

M Forum Plenary Session

McGill University Pension Plan

October 5, 2011

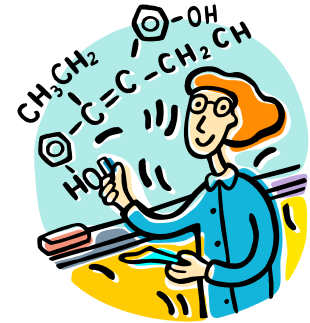
Agenda

1. Introduction to pension plans
 - Pension plan types
2. McGill University Pension Plan
 - Issues and challenges
 - Valuation of pension plan
3. What is changing?
 - Amendments and effective dates
4. What are other pension plans doing?

Pension Plan Types

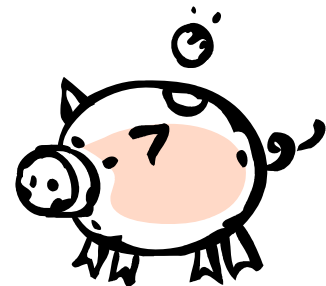
Defined Benefit Pension Plans (DB)

- Benefits tied to a formula based on
 - Years of Service
 - Pensionable Earnings
- Funding
 - based on valuation of pension plan
 - Assets < liabilities = deficit (which must be funded)
- Commonly used by large employers and public/para-public institutions



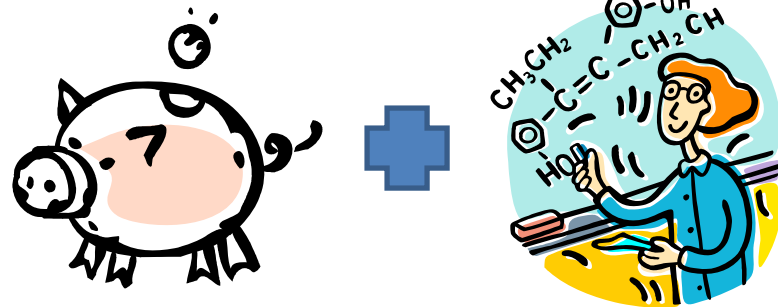
Defined Contribution Pension Plans (DC)

- Capital accumulation plan type
- Amount of pension based on contributions and investment return
 - Amount of pension benefit at retirement unknown
- Assets = liabilities, no surplus or deficit
- Legislation limits the maximum contribution amount



Hybrid Pension Plans

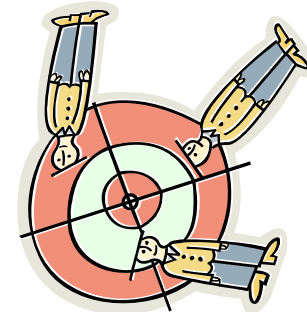
- Combine elements of
 - defined contribution
 - defined benefit
- Design can vary significantly from one plan to the next
- Not common form



Issues and Challenges

Goals in Plan Design

- Assist members to save towards retirement
- Attract and retain faculty and staff
- Sustainable pension system
- Maximize efficiency of contributions

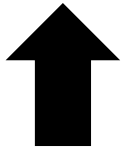


Composition of Pension Plan



Pension Valuations

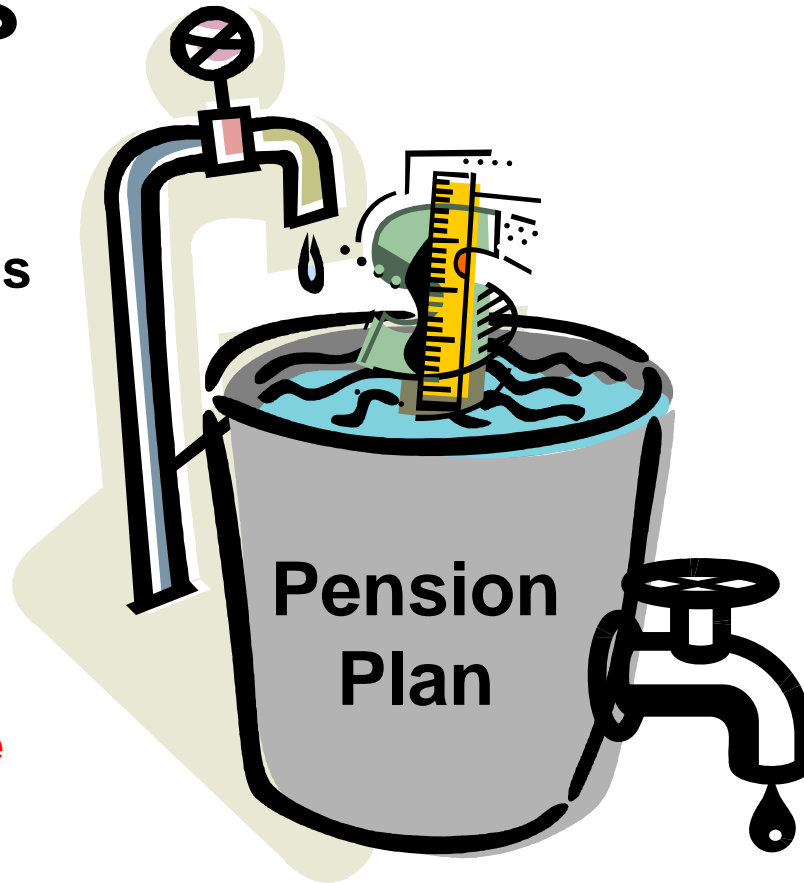
Assets



- Contributions
- Investment gains



- Investment losses
- Administrative Costs



Liabilities

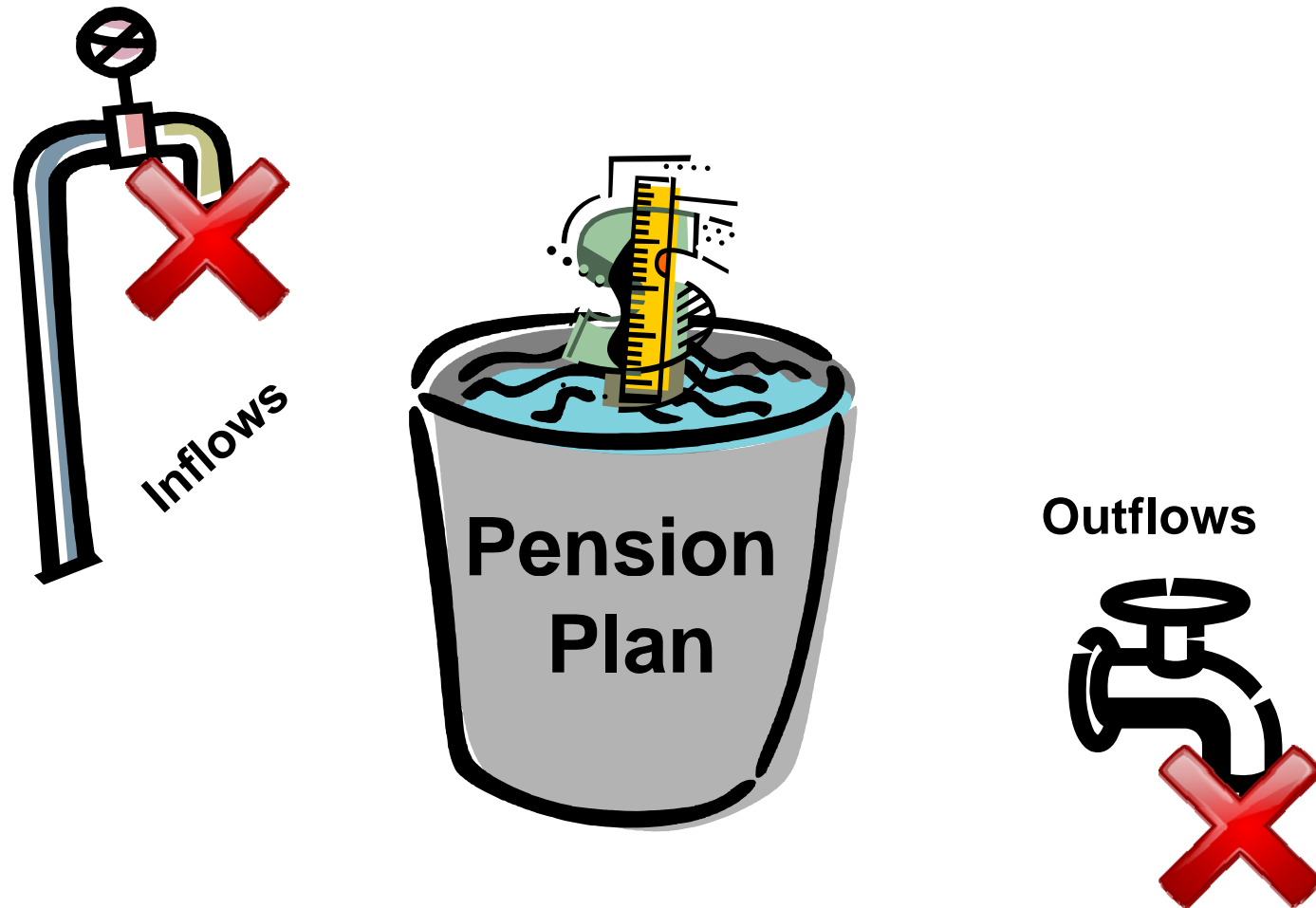


- Decreasing interest rates
- Increasing life expectancy – paying longer
- Increasing max benefit limits



- Increasing interest rates

Solvency Valuation – Defined Benefit



Assets

Liabilities @ specific point in time

Going-Concern Valuation - Defined Benefit



Assets / Liabilities assuming continuation of outflows & inflows

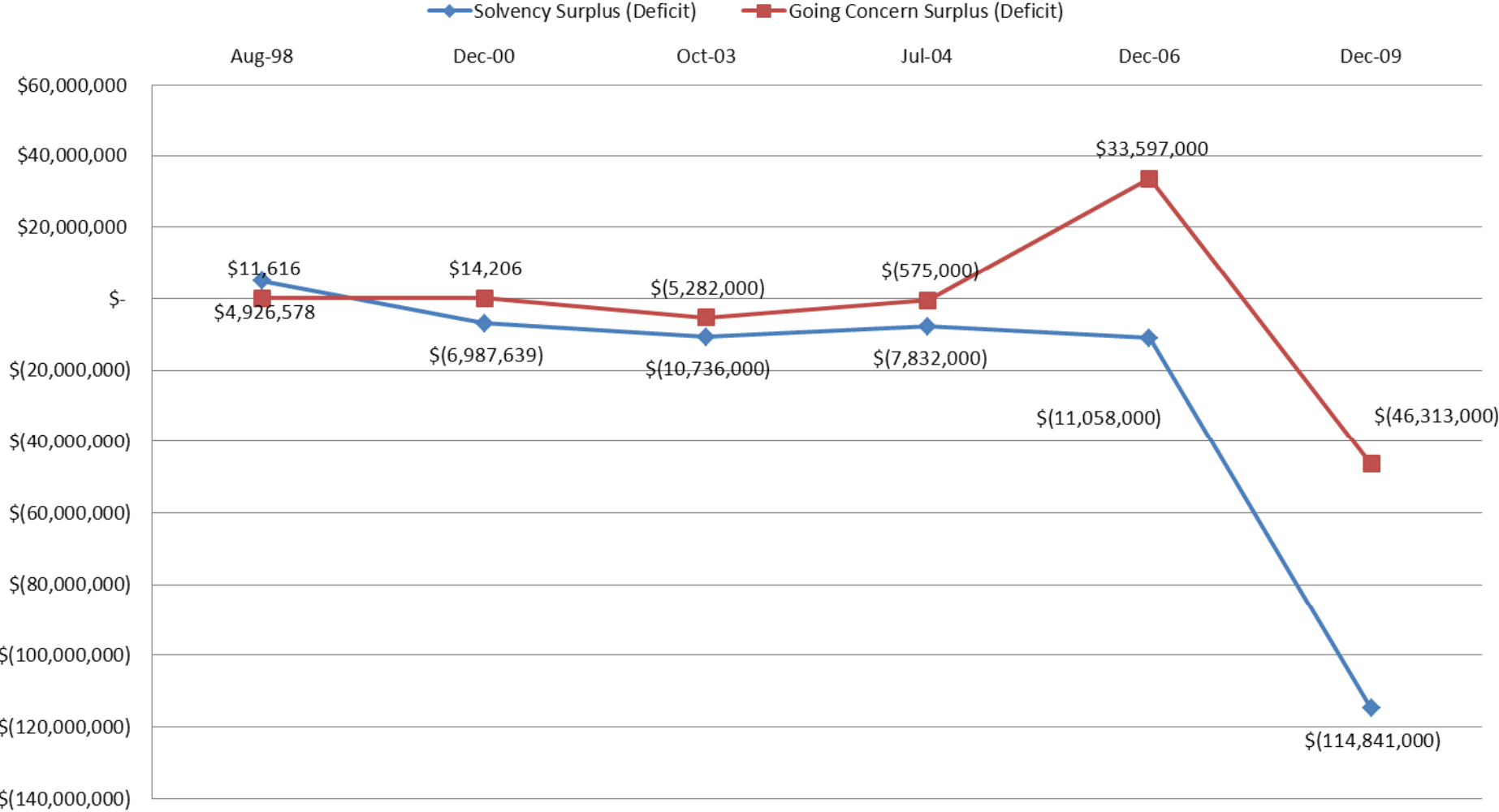


- 2008 market meltdown
- 2011?
- more volatile returns over last ten years



- Interest rate declined
- Increasing maximum pension benefit under the *Income Tax Act*
- Ever increasing life expectancy

Impact on McGill University Pension Plan Valuations



Triennial Valuation – Solvency Basis

Results	December 31, 2006	December 31, 2009
Overall solvency ratio:	99.2%	91.5%
Degree of solvency:		
For members who receive defined benefit minimum supplements	97.0%	84.0%

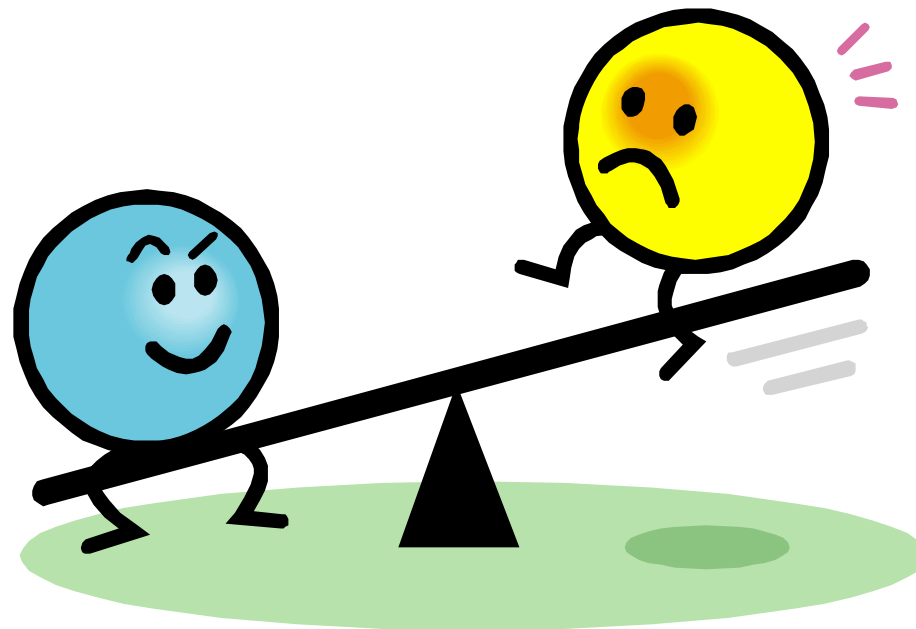
Immediate Impact on University Operating Budget

Contributions

Funding	1989	2009	2010		2011 (9 mos. to Sep 30th)	2012
Member DC	\$6,796,535	\$15,869,129	\$16,186,292		\$11,478,492	TBD
University DC	\$11,035,958	\$27,722,383	\$28,207,483		\$21,087,068	TBD
University Defined Benefit	n/a	\$186,300	\$2,486,100 1334.46% increase		\$2,536,400	\$6,336,200
University Funding required to maintain 100% payout for those in DBM	n/a	\$31,792	\$1,312,858 4129.52% increase		\$1,290,975	TBD
% of total covered by members	38.11%	36.22%	33.59%		33.57%	31.11% est.
% of total covered by University	61.89%	63.78%	66.41%		66.43%	68.89% est.

Fundamental Choices

1. Increase contributions
2. Decrease benefits
3. Combination of both



What others are doing - plan design

Defined Benefit Options

- Increase member / plan sponsor contributions
- Reduce defined benefit minimum formula
- Reduce early retirement subsidies
- Reduce/elimination indexation of pensions
- Closure/capping of defined benefit segment

Are contributions sufficient?

Contribution rate required in a defined contribution plan to replicate an average DB pension

14 – 16%

Source: Towers Watson Capital Accumulation Plan survey, 2010

Measures at McGill?

#1: All members > age 39 to increase rate of contribution for DC segment

Members:

- Start Date: **January 2013**
 - Age 40-49 : Increase contribution rate by 2%
 - Age 50-65 : Increase contribution rate by 3%
- (actual rate of contribution increase to be confirmed)

University:

- No change to defined contribution funding
- Increased funding of the defined benefit segment

Defined Contribution (DC) funding @ McGill (average DB pension requires 14 to 16%)

Age	Now		2013		2013 % of DC Funding assumed by:	
	Min	Max	Min	Max	Member	University
<40	6.4%	9.34%	6.4%	9.34%	50%	50%
40-49	8.9%	11.68%	10.9%	13.55%	48%	52%
50+	11.4%	14.02%	14.4%	16.81%	43%	57%

#2: Maintain defined benefit minimum formula for hybrid plan members (hybrid - hired prior to January 1, 2009)

Hybrid plan members to share in funding of defined benefit minimum – **January 2014**

- **Applies only when deficits exist**
- Cost sharing of deficits: 50% University and 50% hybrid pension plan members
- Member special payments directed to individual defined contribution account
- Reduction in University contribution to member account
- University payments + reduced contribution directed to defined benefit

#3: Cease University contributions at Normal Retirement Date (Age 65)

- Effective date: **January 2012**
- Secure University funding for defined benefit minimum
- Members may continue to make additional voluntary contributions

#4: Treatment of stipends

- Effective **January 2012**
- Hybrid members only
- Continued eligibility for Defined Contribution purposes only
- Excluded from defined benefit minimum

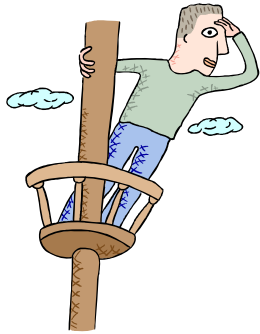
Impact on take home pay (as of January 2013)

Assumes: Gross earnings \$50,000 and 25% tax rate

Note: actual rate of increase TBD

	Age up to 39	Age 40 – 49 (2%)	Age 50 – 65 (3%)
Additional Member Contribution per annum	No impact	\$1,000.00	\$1,500.00
Less : tax savings		<u>\$250.00</u>	<u>\$375.00</u>
Net reduction per annum		(\$750.00)	(\$1,125.00)
Net reduction per pay		(\$31.25)	(\$46.87)





Anticipated results

- Slight reduction in take home pay
- Increased savings towards retirement
- Greater stability and sustainability of pension plan
- More secure future of pension plan