pensions	$480.3M	$305.0M	$175.3M
Total present value for active members	**$1,533.1M**	**$1,558.2M**	
Estimated total Employer savings			**$78.3M**
Employer savings percentage = $78.3M / $1,533.1 = 5.1% = Savings Target			

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