

CAW LOCAL 555

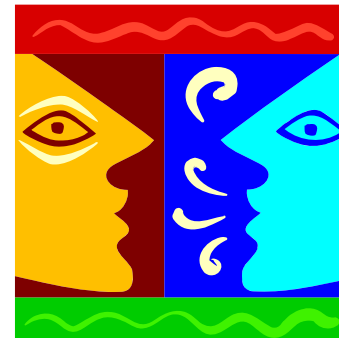
McMaster University Salaried Employees' Pension Plan



Pension Information Session, May 2008
Cara MacDonald, National Representative
CAW Pension & Benefit Department

Main Discussion Items

- Plan History/Structure
- Main Plan Provisions
- 2006 Negotiations
- Funding Status – ‘Plan 2000’
- Questions?
- Government Pension Reference





Plan History/Structure

- Defined benefit, contributory pension plan
- Two salaried pension plans – ‘Plan 2000’ and ‘Original Plan’
- ‘Plan 2000’ established on July 1, 2000 in order to facilitate surplus distribution
- Members of ‘Original Plan’ given option to join ‘Plan 2000’. In addition, retirees who did not respond were automatically enrolled in ‘Plan 2000’.



Plan History/Structure, con't

- New employees who became eligible in the period between Dec. 31 2000 and Jan. 14 2003 were initially rolled into the 'Original Plan' and subsequently transferred to 'Plan 2000', effective Spring 2004
- Surplus distribution (\$149 M) approved on Jan.14, 2003
- Both plans are applicable to MUSA as well as to other groups (including MUFA, CFA, etc.)
- 'Plan 2000' and 'Original Plan' mirror each other (no differences in provisions).



Eligibility for Membership

- Effective Jan. 14 2003, all full-time and 'continuing part-time' employees may elect to join immediately but are required to join 'Plan 2000' on July 1st following the completion of six months' employment
- Contract employees may join the plan at the beginning of a contract that will extend their period of cumulative employment beyond one year and are required to join no later than July 1st following one year of cumulative employment
- All other employees who earn a minimum of 35% of YMPE or work 700 hours in each of two consecutive years may join the plan immediately upon election



Contributions



CAW Local 555 member contributions:

- 5.5% of regular annual earnings up to YMPE and
- 7.0% of regular annual earnings in excess of YMPE

- For plan years 2000/2001, 2001/2002 and 2002/2003, 50% of member contributions paid from plan surplus. For same years, University took 100% contribution holiday. This was in addition to surplus withdrawal of \$149 M

- University contributes as recommended by actuary (i.e. difference between actual cost minus aggregate member contributions)



Retirement Dates

- Normal retirement at age 65 or July 1st next following the member's 65th birthday
- Early retirement as early as age 55 with 2 years' service, reduced by 0.5% for each month prior to age 65
- Unreduced early retirement with 80 points (age plus plan participation = 80 points) plus additional bridge benefit
- Elimination of mandatory retirement – delay pension commencement to age 69



Pension Benefits



FORMULA (1.4%/2.0%)

- 1.4% of average highest 48 months' earnings up to average YMPE (using same 48 months) times years of pensionable service PLUS
- 2.0% of average highest 48 months earnings in excess of average YMPE (using same 48 months) times years of pensionable service
- Reduced by 6% for each year prior to age 65
- With 80 points, unreduced benefit plus bridge benefit of \$19 per month for each year of pre-June 30 1996 credited service to a maximum of 20 years, payable no sooner than age 60 to age 65



Benefit Example

- Member age 58 with 28 years' pensionable service, retires as at July 1, 2009
- Assume 4-year average earnings of \$48,000 and 4-year average YMPE of \$42,950
 - $1.4\% \times \$42,950 \times 28 \text{ years} = \$16,836/\text{yr}$ plus
 - $2.0\% \times \$5,050 (\$48,000 - \$42,950) \times 28 \text{ years} = \$2,828/\text{yr}$ plus
 - Bridge \$19 x 15 years (1981 to 1996) = \$285/mth (\$3,420/yr)
 - To age 60 - \$1,639/month (\$19,664/yr = \$16,836 + \$2,828)
 - Age 60 to 65 - \$1924/month (\$23,088/yr)
 - Age 65 - \$1,639/month (\$19,664/yr)



Benefit Example With CPP/OAS

Goal is to achieve at least 70% of pre-retirement income from all sources. At \$48,000 per year (or \$4,000/mth), need minimum of \$2,800/month.

Income Source	Age 58	Age 60	Age 65+
Government			
OAS	0	0	502
CPP	0	620	620
Workplace Pension			
Lifetime	1,639	1,639	1,639
Bridge to 65	0	285	0
Total	\$1,639	\$2,544	\$2,761

Represents about 69% of pre-retirement income from age 65



P-COLA (Indexation)

- Increases applicable January 1st each year
- P-COLA Formula: amount in excess of 4.5% of the average annual rate of return earned over the previous five calendar years, up to maximum annual CPI increase for that year
- Effective July 1, 1997, any excess (over and above CPI maximum) used to top-up last three years' increases
- Generated increases of 0% in 2003, 0% in 2004 and 0.19% in 2005 (paid in 2006)



Disability

- No disability pension benefit
- Waiver of contributions for members in receipt of LTD
- Effective July 1, 1990, pre-disability earnings and pre-disability YMPE are both indexed by PCOLA formula each July 1st
- Ad-hoc increase on July 1, 2003 of 1.5% to the annual earnings and YMPE for members on disability



Death Benefits

- Pre-retirement death benefits
 - Pre-1987 – member contributions plus interest
 - Post-1986 – commuted value plus any contributions in excess of 50% of value
- Post-retirement death benefits
 - 7-year guarantee, applicable as normal form and to survivor
 - 60% survivor benefit, with actuarial reduction to lifetime benefit
 - Optional forms available including option to elect survivor benefit after retirement and within 60 days of acquiring spouse/partner



Termination Benefits



- Members who terminate prior to age 55 may receive deferred pension as early as age 55, subject to actuarial reduction
- Members who terminate at age 55 or older may commence pension at any time, subject to early retirement reductions (0.5% for each month prior to age 65)
- Pre-1965 member contributions payable as cash, subject to 5% penalty

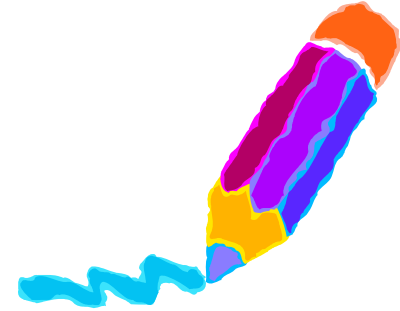
Other Plan Provisions

- Upon retirement, option to transfer commuted value to retirement savings account or receive monthly benefit payable from pension plan
- Option for buy-back and optional use of individual surplus entitlement towards purchase
- Voluntary member contributions permitted
- Comprehensive transfer provisions





2006 Negotiations



- Increase to member pension contributions offset through wage increases.
- Retained 'Rule of 80'. Faculty phased it out, agreeing to a 5.5 year delay and a 5-year transition to Rule of 85 (with Rule of 81 becoming effective in 2012 and full implementation of Rule 85 beginning in 2016). Rule of 85 effective immediately for new faculty
- Tied pension plan to collective bargaining process, preventing unilateral changes being made by majority vote of Pension Trust Committee (comprising 16 members, only two of which were from our bargaining unit), with approval of Board of Governors.

2006 Negotiations, con't



- Achieved more control over pension surplus. Collective agreement requires University to meet with Union when plan is in a surplus position to discuss how to utilize the surplus that has accrued on behalf of CAW members. If no agreement, go to final offer arbitration.
- Faculty took a different approach. If University takes contribution holiday (uses surplus to pay for on-going cost of pension plan), then they want one too. Faculty member contributions reduced in relation to percentage of total employer contributions to total employee contributions (all pension member contributions)



Pension Funding Bases

- Three components comprising cost of pension plan: (1) going-concern; (2) solvency; (3) current service cost
- Going-concern – is the rate of contributions adequate enough to cover the pension promised, assuming the plan continues in existence? (shortfall is amortized over 15 years)
- Solvency – are there enough assets to cover expected benefits if the plan were to wind up today? (shortfall amortized over 5 years)
- Current service cost – cost of 12 months' pension benefits



Funding Status, 'Plan 2000'

- Valuation report as at July 1, 2006
- Plan funded at 97%
- Going-concern shortfall of \$79 M (compared to surplus of \$56 M in 2003), requiring special annual payments of \$8.168 M until completion of next valuation report (due as at July 1, 2009)
- Solvency surplus of \$6.113 M (compared to \$101 M in 2003), hence no special payments required



Funding Status, con't

- Total current service cost of:
 - \$38.574 M in 2006/07
 - \$40.599 M in 2007/08
 - \$42.731 M in 2008/09

- Estimated member contributions:
 - \$10.884 M in 2006/06
 - \$13.148 M in 2007/08
 - \$14.349 M in 2008/09



Funding Status, con't

- Estimated University contributions:
 - \$27.690 M (share of current service cost) + \$8.168 M (special going-concern payment) = \$35.858 M in 2006/07
 - \$27.451 M + \$8.168 M = \$35.619 M in 2007/08
 - \$28.382 M + \$8.168 M = \$36.550 M in 2008/09
- Going concern deficit mainly as a result of past surplus usage to pay for on-going costs of plan and poor investment returns. Assumed 6.5% rate of return versus actual rate of 3.9% for period between 2003-2006, resulting in a loss of \$68.7 M. Fund experience smoothed over 5 year period.



Funding Status/ Demographics

- 2006 valuation report based on the following demographics:
- 3,196 full-time employees at average age of 46 years and average service of 11.4 years
- 367 part-time employees at average age of 45.4 years and average service of 6.8 years
- 1,357 pensioners and 602 deferred vested



Funding Status, con't

PLAN YEAR	NORMAL COST	MEMBERS' CONTRIBUTION	UNIVERSITY'S CONTRIBUTION	SURPLUS USED
2000/2001	\$22,186,260	\$2,873,868 (50%)	\$0	\$19,312,392
2001/2002	\$23,560,783	\$3,051,915 (50%)	\$0	\$20,508,868
2002/2003	\$23,619,000	\$2,952,000 (50%)	\$0	\$20,667,000
2003/2004	\$24,542,077	\$6,015,215	\$3,340,062	\$15,186,800
2004/2005	\$29,764,000	\$7,295,000	\$7,343,000	\$15,126,000
2005/2006	\$34,892,000	\$8,552,000	\$18,454,000	\$7,886,000
2006/2007	\$36,898,000	\$10,265,000	\$34,801,000	\$0

Source: Revenue Canada Annual Information Returns, various years



Questions?





Questions?

What is the maximum employee contribution?

- The pension plan text limits member contributions limited to the lesser of: (1) ITA maximum contribution permitted and (2) the contribution arising when the employee contribution rate is applied to the Maximum Annual Salary rate under the ITA. [\$118,186 in 2006]
- The ITA maximum [Section 8503(3)] limits member contributions to the lesser of:
 - (a) 9% of earnings
 - (b) (70% x member's PA) + \$1000



Questions?, con't

What is the maximum pension?

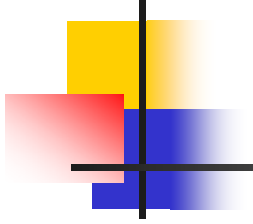
- Under the Income Tax Act (ITA), the annual maximum pension is the lesser of:
 - 2% of average best three earnings' for each year of pensionable service; and
 - \$2,333 per year of service (increasing by \$111 in 2009 and then indexed thereafter)
- Pre-1992 service is capped at 35 years
- For post-1991 service, the above maximum is reduced by $\frac{1}{4}$ of 1% for each month of retirement prior to the earliest of age 60, 80 points and 30 years

Questions?



- **What is the YMPE?**
 - YMPE is short for Years' Maximum Pensionable Earnings. The YMPE is the earnings on which CPP/QPP contributions and benefits are calculated. The YMPE changes each year according to a formula using average wage levels.

2008	\$44,900
2007	\$43,700
2006	\$42,100
2005	\$41,100
4-year average	\$42,950



Public Pension Reference



Public Pensions: Canada Pension Plan

- 2008 Maximum monthly benefit - \$884.58
- Maximum disability benefit - \$1,077.52
- Dependent children's benefit - \$208.77
- Surviving spouse 65 and over - \$530.75
- Surviving spouse under age 65 - \$493.28

- Average benefit received in 2007 was \$481.46, or about 55% of maximum benefit

- Reduction of $\frac{1}{2}$ of 1% for each month prior to age 65 (6% per year). For example, if you commence your CPP at age 60, your benefit is reduced by 30%.

- Annual Indexation



Public Pensions: Old Age Security

- Maximum monthly benefit - \$502.31 (as of January 2008)
- Must be age 65 to qualify. 10 year residency requirement for eligibility & 40 years' residency for maximum benefit.
- In 2008, clawback of 15% of excess income over \$64,718 up to the full OAS benefits, with entire amount being clawed back at an annual retirement income of \$104,903 or more



Public Pensions: Guaranteed Income Supplement

- Maximum monthly benefit of (as of Jan. 2008):
 - \$634.02 for singles
 - \$418.69 for spouses of pensioners (if your partner is receiving OAS)
 - \$634.02 for spouses of non-pensioners
- Benefit income is non-taxable; qualify at age 65; quarterly indexation



Public Pensions: GIS Continued

- GIS is subject to an income test. Cut-off thresholds are:
 - \$15,240 for singles
 - \$20,112 for spouses of pensioners (combined income)
 - \$36,528 for spouses of non-pensioners (combined income)
- GIS benefits are reduced by \$1 for every \$2 of monthly income for singles and \$1 for every \$4 of income for married/common-law couples



Public Pensions: GIS Continued

- Income for the purposes of the means test includes:
 - CPP benefits
 - Private pension income
 - RRSPs that you've cashed
 - UI benefits, WSIB and alimony
 - Interest on savings
 - Capital gains/dividends
 - Rental income
- Income excludes:
 - OAS benefits, including OAS spousal allowance benefits



Public Pensions: Spouse Allowance

- Maximum monthly benefit is \$921.00 (as of Jan. 2008).
- For spouses of an OAS pensioner, age 60 to 64
- Income and residence test
- Income of \$28,176 combined or less to qualify for a spousal benefit. The benefit is reduced by \$3 for every \$4 of couple's income from all sources (excluding OAS) until the amount of the reduction is equal to the OAS pension. Thereafter, the reduction is \$1 for every \$4 of income.



Public Pensions: Survivor Allowance

- Maximum monthly benefit is \$1,020.91 (as of Jan. 2008)
- For spouses, age 60 to 64, who are widow of OAS pensioner
- Income cut-off is \$20,520 to qualify
- Payable to the earlier of age 65, remarriage or death



Information on Retirement Planning

- Government of Canada
 - Retirement planning information and an income calculator www.hrsdc.gc.ca
- Advocis (Financial Advisors Association of Canada) www.advocis.ca
 - Offers advice on selecting a financial planner
- Annuity Rates www.moneysense.ca
- Investment education www.investored.ca
- Check out your local library for books and magazines
- Visit your local credit union or bank for investment and retirement planning advice



Information on Government Pensions

- Old Age Security, Canada Pension Plan
 - Contact Social Development Canada “Income Security Programs” (1-800 blue pages) or www.hrsdc.gc.ca
 - Have your social insurance number ready
 - You can get your OAS and CPP entitlement over the phone but it will not include the child-rearing drop out for CPP
 - You should request a copy of your personal CPP contribution statement, if you do not receive it
- Quebec Pension Plan
 - Regie des rentes (1-800-463-5158) or www.rrq.gouv.qc.ca