Pension Update

CPMEA Meeting
November 7, 2013
Gary Brewer, Vice President Finance & Administration

History

- In Fall 2010 – Winter 2011 the Pension & Benefits office provided a four part series on the York pension plan:

- Session 1 reviewed information on pension plan basics:
  - Forms of income at retirement
  - Group RRSPs/Defined Benefit/Defined Contribution Plans
  - Hybrid Pension Plans
  - Government reporting

- Session 2 provided an overview of the York Pension Plan basics
  - Employee/Employer contributions
  - Minimum Guarantee vs Money Purchase components
  - Hybrid Plan Design

Session 3 – York's Financial Situation

- highlighted the significant deficit balances that had emerged in the pension plan valuations in 2008 and 2009
- showed the projected deficit balances anticipated for the December 31, 2010 valuation
- showed the potential impacts these deficits would have on the University's (Employer) Pension Contributions in the context of the University operating budget
- highlighted Government pension legislation changes that could help mitigate the impact of pension contributions on the University budget

Session 4

- Provided December 31, 2010 actuarial results
- Solvency Relief process
  - Two stages to temporary solvency funding relief:
    - Stage 1 involved providing a submission to the Ministry of Finance informing them of our intent to make the pension plan more sustainable in the long term. Upon approval of this plan, solvency payment requirements deferred for 3 years
    - Stage 2 requires submission of a second report outlining pension plan changes to accomplish sustainability. Upon approval for Stage 2 relief, remaining solvency deficits can be amortized over 10 years, rather than the normal 5 year period

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To Recap

Going Concern Financial Position

2010 Fund Rate of Return 9.76%

	At December 31 ($ Million)			
	2010	2009	2008	2007
Market Value of Assets	1,333.9	1,221.0	1,060.5	1,320.4
Money Purchase Accounts	723.8	650.6	540.4	724.3
Defined Benefit Assets	610.1	570.4	520.1	596.1
Pensioner Liability	608.6	600.6	592.7	536.6
Active Members Minimum Guarantee Liability	218.7	198.2	193.0	103.6
Excess/(Unfunded Liability)	(217.2)	(228.4)	(265.6)	(44.1)

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2010 Valuation Results

Wind-Up and Solvency Position

	At December 31 ($ Million)			
	2010	2009	2008	2007
Assets				
Market Value of Assets	1,333.9	1,221.0	1,060.5	1,320.4
Provision for Wind-Up Expenses	(2.5)	(2.5)	(2.5)	(2.5)
Net Assets	**1,331.4**	**1,218.5**	**1,058.0**	**1,312.9**
Money Purchase Accounts	723.8	650.6	540.4	724.4
Defined Benefit Assets	**607.6**	**567.9**	**517.6**	**593.5**
Pensioner Liabilities	660.6	636.6	621.0	557.2
Active Members Minimum Guarantee Liabilities	145.8	124.0	178.0	64.1
Wind-Up Excess/(Deficiency)	**(198.8)**	**(192.7)**	**(281.4)**	**(27.8)**
Present Value of Special Payments	103.5	107.5	124.1	21.7
Reserve for Future Indexing	0.0	0.0	0.0	6.5
Solvency Excess/(Deficiency)	**(95.3)**	**(85.2)**	**(157.3)**	**(0.4)**

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2010 Valuation Results

Contributions Summary – without solvency relief

	2011 "Required"		2010 Actual		2009 Actual	
	$ Million	%*	$ Million	%*	$ Million	%*
Member Contributions	**19.1**	**100%**	**18.5**	**100%**	**17.8**	**100%**
Employer Contributions						
Money Purchase ***	19.6	103%	19.6	103%	18.9	103%
Minimum Guarantee Normal Cost **	18.4	96%	12.1	66%	11.7	66%
Unfunded Liability Special Payments	23.1	121%	4.8	26%	4.8	29%
Solvency Deficiency Special Payments	21.2	111%	0.0	0%	0.0	0%
Total Minimum Employer Contributions	**82.3**	**431%**	**36.5**	**194%**	**35.3**	**198%**

* As a % of member contributions

** Includes expenses

*** Contributions are greater than 103% due to the employer paying employee and employer pension contributions for those on Long Term Disability

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University Solvency Funding Relief

Assuming approval for Stage 1 solvency funding relief

	2011		2012	
	$ Million	%*	$Million	%*
Member Contributions	19.1	100%	20.1	100%
Employer Contributions				
Money Purchase	19.6	103%	20.7	103%
Minimum Guarantee Normal Cost **	18.4	96%	19.3	96%
Unfunded Liability Special Payments	4.8	25%	24.2	120%
Solvency Deficiency Special Payments	4.0***	21%	0.0	0%
Total Minimum Employer Contribution	46.8	245%	64.2	319%

* As a % of member contributions

** Includes expenses

*** Required to cover interest on solvency deficit

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University Solvency Funding Relief

Actual contributions as a result of Stage 1 solvency funding relief

	2012	
	$ Million	% *
Member Contributions	19.8	
Employer Contributions		
Money Purchase	20.4	103%
Minimum Guarantee Normal Cost **	19.1	97%
Going Concern Special Payments	24.2	122%
Solvency Special Payments	0.0	0%
Total	63.7	322%

* As a % of member contributions

** Includes expenses

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Pension Valuation –
Going Concern and Solvency Deficits

($ millions)

	Going Concern Deficiency	Solvency Deficiency	Status
2007	$44.1	$27.8	Filed in 2008
2008	$265.6	$281.4	Not filed
2009	$228.4	$192.7	Not filed
2010	$217.2	$198.8	Filed in 2011
2011	$283.0	$387.0	Not filed
2012	$219.5	$354.0	

Operating budget has incorporated special pension payments as follows:

- $ 5M in 2010/11
- Increasing to $15M in 2011/12
- Increasing to $25M in 2012/13
- Increasing to $34M in 2013/14

Note: These special payment amounts are in addition to regular annual pension contributions of about $40M.

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Stage 1 Solvency Relief

- In collaboration with the employee groups the stage 1 application was developed and subsequently filed with the Ministry of Finance
- The following principles were include in the application:
  - A commitment to an open, transparent and consultative process.
  - No changes to the provisions for existing pensioners and protection of accrued pension benefits for active members in accordance with pension legislation.
  - Maintenance of York's current pension plan structure

Principles continued…

- Ensuring that the pension plan is financially sustainable in the long term and adaptable to changing circumstances, not just meeting the metrics of solvency funding.
- Protection of initial pension determined at retirement.
- Provision of demographic equity.
- Managing complexity by giving consideration to administration and communication, and considering changes to pension plan governance as part of any changes made to the risk-sharing structure.

Stage 1 Solvency Relief

- The following possible areas of pension plan changes were identified in the application:
  - Increases to member and University contributions to the money purchase component
  - Changes to elements of the DB minimum guarantee component
  - Methods for moderating risk associated with post-retirement indexation provisions
  - Changes to pension plan governance as part of any changes to the risk sharing arrangements
- The solvency relief application calculated a 5.1% savings target amount

York University All-Union Pension Group (YUPG)

- Following approval from the Ministry of Finance for stage 1 solvency relief the York University All-Union Pension Group (YUPG) was formed.
- Meetings were held between YUPG and the University administration
- On June 25, 2013 a Memorandum of Agreement was signed

Memorandum of Agreement (MOA)

- On a 50/50 sharing basis for the Money Purchase Component of the Pension Plan, the required Member & University contribution rates will be increased as follows:

• Current -	4.50% up to YMPE	and	6.0% above YMPE
• March 1, 2014	4.95% up to YMPE	and	6.63% above YMPE
• September 1, 2014	5.40% up to YMPE	and	7.26% above YMPE
• March 1, 2015	5.85% up to YMPE	and	7.89% above YMPE
• September 1, 2015	6.30% up to YMPE	and	8.52% above YMPE
• March 1, 2016	6.75% up to YMPE	and	9.15% above YMPE

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MOA continued…

- The University's contribution toward the Non-Reduction Reserve of 3% of required Member contributions for the Money Purchase Component of the Plan will be eliminated January 1, 2014.
- For retirements on or after January 1, 2015, the moving four-year average fund rate of return will be lengthened to a moving five-year average fund rate of return with the fund rate of return equal to 6.0% for the Plan Years in the five-year average up to and including the Plan Year in which the date of pension commencement occurs.

MOA continued…

- In the event that, upon review of the preliminary results of the December 31, 2013 actuarial valuation, the contribution increases and the change to a moving five-year average fund rate of return are not sufficient, as calculated by the Plan Actuary, to meet the savings target as defined in the stage 1 solvency relief application, the moving five-year average fund rate of return will be lengthened to a moving six-year average fund rate of return effective for pensions that commence on or after January 1, 2015.

MOA continued…

- If the changes prove to be insufficient to achieve stage 2 solvency relief the parties agree to reconvene within two weeks of the government's response to the University's application, with the purpose of reaching agreement on additional Pension Plan changes required to achieve stage 2 solvency funding relief

- The University and YUPG agree to convene for the commencement of phase 2 not later than October 1, 2013. During phase 2 the parties will meet to discuss the University's concerns of Plan affordability and sustainability and consider further Plan amendments that can be mutually agreed upon.

MOA continued…

- Future University proposals for changes in Plan provisions and administration practices will be presented to the All Union Pension Committee prior to implementation or submission to the Board
- Should the Plan return to a surplus position in the future, the University will not use any surplus to fund matching contributions to the Money Purchase Component of the Plan, without agreement with the unions

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Comparison to Other Pension Plans

Ontario public sector pension plans

Contribution rate comparison (as shown on plan websites as of March 31, 2013)

	Member		Employer	
	up to YMPE	above YMPE	up to YMPE	above YMPE
Ontario Teachers' Pension Plan	11.5%	13.1%	11.5%	13.1%
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%
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%

Source: YUPG Backgrounder August 2013

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Illustration of Contribution Increases

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

Source: YUPG Backgrounder August 2013