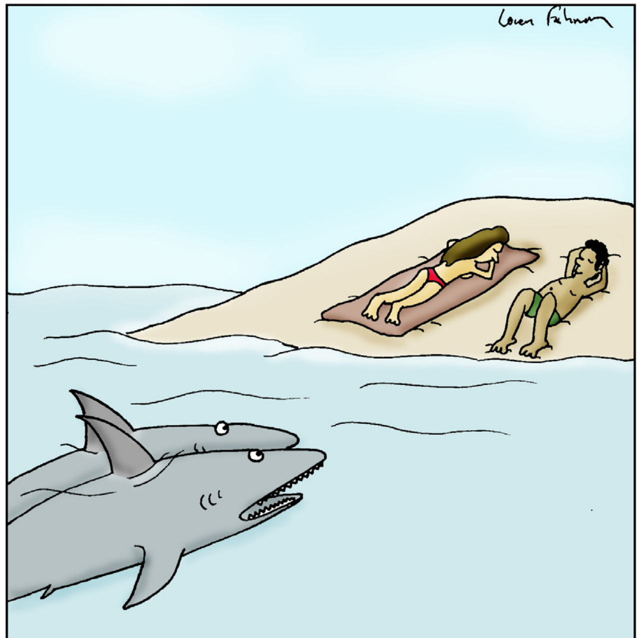


"Hold on just a few more minutes. I want mine medium well."

Avoiding The Sharks

Sebastien Betermier

Assistant Professor of Finance

Desautels Faculty of Management

Know the different ways to invest.

passive management

Take given prices and create a diversified portfolio that is tailored to buffer against certain risks that are important to you.

no free lunch. higher returns means higher risk.

active management

Achieve high returns for the same level of risk by looking for assets that are under-valued today and sold for a higher price tomorrow.

this is really hard. what does it mean for you?

Watch out for... financial advisors who brag about having performed better than the benchmark (the market performance as a whole)

Ask yourself... is it the correct benchmark?
is it luck?
is the financial manager taking on more risk?
is it skill?

What do you want from your retirement?

each of us is unique...different risk aversion, constraints, etc.

ask yourself...

- How will you live during retirement?
- What do you want to leave as bequest?
- How much risk are you willing to take on?
- How risk averse are you?
- How dependent on constant constraints?
- Do you have other assets on the side?
- Consider the worst case scenarios

Find an Advisor who CARES.

your advisor needs to take the time to understand your goals and what you want.

beware of advisors who try to frame your objectives by asking leading questions.

example... *"You would like at least $60K per year on your retirement right?"*

You may find yourself answering "yes" and then choosing selected options without really having considered your retirement goals.

Be aware of all the fees.

what kinds of fees?

- starting contract fees
- termination fees
- management fees
- transaction fees

also know

- there are undisclosed fees, so ask for the total fee
- annuities tend to be expensive for you and profitable for financial advisors

Take your time.

- Relationships take time to build.
- Don’t delegate all your wealth right away.
- Make sure you have an exit strategy.
- Desperation in an advisor is a red flag.

negative indicators…

aggressiveness
pushiness
make-it-or-break-it deals.

You have the Power.

- Don't be intimidated by jargon.
- Trust your intuition about a person.
- Question too many generalizations.
- Remember, you lose when there is bad investment managment - not your advisor.

there are good financial advisors out there, you just have to find them.

UNDERSTANDING YOUR FINANCES

McGill University Pension Plan

December 15, 2011

McGill

Human Resources

Will I have enough at retirement?

- Forecast spending needs in retirement
- Forecast after-tax income from all sources
- Determine the gap between needs & income
- Determine additional savings needed by target retirement date

Accumulation Phase

Investment Responsibility

i. Understand the decisions that you need to make and select investment option(s) which are right for you.

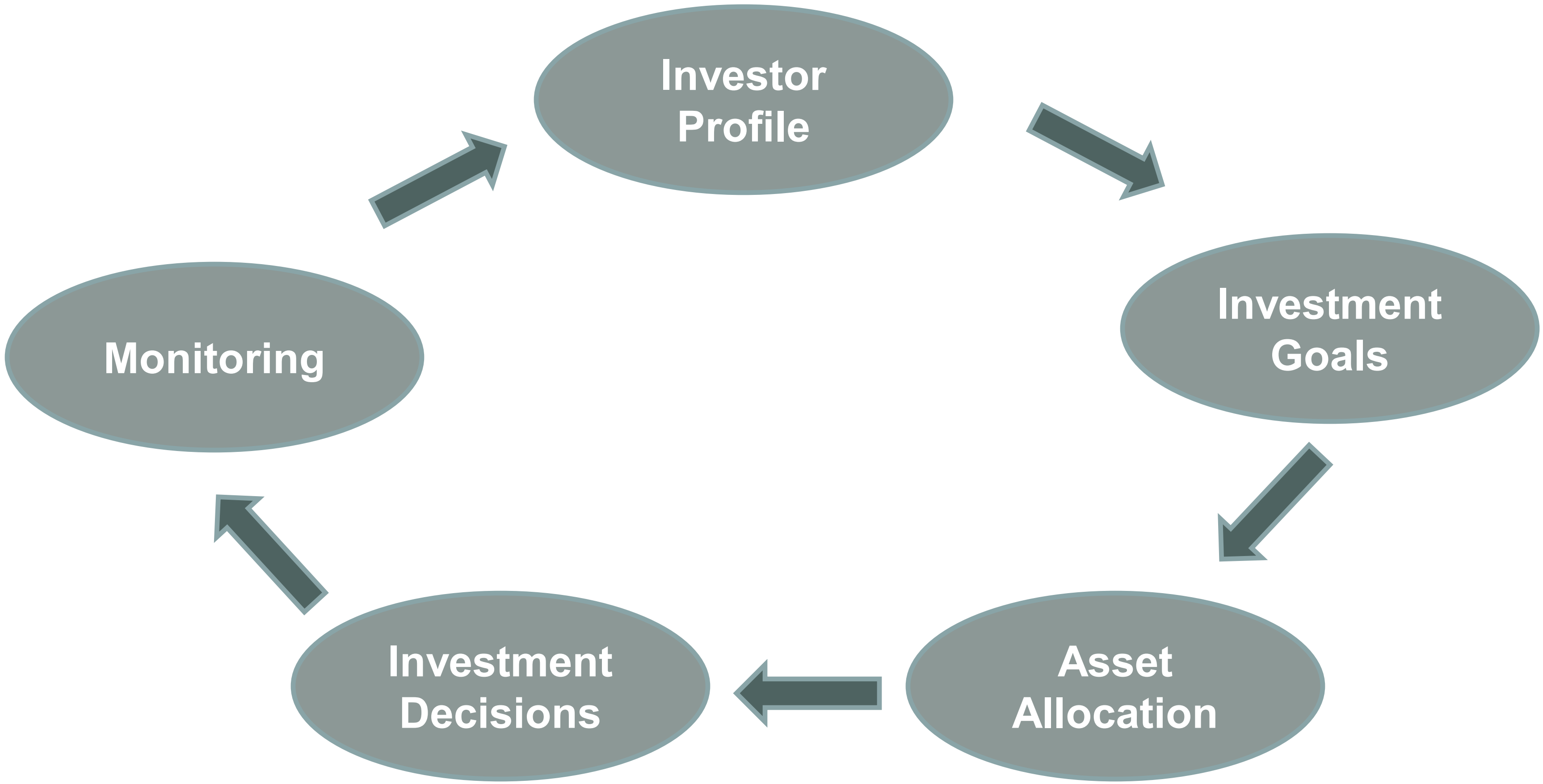
ii. Review your investment portfolio & investment strategy

iii. Seek independent investment and tax advice

Investment Selection

GENERAL INVESTMENT PLANNING

Source: Investor Education Fund (www.investored.ca)



Investments……

De-risk portfolio as one approaches retirement date

i. Do it yourself

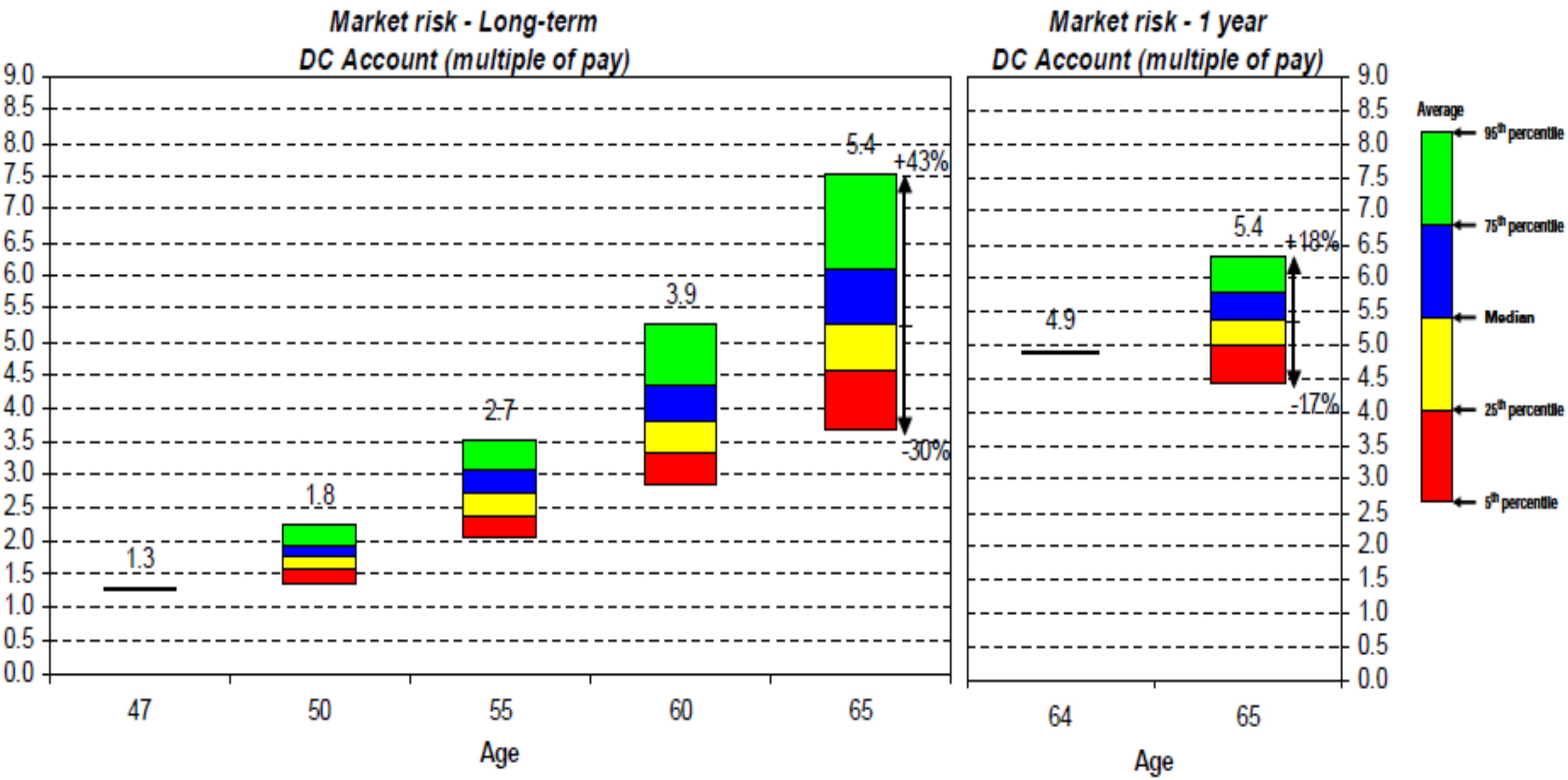
ii. Target date funds

iii. Glide path

Different strategy may apply if favoring annuity versus Life Income Fund (LIF)

Accumulation Phase - Projection

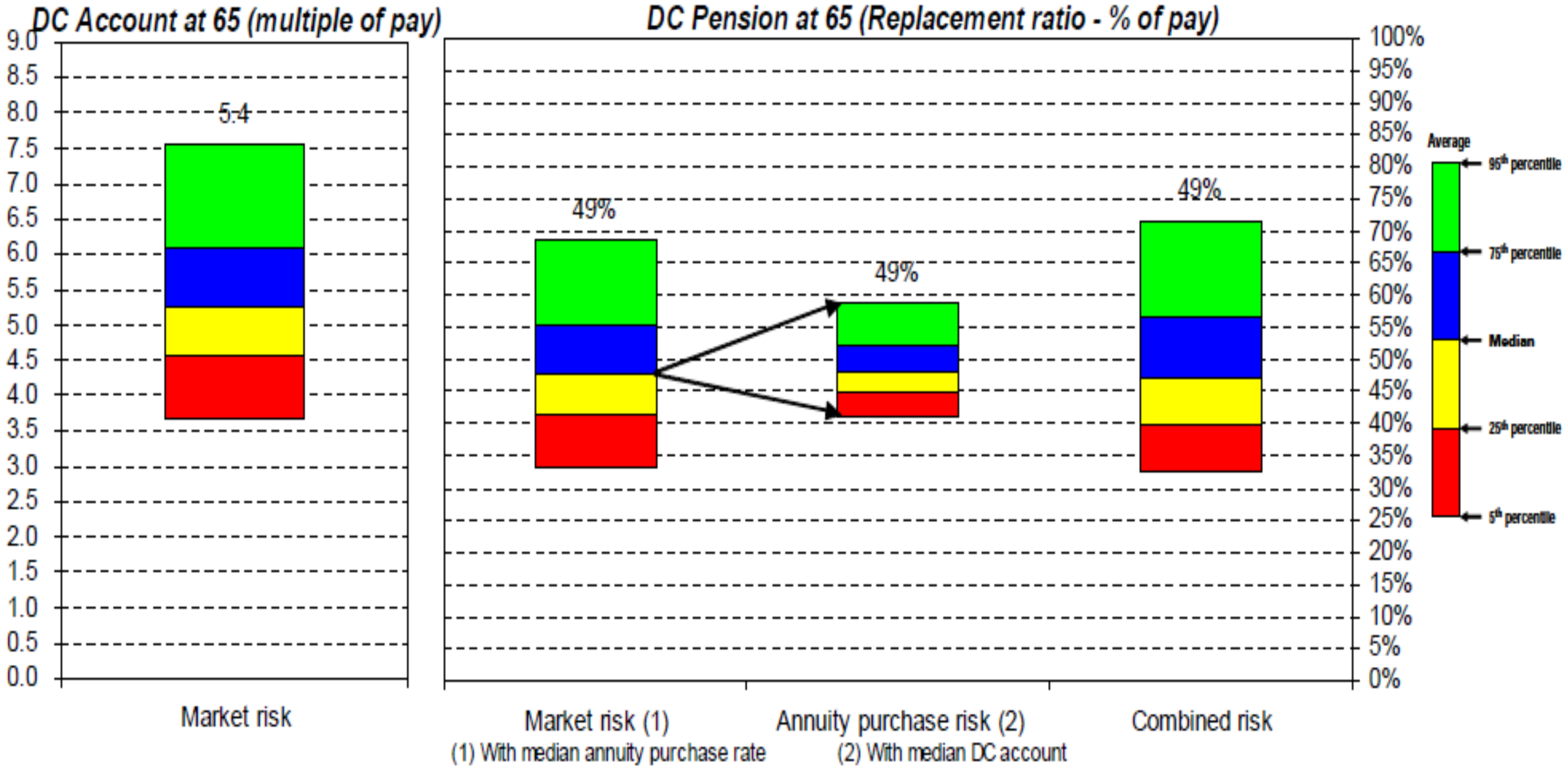
Accumulation Phase – Average Member in Balanced Account



Significant risk over the year prior to retirement.

Decumulation Phase

DC Account Retirement Conversion Illustration



Significant risk over the year prior to retirement.

Retirement Income

- Variable income streams
  - Life Income Funds

- Pension income streams
  - QPP + other Gov't programs
  - Annuities
  - Defined benefit pensions

- Variable income streams with guarantees

Risk in Retirement

- Longevity Risk (outlive capital)

- Investment Portfolio Decline
  - Overly aggressive asset allocation
  - Overly conservative asset allocation

- Inflation Risk

Group Annuity & Group LIF

Sunlife Financial – January 1, 2012

- Group Annuity: non-commissioned rates

- Group LIF:
  - reduced management fees
  - Selection of investment options

- For more information –
  - call Sun Life at 1-855-864-5989
  - identify yourself as a McGill pension plan member.

Annuities

- Based on a female, age 65, life only with a 5 year guarantee as at November 1, 2011

	Monthly Amounts Payable		
Amount	**Sunlife Non-Commissioned**	**Sunlife Commissioned**	**CANNEX**
$500,000	$2,989.73	$2,894.41	$2,726.86
$750,000	$4,489.63	$4,356.68	$3,975.58
$1 million	$6,049.06	$5,934.81	$5,316.92

Group LIF

Investment Fund* /Program *sample of fund lineup	McGill LIF/RRIF
Sun Life Financial Money Market	0.15%
McLean Budden Balanced Growth	0.40%
Jarislowsky Fraser Canadian Equity	0.40%
BlackRock US Equity	0.35%
McLean Budden Global Equity	0.65%

Human Resources

Questions?

Human Resources

EVERYTHING YOU NEED TO KNOW ABOUT POST RETIREMENT BENEFITS

McGill

Post Retirement Benefits

- Supplemental Health Plan
- Dental Plan
- Life Insurance Plan
- Post Retirement Privileges

Post Retirement Benefits

Eligibility criteria:

- Minimum age of 55
- Minimum of 10 years of continuous service;

  or as stipulated in the *Regulations Concerning the Retirement of Academic Staff and and of Librarian Staff*

Post Retirement Benefits

Eligibility criteria:

- Participated in the benefits plans for a minimum of 10 consecutive years
- Employees hired as of January 1, 2010: dental coverage is not part of the post-retirement package.

Highlights of Health Plan

Human Resources

- Continuation into retirement
- Eligible dependents can continue coverage
- Coverage for surviving spouse continues

Highlights of Health Plan

Human Resources

Residency requirements:

- Must be a resident of Canada
- Coverage dependent on eligibility for any Canadian provincial health care plan

Highlights of Health Plan

Coverage:

- McGill plan may cover prescription drugs not covered by provincial plans (for age 65+)

- All other coverage identical to that of active members

  - Hospitalization, travel, physiotherapy, etc.

Human Resources

Highlights of Health Plan

Travel Insurance:

- Out-of-country coverage for emergency medical expenses
- 100% reimbursement of eligible expenses
- 90-days per trip

QUEBEC DRUG PLAN

Health Plan members

at age 65, must choose either:

- RAMQ Drug Plan

  or

- McGill Drug Plan for 65+
- Automatically registered with RAMQ

QUEBEC DRUG PLAN

RAMQ Drug Plan/McGill Drug Plan

Similarities:

- Deductible
- Co-insurance
- Out-of-pocket

Differences:

- Annual premium
- Method of payment

Human Resources

Highlights of Dental Plan

- Continuation into retirement
- Eligible dependents can continue coverage
- Coverage for surviving spouse continues

Human Resources

Highlights of Dental Plan

- Coverage identical to that of active members
- No residency requirements
- Plan reimburses expenses based on Quebec Fee Guide for General Practitioners

Life Insurance Plans

- Coverage continues at retirement
- Basic Plan
- Optional Plan

Life Insurance Plans

Basic Plan:

- ½ x pre-retirement salary to $50,000 until age 65
- ½ x pre-retirement salary to $30,000 at 65+
- McGill pays 100%

Human Resources

Life Insurance Plans

Optional Plan:

- Can maintain insurance at existing levels to maximum of $100,000
- Member pays 100%
- Rates based on age
- Can reduce or cancel coverage anytime

Human Resources

Post Retirement Privileges

- Library Privileges
- Computing Services (http://www.mcgill.ca/it/)
  - E-mail
  - VPN access
  - McGill user name
  - DAS account
- ID Card – keep your current card
- Parking: continuance of permit

Questions?

Thinking about the McGill University Pension Plan (MUPP) in the current financial context

MAUT Forum

Prof. Anthony C. Masi
Provost, McGill University
15 December 2011

Acronym Review

- MUPP: McGill University Pension Plan
- DC: Defined Contribution
- DBM: Defined Benefit Minimum
- NRD: Normal Retirement Date
- OTO: One-time only

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McGill University Pension Plan (MUPP) Background—1

- Established 1972
- Hybrid defined contribution (DC) with defined benefit minimum (DBM) (1.8% x years of service x 5 best years earnings)*
  - *Note: There is a maximum DBM based on years of service that overrides this formula.
- Mandatory retirement was in effect at age 65

MUPP Background—2

- Quebec abolished mandatory retirement in 1983
- No formal review of pension plan was undertaken
- Default position: University continued to make contributions to those working past age 65

McGill

MUPP Background—3

- Current contribution levels to pensions have been viewed as non-sustainable
  - Low employee rate (5% constant)
  - Relatively generous University rate (variable 5% to 10%, especially as for those post-65 years of age)
  - Impact on financial health of the University

McGill

MUPP Background—4

- Concerns raised about financial stewardship:
  - Board of Governors, 2002-03
  - Provost's Task Force on Dealing with Economic Uncertainty, 2008-09
  - General context: the issue is not going away
- Alternatives to saving the plan design:
  - over $114M to dissolve it and then what?

McGill University Pension Plan Design

- At age 65, defined as the normal retirement date (NRD), employee gets the higher of DC or DBM
- If DBM, the "crystallised" value is provided by the University
- To do this, there must be sufficient funds on an actuarial basis to meet ALL potential DBM requirements

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Pensions by definition “discriminate” by age – 1

- University contributions vary from 5% to 7.5% to 10% depending on the age of the employee
- Tax laws have gone back and forth on the age at which pensions must be “settled” (i.e., cease contributions and begin draw-down); originally it was 71, then changed to 69, now back to 71.

McGill

Pensions by definition “discriminate” by age – 2

- Superior court ruling: The fact that the tax law changed back to 71 as age at which pensions must be “settled” does not require McGill pension contributions to be shifted from 69 to 71

- Question: If values crystallise at 65, why was the University continuing to make contributions past the age of the normal retirement date (NRD)?

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Triennial Valuation Obligations – 1

- University contributions to fund the DBM and other deficits in MUPP
  - 1989: $0
  - 2009: $186,300
  - 2010: $2,486,100
  - 2011: $2,536,400 (just to 30 September)
  - 2012: $6,336,200 annually (estimated)
- Employee contributions to the whole plan have fallen:
  - 1989: 38%
  - 2012: 31% (estimated)

McGill

Triennial Valuation Obligations – 2

- University operating budget must be used to cover the shortfall calculated to be approximately $46.3M (NPV) in December 2009
- Approximately $6.3M per year over a 15 year period
- Deficits in MUPP
  - Obligations
  - Financial markets performance
  - Low interest rates
  - Increased life expectancy (and incorrect actuarial assumptions)
  - Others

McGill

Other University Contributions

- University no longer settling annuities internally, but liabilities in and payments from the "pensioners' fund" continue
- McGill pays departing employees 100% of pension accumulation
- Current solvency evaluation only requires 84% and a 5 year IOU according to the Quebec
- OTO bailout of NB-ABCP crisis on value and liquidity in 2009

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Pension Administration Committee and Amendment 24 – 1

a) 1 January 2012: cessation of University contributions for those aged 65-69

b) 1 January 2013: increase in employee contributions from current flat rate of 5% to age graded (5%, 7%, 8%)

c) 1 January 2014: sharing of the deficit by contributions to DC funds

McGill

Pension Administration Committee and Amendment 24 – 2

- Recommendations were derived from the obligatory and audited triennial evaluation
- Report was shared with all employee groups
- No suggestions were forthcoming on how to deal with the financial situation of the MUPP
- Consultation process could have been better and new mechanisms are already in place to ensure this is more effective in the future

McGill

Compensation-related issue – 1

- On pension matters, MAUT and senior administrators agreed to the following:
  - Amendment 24 (a) will be implemented
  - 5% contribution by the University (independent of matching by the employee) for those aged 65-69, but outside of and separate from the pension plan
  - Notional pension accounts, details to be elaborated
  - To be reviewed within five years

McGill

Compensation related issue – 2

- On benefits premiums:
  - Phase in of changes to the cost sharing of post retirement benefits costs, including dental
  - Will not affect those already retired
  - No impact on the design and coverage of programs

Compensation related issue – 3

- Salary levels
  - McGill underfunding is real, but goal of being among the top universities in Canada is still central
  - Accumulated deficit approaching $100M, FY2012 deficit to add another $6M to it
  - 15 December 2011 academic salary policy, largest of the last three years (3, 4, 5 percent, but spread over 4 years)
  - Delays, yes, but no furloughs, no zero percent increases, no rollbacks
- Trade-offs are unpleasant but necessary
  - Pension, benefits, salary are all interrelated items

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Discussion and feedback:

Questions?
Comments?
Concerns?

MAUT Pension and Retirement Forum

December 15, 2011

John Galbraith's presentation links:

http://www.mcgill.ca/pensions/unithistory/

for: Unit values and unit history

http://www.bankofcanada.ca/rates/interest-rates/

for: Canadian interest rates and monetary policy variables: 10-year lookup