

McGill University Pension Plan



MAUT

February 26, 2007

How much income do I need in retirement?

- **Canadians need 60% to 70% income replacement**



Inflation & Purchasing Power

Assuming an inflation rate of 3.5%

Income	10 YRS	15 YRS	20 YRS	25 YRS
\$50,000	\$70,530	\$83,767	\$99,489	\$118,162
\$70,000	\$98,742	\$117,274	\$139,285	\$165,427
\$100,000	\$141,060	\$167,535	\$198,979	\$236,325

Life Expectancy & Planning Horizon

UP94 Projected to 2015

Age

Male

Female

60

85.9

83.2

65

86.6

84.0

70

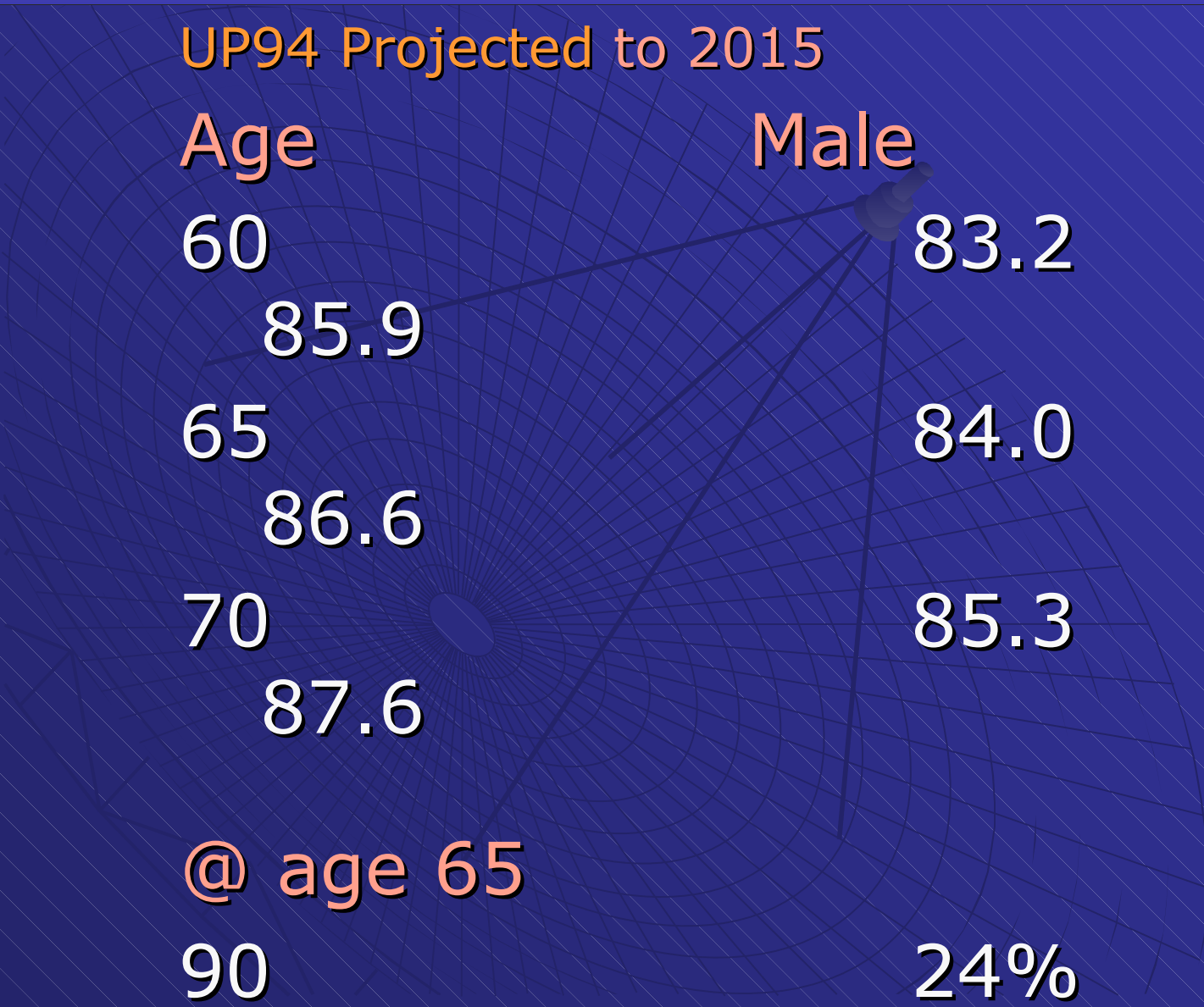
87.6

85.3

@ age 65

90

24%



Pension Plan Types

Defined Contribution



- ◆ Pension based on contributions & investment return accumulated at retirement & market conditions

Defined Benefit



- ◆ Pension is based on a formula (tied to service and salary)

Your pension statement as at December 31, 2005

Your account information:

- Pension account number: 012345
- Date joined Pension Plan: 1971-01-01
- Pensionable earnings for 2005: \$53,000.00
- Date of birth (yyyy-mm-dd): 1941-01-01
- Credited service: 35 Yrs 0 Mths
- Normal retirement date "NRD" (age 65): 2006-01-31
- Designated beneficiary: Jane Doe
- Beneficiary relationship: SPOUSE

Defined Contribution: Summary of your holdings for the period ended December 31, 2005

<u>Fund</u>	<u>Opening Balance</u>	<u>Contributions</u>		<u>Other</u>	<u>Investment Increase/ (Decrease)</u>	<u>Closing Balance</u>
	<u>Dec 31/04</u>	<u>Employee</u>	<u>University</u>	<u>Transactions</u>		<u>Dec 31/05</u>
Regular Account	\$490,000.00	\$2,000.00	\$4,600.00	\$0.00	\$70,000.00	\$566,600.00
Totals:	\$490,000.00	\$2,000.00	\$4,600.00	\$0.00	\$70,000.00	\$566,600.00

Defined Benefit: Minimum Pension accrued as at December 31, 2005

The amount shown in **line A** represents the estimated minimum pension you have accrued at December 31, 2005, payable at normal retirement date (age 65). It is important to note that this estimate is based on your highest average salary and years of credited service up to December 31, 2005 only. For a projection of what your pension could be if you continue to participate until age 65, go to the page entitled "Projection of Normal Retirement Benefits".

Line B shows the estimated value needed at age 65 to fund the defined benefit minimum pension you have accrued to date (assuming an internal settlement option, on the basis of the annuity rates in effect as at December 31, 2005).

A. Estimated accrued minimum pension payable at NRD:

\$23,750 per annum

If you have invested in other than the Balanced Account, your minimum pension has been adjusted to reflect the investment gain/loss experienced.

B. Estimated value needed at NRD (age 65) to fund the amount in **line A**.

\$302,671

Your information as at December 31, 2005

▪ Value of your regular contribution accounts:	\$566,600.00
▪ Date of birth (yyyy-mm-dd):	1941-01-01
▪ Gain/(loss) from investments in alternative options relative to the Balanced Account:	\$0.00
▪ Credited service (years - months):	35 Yrs 0 Mths
▪ Annualized rate of earnings (effective January 1, 2006):	\$53,000.00
▪ Normal Retirement Date:	2006-01-31

Projected Defined Contribution pension = 85%
(\$45,230/\$53,000)

Pension Projections to Normal Retirement Date

Your **Defined Contribution Pension** is determined by applying Plan Annuity Rates to the total value of your Regular Contribution Accounts. This Defined Contribution Pension is then compared to the **Defined Benefit Minimum Pension**, which is calculated in accordance with the formula set out in the Plan Document, as described in your McGill Pension Brochure. If you have invested in options other than the Balanced Account, your minimum pension has been adjusted to reflect the projected investment gain/loss of your investment choices versus the Balanced Account. Your estimated pension benefit at your normal retirement date (age 65) will be the higher of the two.

Your **Defined Contribution Pension** is projected to be:

\$45,230 per annum

Your **Defined Benefit Minimum Pension** is projected to be:

\$24,250 per annum

Projected Defined Benefit Pension = 46%
(\$24,250/\$53,000)



Retirement Payment Options

Options at Retirement

(or combination)

**McGill University
Pension Plan**

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graph TD; A([McGill University Pension Plan]) --> B[Receive a pension from the Plan]; A --> C[Defer Settlement]; A --> D[Transfer out and buy an external annuity]; A --> E[Transfer out to a Locked-in Retirement Account (LIRA) or Life Income Fund (LIF)];
```

**Receive a
pension
from the
Plan**

**Defer
Settlement**

**Transfer
out and
buy an
external
annuity**

**Transfer out to
a Locked-in
Retirement
Account (LIRA)
or Life Income
Fund (LIF)**

What is an annuity?

- ◆ Exchange fixed amount of \$ for a future stream of payments
- ◆ Income amount is fixed at the onset
- ◆ Offers protection from outliving capital



Annuity - Features

- ◆ **Single Life Annuity**
 - Highest payments
 - Payments cease upon death
- ◆ **Joint & Last Survivor Life Annuity**
 - Payments continue to surviving spouse
 - $\geq 60\%$ of payment to continue unless spouse waives entitlement
- ◆ **Guaranteed period: 5-15 years**

Life Income Fund (LIF)

- ◆ Subject to minimum and maximum annual withdrawal limits
- ◆ You assume investment risk
- ◆ Decide how account is to be invested
- ◆ Rate of return dependent on investment selection
- ◆ May convert to an annuity

Investments Within LIF/LIRA

- Term deposits (GICs)
- Mutual Funds
- Pooled Funds
- Stocks
- Bonds
- Exchange Traded Funds
- Etc.....

LIF/LIRA Plan Types

- ◆ Self directed
- ◆ Full service brokerage account
- ◆ Financial Institution/Insurance Company
- ◆ Discretionary Management Account – Money Management Firms

Retirement Income Options

	Internal Annuity	External Annuity	LIF
Potential to grow			✓
Fixed Income	✓	✓	
Flexible payments			✓
Convertibility			✓
Control of Investments			✓
Inflation protection	Annuity dividend	✓ If indexed	✓
Estate preservation	Limited to remaining guaranteed payments	Limited to remaining guaranteed payments	✓

MER/ROR Impact on Account Value

MER=Management Expense Ratio ROR=Rate of Return

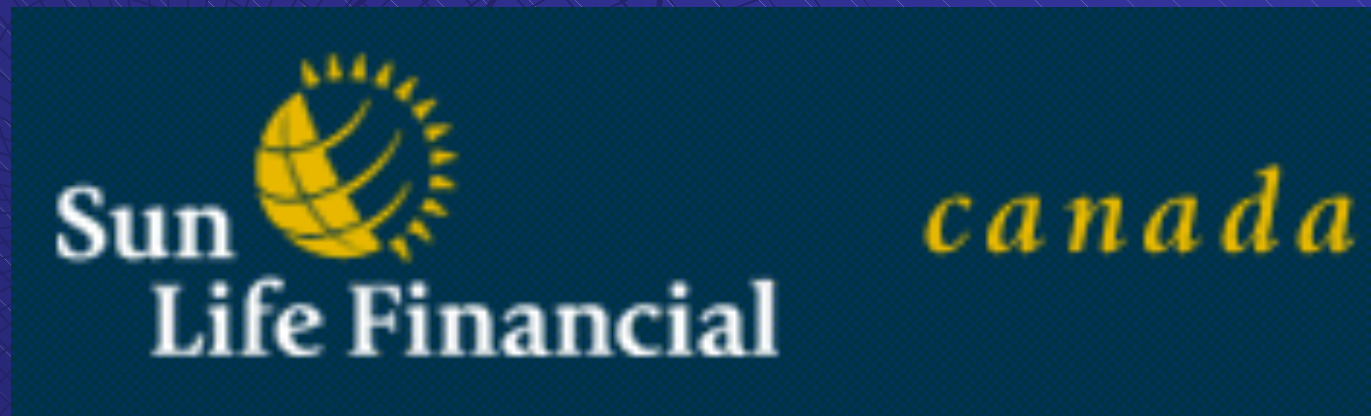
\$500,000 LIF

Year	1/2 of 1%	1%
10	\$24,495.02	\$48,990.04
15	\$34,527.10	\$69,054.20
20	\$42,200.03	\$84,400.06

Assumptions:

- LIF max withdrawal commencing @ age 65 & 6% ROR
- Excess income reinvested and compounded annually

Preferential LIF rates

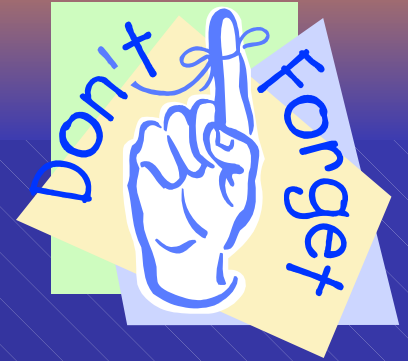


Risk In Retirement

- ◆ Longevity Risk (outlive capital)
- ◆ Investment portfolio decline
 - overly aggressive asset allocation
 - overly conservative asset allocation
- ◆ Inflation risk



What to do in the years prior to retirement?



- ◆ Review your investment portfolio
- ◆ Know your pension plan rules & options
- ◆ Re-evaluate your lifestyle and needs
- ◆ Estimate your expenses in retirement
- ◆ Estimate your retirement income
- ◆ Seek independent investment advice
- ◆ Start early!

Benefits at Retirement

POST-RETIREMENT BENEFITS

McGill provides post-retirement benefits:

- Supplemental Health Plan
- Dental Plan
- Life Insurance Plan

HEALTH PLAN

- Coverage you have at time of retirement can be continued
- Cost sharing continues at 50/50 (pensioner/university)
- Eligible dependents can continue coverage
- Spouse can continue coverage upon death of pensioner

HEALTH PLAN

□ Coverage:

- McGill Plan covers prescription drugs not covered by provincial plans (refer to slide on Drug Plan)
- All other coverage identical to that of actives (such as hospitalization, travel, physiotherapy, etc.)

HEALTH PLAN

□ Residency requirements

- Must be a resident of Canada
- Coverage is dependent on eligibility for Medicare

HEALTH PLAN

□ Travel Insurance

- Out-of-country coverage
- Emergency Medical expenses
- Coverage includes pre-existing conditions
- 90-days per trip
- 100% reimbursement of eligible expenses

QUEBEC DRUG PLAN

- Health Plan members at 65 must choose either:
RAMQ Drug Plan
or
McGill Drug Plan for 65+
- Automatically registered with RAMQ
- McGill Health Plan covers drugs not listed on RAMQ formulary

QUEBEC DRUG PLAN

- RAMQ Drug Plan/McGill Drug Plan

- Similarities:

- Deductible

- Co-insurance

- Out-of-pocket maximum

- Differences:

- Annual premium

- Method of payment

DENTAL PLAN

- Coverage you have at time of retirement can be continued
- Eligible dependents can continue coverage
- Spouse can continue coverage upon death of pensioner

DENTAL PLAN

- No residency requirements
- Plan reimburses expenses based on Quebec Fee Guide for General Practitioners
- Same plan for actives and pensioners
- Cost sharing continues at 50/50 (pensioner/university)

LIFE INSURANCE

- Coverage continues at retirement
- Basic and Optional

LIFE INSURANCE

□ Basic coverage:

- $\frac{1}{2}$ x pre-retirement salary to \$50,000 until age 65
- $\frac{1}{2}$ x pre-retirement salary to \$30,000 at 65+
- McGill pays 100%

LIFE INSURANCE

□ Optional coverage:

- Can maintain insurance bought before retirement
- Maximum: \$100,000
- Pensioner pays 100%
- Rates based on age
- Can reduce or cancel coverage any time

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Retirement Forum for Academic Staff

Rethinking Retirement Options at McGill

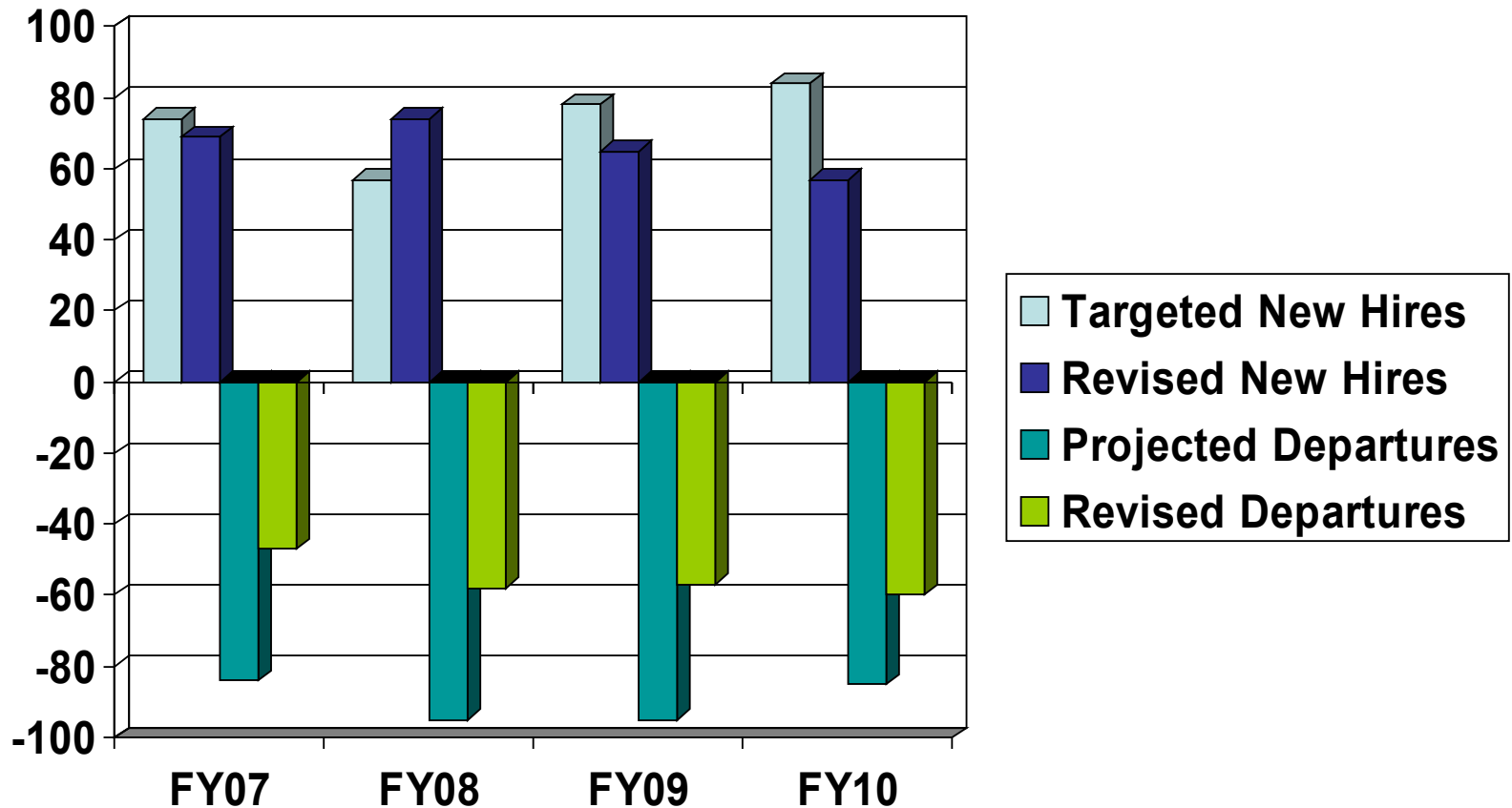
Prof. Anthony C. Masi, Provost

26 February 2007

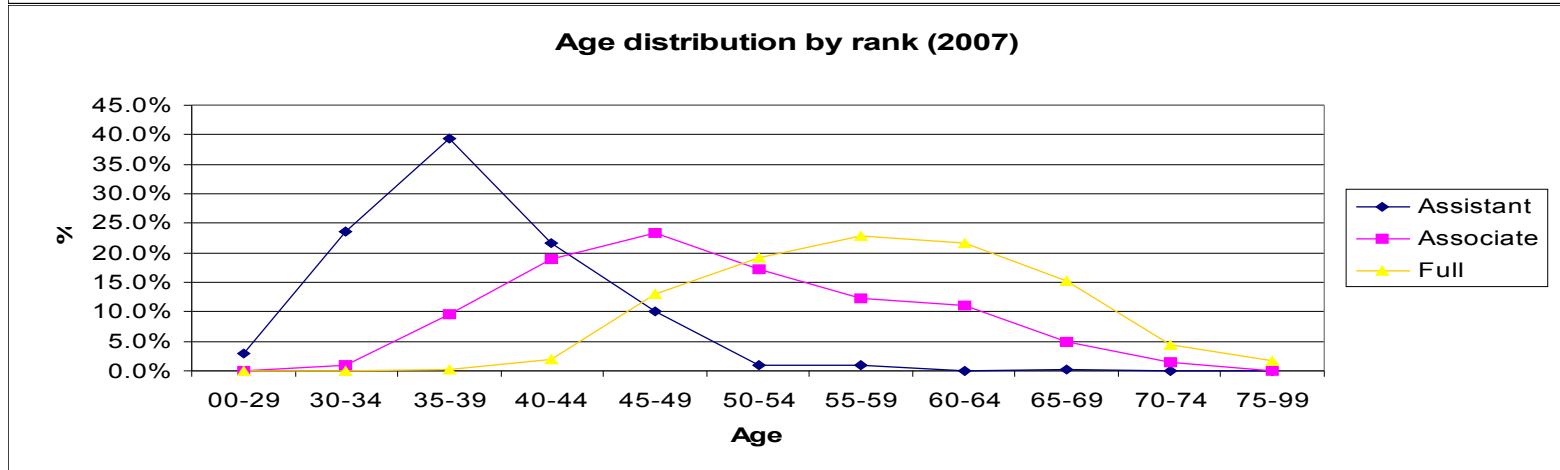
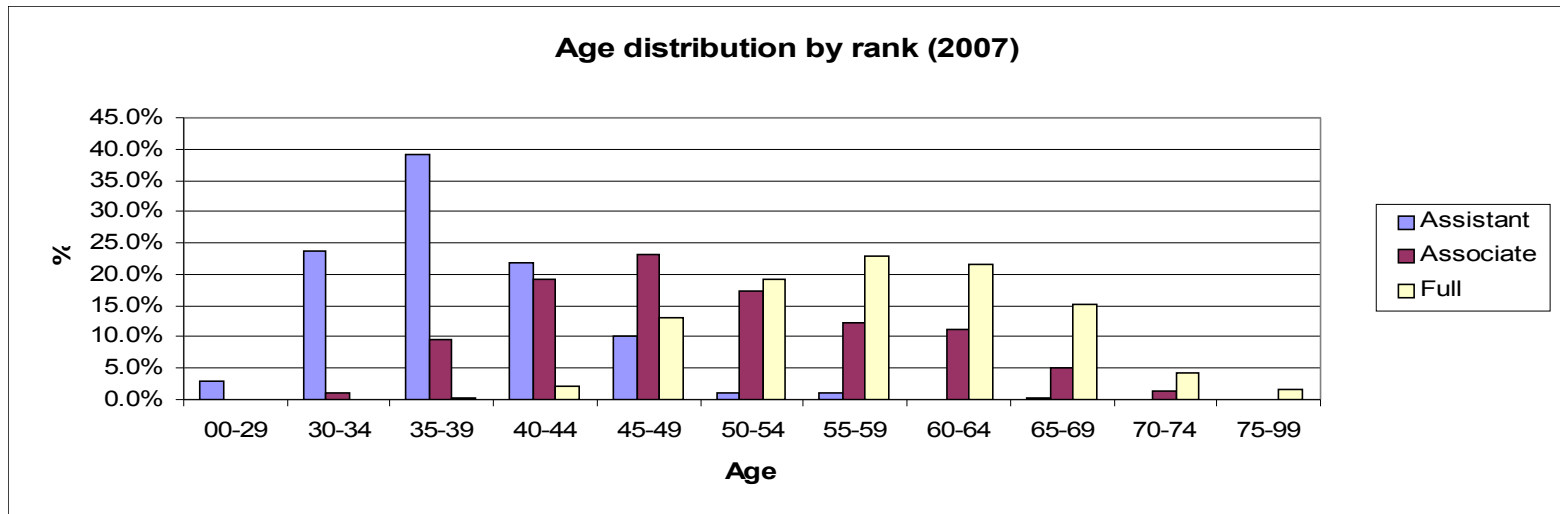
Current situation

- Retirements anticipated in compact planning unrealistic, or at least unattainable
- no “catch-up” on departures (FY07 included 20)
 - recent experience failed to produce such a catch-up
 - demographic trends do not support the catch-up model at this time
- university-wide “planned” tenure-track complement
 - trying to avoid the “boom-bust” cycle of academic renewal
 - development of “retirement friendly” policies (salaries to pensions)
 - target has been exceeded: Δ (entries – exits) must equal 0

Projected TT University-wide academic complement Δ : FY 2007 to 2010



Supporting documentation: tenure track academics



Supporting documentation: Age distribution of tenure track academics

All ranks combined		
Age	Frequency	%
00-29	12	0.8%
30-34	102	6.5%
35-39	214	13.6%
40-44	208	13.2%
45-49	251	16.0%
50-54	216	13.8%
55-59	211	13.4%
60-64	192	12.2%
65-69	120	7.6%
70-74	34	2.2%
75-99	10	0.6%
Total:	1,570	100%

Associate and full combined		
Age	Frequency	%
00-29	0	0.0%
30-34	6	0.5%
35-39	55	4.7%
40-44	120	10.3%
45-49	210	18.0%
50-54	212	18.2%
55-59	207	17.8%
60-64	192	16.5%
65-69	119	10.2%
70-74	34	2.9%
75-99	10	0.9%
Total:	1,165	100%

Note: data are from 22 January 2007

Definitions

- ***"Normal" retirement age: 65***
- ***Actuarial sound pension plan*** must be based on demographic data that are:
 - *Accurate*
 - *Appropriate*
 - *Reliable*
 - *Valid*

Definitions (cont'd)

Defined benefit plan: benefit determined by a formula that can incorporate the employee's pay, years of employment, age at retirement, and other factors

Defined contribution plan: plan has individual accounts and benefits based solely on amount contributed to the account (plus or minus investment results and expenses)

Definitions (cont'd)

Roll-over amount:

(1996 – year of hiring) x \$2,000 (if pension plan contributor) **or** \$3,500 (if not)

NB: must be calculated according to specific individual circumstances

Grey book amount: early retirees eligible for amount **not exceeding the lesser of:**

(5% * current salary) * years of continuous service

OR

75% * (total salary that would be paid from date of early retirement to normal retirement date)

Considerations for early retirement options

For professors who sign agreements by 31 December 2007 for retirement < 31 December 2009:

- ***Phased retirement*** options: grey book amount under certain conditions
- ***Non-phased retirement*** options
- ***One-time "roll-over"*** payment options

Proposed early retirement options (cont'd)

- ***"integration with assigned duties"***
 - Supplement pension income to reach salary level
 - Provide ongoing meaningful links to the McGill community in personally tailored ways
- for those aged **70 and older**, McGill will offer a ***one-time only cash "buy-out"*** equivalent to what would have been the roll-over amount
- **all professors** taking advantage of the above-stated offers will have ***no subsequent reductions in the current regime of post-retirement benefits***

Next steps

- Provost has established a working group to assess current situation and practices and propose more attractive retirement options that will allow individuals who so wish to remain integrated with the McGill community
 - Changes in Emeritus status
 - Affiliations possible through research, teaching, supervision, administration, committees, MILR, Continuing Education
 - Challenges of funding non-financial benefits; e.g., space and other amenities

Questions?

Concerns?

Suggestions?

Comments?

Criticisms?

Complaints?

Ideas?

Recommendations?

McGill Association of University Teachers Retirement Forum

Some Components of a Rewarding Retirement

McGill Institute for Learning in Retirement

Sign up for a discussion group or lead a discussion group
www.mcgill.ca/milr

Concerts, plays

www.mcgill.ca/music/events/concerts
www.centaurtheatre.com
www.shawfest.com
www.stratfordfestival.com

Group travel

www.alumni.mcgill.ca (click on “Travel website”)
www.smithsonianjourneys.org
www.amnhexpeditions.org
www.unex.berkeley.edu/travel/
www.routestolearning.ca/index.cfm
www.elderhostel.org

Community service

Municipal or community association office
Volunteer www.cabm.net

Take up a new hobby

Learn to play bridge
Learn to play a musical instrument
Take up a new sport – start fitness training

Teach at course at McGill or another university as an Adjunct Professor

Manage your retirement savings

And be sure to maintain your membership in MAUT

Information about benefits for and privileges of retirees
Luncheon get-togethers for retired academics