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March 22, 2011

Public Sector Pension Plan Solvency Relief Application  
Ministry of Finance, Pension Policy Branch  
5th Floor, Frost Building South  
7 Queen's Park Crescent  
Toronto, ON M7A 1Y7

Subject: York University Pension Plan

This document will serve as the application by York University to have the York University Pension Plan (Registration No.: 329763) participate in the two-stage solvency funding relief measures applicable to pension plans in the broader public sector, to be implemented through an amendment to R.R.O. 1990, Reg. O/T 909 of the *Pension Benefits Act*, R.S.O. 1990, C.P.8.

The Stage 1 Valuation Date for the York University Pension Plan ("Pension Plan") is December 31, 2010. The effective date of the prior actuarial valuation filed with the Financial Services Commission of Ontario was December 31, 2007.

#### **Overview of Pension Plan**

The York University Pension Plan is a hybrid pension plan. That is, members make contributions to a Money Purchase (MP) account that are matched by University contributions. The balance in the account at retirement, which reflects the contributions and accumulated investment earnings, is converted to a pension. This MP pension is then compared to the pension determined under a Defined Benefit (DB) minimum guarantee formula. If the DB pension is higher, then a DB minimum guarantee supplement is paid in addition to the MP pension.

Both the MP pension and the DB supplement pension are indexed after retirement to the extent that the four-year average rate of return on the pension fund exceeds 6.0% ("excess investment return indexation"). Average returns in a given year in excess of 6.0% result in an increase in the pension. If the average return in a given year is below 6.0%, then the pension paid is not reduced. However, a pension payable amount is created and the pensioner would not receive any further indexation until the pension payable amount reaches the pension being paid. This is referred to as a non-reduction guarantee.

A summary of the current Pension Plan provisions is attached as Appendix I.

**Defining the Issue**

The actuarial valuation results as of December 31, 2010 show a deficit of \$217.2 million calculated on a going concern basis and \$198.8 million calculated on a solvency/wind-up basis. These results are presented and discussed in more detail on the following pages. The immediate impact to the University's operating budget from the contribution requirements shown on page 3 is significant. Under the current solvency funding rules, the increase in University contributions from the prior actuarial valuation would total \$45.3 million, which represents approximately 6.4% of the University's operating budget.

The market downturn of 2008/2009 and the historically low interest rate environment have created the current funding deficits. However, there are more structural issues which impact the long-term sustainability of the Pension Plan. With the high rates of investment returns in the 1990s, and relatively high prevailing interest rates, the Pension Plan operated for a long period of time as essentially a money purchase plan with an annuitization of the account balance at retirement at 6% followed by excess investment return indexation. With the negative investment returns in recent years, and the lengthening of the expected pension payment period caused by improvements in pensioner longevity, the Pension Plan is operating more like a defined benefit plan. In fact, going forward, with the lower future expected investment returns (resulting from lower long-term interest rates) and the improvements in pensioner longevity, the current contribution levels to the MP account are now much less than are required to have a reasonable expectation of providing a pension equivalent to the DB minimum guarantee.

At the same time, the risk profile of the Pension Plan has changed as interest rates have fallen not only over the past few years but over a prolonged period of time. With these lower interest rates, the risk of investment returns being below the 6.0% stipulated rate for converting the MP account into a pension and used as the threshold for indexation of both the MP pension and DB supplement pension is much greater than it was in the past. With increased risk of investment returns below 6.0%, the non-reduction guarantee provision comes with a much higher potential cost.

Pensions are an important component of the total compensation of employees at York University. A sustainable Pension Plan is one that delivers good pensions to members within a cost/risk structure that is manageable for the University and for members as well.

As you will see from this application, we have started a process to discuss Pension Plan sustainability with our employee groups. Government approval of our application for Stage 1 solvency funding relief will give us the time to work through this process with our employee groups while providing the University with more operating budget certainty as we do that.

**Stage 1 Valuation Report**

The actuarial valuation results as of December 31, 2010 prepared by Mercer (Canada) Limited are enclosed as an attachment to this document. As of December 31, 2010, the valuation results were as follows:

Valuation Basis	Deficit (000's)	Funded Ratio
Going Concern	\$217,200	0.860
Solvency	\$198,800	0.872

Based on the December 31, 2010 actuarial valuation, the contribution requirements for 2011 are as follows:

	Member Contributions		University Contributions	
	Annual Amount (\$000's)	Percent of Pensionable Earnings	Annual Amount (\$000's)	Percent of Pensionable Earnings
Contributions to MP Account	\$ 19,100	5.34%	\$ 19,600	5.49%
Current Service Cost For DB Minimum Guarantee Supplement			18,400	5.15%
Special Payments to Amortize Going Concern Unfunded Liability				
Special Payments From Prior Valuations			4,800	1.34%
New Special Payments			<u>18,300</u>	<u>5.12%</u>
Total	\$ 19,100	5.34%	\$ 61,100	17.10%

In addition, without solvency funding relief, there would be annual solvency special payments of \$21.2 million for five years or approximately 3.0% of the University's operating budget. Combined with the normal cost for the DB minimum guarantee (\$18.4 million) plus the going concern special payments (\$23.1 million), the University contributions beyond those to the MP account would total \$62.7 million or approximately 8.8% of the University's operating budget.

**Savings Target**

The effective dates of the three previous actuarial valuations filed with the Financial Services Commission of Ontario were as follows:

- December 31, 2007
- December 31, 2006
- December 31, 2005

The going concern funded ratios and solvency ratios for those actuarial valuations are developed in Appendix II to this letter.

The Savings Target is calculated as follows:

Valuation Date	Funded Ratio	
	Going Concern	Solvency
December 31, 2010	0.860	0.872
December 31, 2007	0.968	0.986
December 31, 2006	0.986	1.000
December 31, 2005	0.981	1.000
Average	0.949	0.965

$$\begin{aligned}\text{Savings Target} &= 1 - (\text{lesser of } 0.949 \text{ and } 0.965) \\ &= 1 - 0.949 \\ &= 0.051 \text{ or } 5.1\%\end{aligned}$$

As of December 31, 2010, the Present Value of Benefits for active members in the Pension Plan (for past and future service), calculated under the actuarial assumptions used for the Stage 1 valuation report, is as follows:

<b>Present Value of Benefits—Active Members</b>	<b>(000's)</b>
Money Purchase Accounts	\$ 638,000
Present Value of Future Member Contributions (MP Component)	209,000
Present Value of Future University Contributions (MP Component)	215,000
Present Value of DB Minimum Guarantee Supplement	
Past Service	216,000
Future Service	<u>223,000</u>
	} \$654,000
Total	\$ 1,501,000

There are assets in the Pension Plan in respect of the Past Service component of the Present Value of the DB Minimum Guarantee Supplement. The prorata allocation of Defined Benefit Assets (see Appendix II) would be \$161 million. Therefore, the Present Value of Future University Costs in respect of active members is \$654 million – \$161 million = \$493 million.

The Savings Target is  $5.1\% \times \$1,501 \text{ million} = \$77 \text{ million}$ . That is, the Present Value of Future University Costs in respect of active members, \$493 million, would have to be reduced by at least \$77 million to satisfy the Savings Target. This represents approximately 2% of the Present Value of Future Salaries of active members of the Pension Plan.

In addition, the Present Value of University special payments toward the going concern unfunded liability in respect of retired and deferred members, determined on a prorata basis as above, is \$160 million.

**Pension Plan Sustainability**

York University has already started the process of addressing pension plan sustainability through the following steps:

- Created a Board of Governors Pension Working Group to focus on the pension plan sustainability issue;
- Held three different series of pension information sessions (27 sessions in total) attended by over 900 Pension Plan members (and available online);
- Engaged Aon Hewitt, who is not the Pension Plan's actuary, to assist the University in working with the employee groups;
- Met with each of the associations and unions to discuss the process for addressing pension plan sustainability and to understand their issues;
- Held a multi-employee group meeting to review the solvency funding relief provisions and discuss the contents of the application to the Government; and
- Shared and discussed this application with the associations and unions prior to making this submission.

Based on initial meetings and discussions with the associations and unions, the following guiding principles have been developed for the pension plan sustainability exercise:

- Continue 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;
- Maintain hybrid plan structure to allow members to participate in the upside (preference expressed by some of the employee groups) provided changes are made to limit the University's risk on the downside;
- Ensure pension plan is financially sustainable in the long term and adaptable to changing circumstances, not just meet metrics for solvency funding relief;
- Protect initial pension determined at date of retirement;
- Provide for demographic equity;
- Manage complexity by giving consideration to administration and communication; and
- Consider changes to Pension Plan governance as part of any changes made to the risk sharing structure.

### **Possible Pension Plan Changes**

To ensure the long-term sustainability of the Pension Plan, not just meet the metrics for solvency funding relief, the University will be discussing with employee groups one or more of the following changes to the Pension Plan provisions for active members:

- Increases to member and University contributions to the money purchase component to make the money purchase component more relevant going forward
- Changes to elements of the DB minimum guarantee component
- Methods for moderating the risk associated with the postretirement indexation provisions
- Changes to Pension Plan governance as part of any changes made to the risk sharing arrangements

### **Employee Groups Covered By the York University Pension Plan**

Appendix III shows the employee groups covered by the York University Pension Plan and, if applicable, the associations and bargaining agents representing the members.

### **Plan Amendments**

There have been only minor language amendments to the Pension Plan over the period from January 1, 2006 to December 31, 2010.

### **Confirmations**

This will confirm that this document has been delivered to the bargaining agents representing members prior to its filing and has been posted for active members of the Pension Plan on the University's website. The document will be shared with retired members as part of the regular communication with those members.

**Attachments**

The following documents are attached:

- Summary of actuarial valuation results as of December 31, 2010
- Plan document with amendments
- Prior filed actuarial valuations as of:
  - December 31, 2007
  - December 31, 2006
  - December 31, 2005
  - December 31, 2003
  - December 31, 2002
  - December 31, 2001
  - December 31, 2000
  - December 31, 1999

**Questions/Additional Information**

Please direct questions or requests for additional information to my attention.

Thank you for your consideration. We look forward to your response to this application.

Yours truly,



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### Summary of Current Pension Plan Provisions

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#### Member Contributions

MP Account 4.5% of salary up to CPP Wage Base  
plus  
6.0% of salary above CPP Wage Base

#### University Contributions

MP Account 4.5% of salary up to CPP Wage Base  
plus  
6.0% of salary above CPP Wage Base

DB Minimum Guarantee Current service cost plus special payments to amortize deficits

Non-Reduction Guarantee 3.0% of member contributions  
plus  
3.5% of University DB current service cost

#### DB Minimum Guarantee

Average Period For Earnings 5 years

Benefit Formula Per Year of Service 1.4% of average salary up to average CPP Wage Base  
plus  
1.9% of average salary above average CPP Wage Base

Early Retirement Reduction 3.0% per year from ages 65 to 60  
plus  
6.0% per year from ages 60 to 55  
(applies on early retirement and early commencement of deferred vested pensions)

Subsidized Form of Payment 50% joint-and-survivor pension for members with a spouse

#### Pension Benefit at Retirement

Sum of (a) and (b) below, determined at date of retirement:  
(a) Pension from MP account converted to an annuity (based on interest rate of 6% per year and mortality tables adopted for this purpose)  
(b) Excess, if any, of pension under DB minimum guarantee over pension calculated under (a)

#### Indexation After Pension Commencement

Both (a) and (b) above indexed each year by the excess of the 4-year average rate of return on the pension fund over 6%

#### Non-Reduction Guarantee

If 4-year average rate of return on pension fund is less than 6%:  

- Paid pension not reduced
- "Pension payable" created by applying reduction
- Future indexation applied to pension payable and not applied to pension paid until pension payable catches up

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### Summary of Results For Actuarial Valuations Included in Determining Savings Target

The following table shows the actuarial valuation results for the Stage 1 actuarial valuation as of December 31, 2010 and the three prior filed actuarial valuations as of December 31, 2007, December 31, 2006, and December 31, 2005:

	December 31, 2010 (000's)	December 31, 2007 (000's)	December 31, 2006 (000's)	December 31, 2005 (000's)
<b>Market Value of Assets</b>				
Money Purchase Accounts	\$ 723,800	\$ 724,340	\$ 733,829	\$ 685,965
Defined Benefit Assets	<u>610,100</u>	<u>596,048</u>	<u>603,983</u>	<u>503,419</u>
Total (a)	\$ 1,333,900	\$ 1,320,388	\$ 1,337,812	\$ 1,189,384
<b>Going Concern Accrued Liabilities</b>				
Money Purchase Accounts	\$ 723,800	\$ 724,340	\$ 733,829	\$ 685,965
Pensioner Liability	608,600	536,623	534,568	444,273
Active Member DB Minimum Guarantee Liability	<u>218,700</u>	<u>103,541</u>	<u>87,983</u>	<u>82,773</u>
Total (b)	\$ 1,551,100	\$ 1,364,504	\$ 1,356,380	\$ 1,213,011
<b>Solvency Liabilities</b>				
Money Purchase Accounts	\$ 723,800	\$ 724,340	\$ 733,829	\$ 685,965
Pensioner Liability	660,600	550,786	557,135	455,894
Active Member DB Minimum Guarantee Liability	<u>145,800</u>	<u>64,058</u>	<u>30,458</u>	<u>22,573</u>
Total (c)	\$ 1,530,200	\$ 1,339,184	\$ 1,321,422	\$ 1,164,432
Going Concern Funded Ratio, (a) ÷ (b)	0.860	0.968	0.986	0.981
Solvency Ratio, (a) ÷ (c)	0.872	0.986	1.000	1.000

## Employee Groups Covered By York University Pension Plan

Associations / Bargaining Units	Description	Number of Active Members In Pension Plan	Term of Current Agreement (if applicable)
York University Faculty Association (YUFA)	Faculty and Librarians	1,376	May 1, 2009– April 30, 2012
York University Faculty Association (YUFA), Exempt	Faculty and Librarians	48	–
Osgoode Hall Faculty Association (OHFA)	Osgoode Hall Faculty	53	May 1, 2009– April 30, 2012
Osgoode Hall Faculty Association (OHFA), Exempt	Osgoode Hall Faculty	5	–
Research Associate / Assistant	Research Associate / Assistant	50	–
CUPE 3903, Unit 1	Full-time graduate students employed in teaching, demonstrating, tutoring or marking	5	September 1, 2008– August 31, 2011
CUPE 3903, Unit 2	As above but excluding full-time graduate students	273	September 1, 2008– August 31, 2011
York University Staff Association, Unit 1	Employees performing office, clerical, laboratory or technical work	1,377	August 1, 2008– July 31, 2011
York University Staff Association, Unit 2	As above but employed less than 24 hours per week	10	February 28 2003– February 28, 2006
CUPE 1356	Maintenance Services and Plant Operations	353	September 1, 2008– August 31, 2011
CUPE 1356 - 1	Security and Parking Officers	63	September 1, 2008– August 31, 2011
IUOE, Local 772	Stationary Engineers	18	July 1, 2008– June 30, 2011
OPSEU, Local 578	ESL Instructors	18	June 7, 2006– April 30, 2010
CPMEA	Confidential, Professional, Managerial	721	–
Senior Executives	Senior Executives	6	–