

# MUFA Newsletter

December 2010/January 2011 — Volume 37.3 — John Berlinsky, Editor

## President's Report

*delivered at the General Meeting on January 13, 2011*

Hello members. I think we need to start by thanking Herb Schellhorn and John Berlinsky for all they have done in collecting data on post-retirement benefits, on the G-6 universities used as comparators, on our long-term disability plan, and on pensions, in order to inform the membership and facilitate an educated discussion with the Administration during remuneration negotiations. We hear from other associations of the usefulness of our findings, such as the 2010 Budget Advisory Committee report on pensions.



While we have of necessity spent a lot of time on remuneration here, I wanted to draw your attention to some of the other things your Executive has been working on this past year. First and foremost, we have been trying hard to re-establish the reciprocity of our relationship with the Administration. In that, we have had an able partner in the new President, who indicated from our first meeting that his primary aim in his first year was to re-establish a collegial environment. I believe he has demonstrated in a number of ways his commitment to the McMaster model of faculty-Administration relations. Those of you who attended his first town hall meeting, on the "differentiation" model for Ontario universities, experienced an open discussion of the problem of separating research & teaching missions into different spaces. The President has scheduled another meeting for next Tuesday, on "internationalization," which I urge as many of you who can to attend.

President Deane is deeply concerned about the future of Ontario universities as we all should be. In the tight fiscal environment of the next decade, we could be in for another bout of famine on the model of the Harris years. We all need to be aware of the public debate, and the current animosity to the perceived privileges of academics such as ourselves.

The PACDSB report on the Business School was issued shortly before the semester break. MUFA's role in the events of last year is known to you all, and documented in the report. The President has been as transparent as possible about the document and proceeded with alacrity to solve some of the problems described therein. He has scheduled an open meeting to discuss the PACDSB report for February 1 at 1:30 pm. At yesterday's Senate it was announced that Bob McNutt, known to many of you, will be appointed as interim dean as of March 1.

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# Post-Retirement Benefits: Are They Sustainable?

John Berlinsky and Mike Veall

With a few exceptions, your extended health and dental benefits will continue into retirement. This is very attractive, especially because these benefits are not taxable. If instead the University paid you enough extra money to buy your own insurance, it would cost more because part of that money would go to income tax.

The University pays health and dental benefits, for both active and retired employees and their families, as they are incurred. Last year, the direct payment for all non-pension benefits for all McMaster faculty and staff retirees was about \$5M. In 2008/09 it was \$4.6M; in 2007/08 it was \$4.5M; and in 2006/07 it was \$4.2M. The increases result from the increase in the number of retirees, about 3.5% per year, plus about 2% per year of inflation. The numbers from earlier years show even smaller increases.

Since 2000, accounting regulations have required that McMaster report an estimate of the accumulated post-retirement benefit obligations (accrued benefit obligation or ABO), as a note on its financial statements. Instead of just recording the amount that it spends each year in its cash flow statements, McMaster must report an actuarial estimate of the amount of money that would have to be put aside to cover the cost of all future obligations owed to present retirees as well as those earned by presently employed future retirees. This ABO is currently estimated by Mercer, the University actuary, to be about \$200M, compared to only about \$70M as recently as 2003. This enormous rate of increase was so alarming to MUFA that we retained our own actuary, Eckler Ltd., to examine and check the valuations.

With the cooperation of the Administration, Eckler reviewed actuarial valuations of the

benefit obligation dating back to 2003, the earliest year for which information was still available. Their report, which has been shared with the Administration, contains an extensive discussion of the data and assumptions made to calculate the obligation. Here we highlight three important observations made in the report. First, it appears that the data used for the 2003 valuation, which was "rolled forward" from a more complete valuation done in 2000, were unreliable. As far as it is possible to tell, the doubling of the obligation, from \$70M in 2003 to \$140M in 2004, was largely a result of the fact that the earlier data were incorrect. The significance of this observation is that the ABO almost certainly grew more gradually with time, in the period 2000-2004, than had previously been realized.

The second important observation of the Eckler Report has to do with the so-called strengthening of assumptions. Actuarial valuations contain many assumptions, some of which, such as the discount rate, are well-defined. Although changes in the discount rate can lead to large fluctuations in the size of the obligation, these changes are not under the control of the actuary. In contrast, some assumptions allow flexibility to the actuary, in predicting, for example, future trends in the cost of health care. One would hope that the assumptions made by the actuary would eventually be justified by actual claims experience or, if necessary, revised to reflect actual experience. Eckler found that the trend rate assumptions had been continually strengthened over the period studied and that the most recent trend rates used are not representative of the actual costs experienced by the University. Such continually strengthened assumptions have the effect of increasing the obligation. Eckler notes that, over the period May 1, 2004 to April 30, 2010,

the strengthening of the trend rate assumption resulted in accumulated increases to the accounting obligation of \$29.2M.

A third important observation of the report had to do with an error in the calculation of the size of the average claim which resulted from faulty data provided to Mercer, which had previously gone unnoticed. This error led to the size of the average claim and hence of the obligation being overestimated. As a result of Eckler's discovery, the size of the obligation in the most recent valuation has been reduced by \$10.8M, according to new calculations by Mercer, and the 2010/11 accounting expense is expected to decrease by at least \$0.7M year.

What can we conclude from these observations? Given current data and assumptions, the estimate of the obligation is still about \$200 million, even after the average claim correction mentioned above. As noted, the assumptions themselves have been strengthened, and assumptions more closely aligned with recent experience could reduce the obligation by a further \$30M. However the most important conclusion of the Eckler Report is that the cost of the plan, based on experience, appears to be stable. It is not increasing precipitously but rather its rate of change simply reflects the size of the current and future pool of retirees along with a very modest rate of price inflation. The obligation will fluctuate inversely with interest rates, being largest when interest rates are low. If it were necessary to buy bonds today to provide for all future obligations, that would be very expensive indeed. However the University does not do that. Instead it pays actual claims on a year-to-year basis as the costs are incurred.

So what should McMaster do about this obligation? First of all the University should continue to provide post-retirement health and dental benefits in the future, as it must do for all current retirees. The Administration has not proposed eliminating this provision for current active employees. In its remuneration brief to

MUFA the Administration has, however, proposed the elimination of such benefits for faculty hired after June 30, 2011. But those faculty will eventually retire. As we have discussed employer-provided benefits are not taxed and hence are more efficient than other forms of compensation. They should be retained.

Second, McMaster has begun moving voluntarily to set aside reserves to fund the obligation, at least at a very modest level. At the same time, the University faces substantial pension deficits, which it is obligated by law to fund, albeit over an extended timescale. Furthermore, by not hiring enough new faculty, the Administration has allowed McMaster's student-faculty ratio to soar in recent years. Does it make sense to set aside extra reserves for the post-retirement benefit obligation, given that the increase in the obligation is stable and manageable? No. If there is extra money available, it should be used to pay down the pension deficit or to increase the number of teaching faculty.

## Welcome New Members

<b>Katherine Boothe</b>	Political Science
<b>Emily Cranston</b>	Chemical Engineering
<b>Stephanie Premji</b>	Labour Studies
<b>Cheryl Quenneville</b>	Mechanical Engineering

### Passages

**Marta Hidy**, Music, November 4, 2010  
**George Purnell**, English, August 28, 2010

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# Call for Nominations

## The MUFA Faculty/Librarian Awards for Outstanding Service

### PURPOSE

The purpose of these awards is to provide an annual recognition for faculty and professional librarians who have made an outstanding contribution to the University through the provision of exceptional service to faculty, librarians, staff, students or alumni.

### THE AWARDS

Each year there will be a maximum of three awards in the amount of \$1,500.

### ELIGIBILITY

The awards are open to all members of the McMaster University Faculty Association (MUFA).

### PROCEDURES

1. The MUFA Executive has appointed a chair and committee drawn from amongst the categories of faculty, professional librarians, staff, students, and alumni. The Secretariat to the committee is the MUFA Executive Director.
2. The period of the award is a calendar year.
3. Nominations
  - a. Nominations must be e-mailed (mufa@mcmaster.ca) or mailed to MUFA (Hamilton Hall 103A) no later than

**March 15, 2011**

- b. The nominator must attach a supporting narrative of not more than 750 words.

- c. Each nomination must be supported by a minimum of 2, and not more than 4 reference letters. These reference letters must be e-mailed or mailed, either through the nominator or independently. Reference letters should not exceed 500 words.

- d. Position and contact information for the nominator and all references must be clearly indicated.

4. The Committee will review the nominations. Among the factors considered by the Committee will be:

- enhancement of the reputation of McMaster University
- provision of excellent service
- demonstrated innovation
- breadth and depth of impact
- strength of support in nominations

5. The faculty/librarians selected to receive the awards will be invited to attend a special reception following the Annual General Meeting in the spring and will be presented with their awards at that time. Pictures of the individual recipients and a brief summary of the rationale for their award will be published in the MUFA *Newsletter* and on the MUFA Web page.

6. Each faculty/librarian who is nominated for an award will receive a letter of commendation from the MUFA President.

**President's Report** (continued from p. 1)

Our discussion about the report at the Executive has centered on MUFA's role in assuring the rigorous adherence to the policies of SCA ( the Senate Committee on Appointments), concerning the appointment of administrators at McMaster. This will be an ongoing discussion at the Joint Committee and with the President. The human rights report from Milé Komlen's office has just arrived on the President's desk, and he has expressed the wish to keep us informed as much as is possible in such sensitive matters.

I must note with a vote of thanks that John Weaver, Graeme Luke and Peter Sutherland spent many hours this last term as observers on various meetings and investigations around the human rights allegations that have led to this report. It is one of the most difficult (and most important) tasks of MUFA.

On more mundane, but equally important matters, an overhaul of the Supplement Policy Statements (SPS) is about finished. We thank the good work of Lorraine Allan who is chairing that committee. The Joint Committee has signed off on a revised Professional Development Allowance (PDA) policy which will be distributed after approval by the Board of Governors. There are no substantive changes to the policy but the language is cleaner and reporting lines clearer.

Much of my time this fall has been spent on learning about teaching-stream appointments and workload issues. We have undertaken to review the agreement about the number of teaching-stream appointments with the Joint Committee. In general, the percentage of CLAs and Teaching Professor members in MUFA has stayed fairly constant since the category was introduced in 2005/06. What has dropped significantly is the campus CUPE membership (sessional appointments) which stands somewhere at about half the number it was when the last contract was signed. We continue to be concerned about faculty complement as is clear in our brief for this round of negotiations.

Questions of workload inequities across campus will continue to be an issue we raise with both the Provost and the President. On workload assignments, Executive Committee member Mike Veall wrote an article for the *Newsletter* outlining what we perceive to be the optimal conversation between chair and instructor. Please keep us

informed of developments in your own areas. In short, we do a lot for the membership, some of it not so obvious. Loudly or softly, MUFA is led by your concerns. Of course, the ship stays on course with the invaluable help of Kelly and Phyllis, our walking encyclopedia.

Please join me in a round of applause for your current Executive and staff team.

Virginia Aksan

This Newsletter is published monthly between September and May by the Faculty Association at McMaster University. The Association's Executive for 2010/11 is composed of the following members:

President	Virginia Aksan
Vice-President	Peter Sutherland
Past-President	John Berlinsky
Academic Affairs	Nancy Bouchier
Human Rights	Michelle Dion
Membership	Marek Niewczasz
OCUFA Director	Peter Sutherland
Pension	Khalid Nainar
Public Relations	John Berlinsky
Remuneration	Herb Schellhorn
Spec Enquiries & Grievances	Graeme Luke and John Weaver
Tenure	Martin Dooley
Treasurer	Gladys Peachey
Without Portfolio	Mike Veall



Executive Director	PhyllisDeRosa Koetting
Administrative Assistant	Kelly McCaughey
Returning Officer	Matheus Grasselli

Opinions expressed in this Newsletter are those of the authors and do not represent the views of the Association or of its Executive unless so specified. Anyone wishing to contribute to the MUFA Newsletter is invited to send submissions to the Faculty Association Office (HH-103A, e-mail: mufa@mcmaster.ca, ext. 24682). Deadlines are the 15th of each month. All submissions will be published at the discretion of the Editor.

Current and past issues of the MUFA Newsletter are posted on the MUFA website ([www.mcmaster.ca/mufa](http://www.mcmaster.ca/mufa)).

# 2011/12 Executive

If you are interested in serving on the Faculty Association Executive or know of someone who would make an excellent candidate, please complete the form below and mail to the Nominating Committee, Faculty Association, Hamilton Hall 103A. If you prefer, give us a call (ext. 24682) or drop us an e-mail note (mufa@mcmaster.ca). DEADLINE — FEBRUARY 15, 2011

CANDIDATE \_\_\_\_\_

FACULTY \_\_\_\_\_

RANK \_\_\_\_\_

PORTFOLIO PREFERENCE \_\_\_\_\_  
(E.G., academic affairs, grievances, human rights, library, membership, OCUFA, pension, public relations, remuneration, tenure)

DEPARTMENT \_\_\_\_\_ CAMPUS ADDRESS \_\_\_\_\_

EXTENSION \_\_\_\_\_ E-MAIL \_\_\_\_\_



A voluntary organization such as MUFA can succeed in serving the interests of its membership only to the extent that the members participate in formulating and executing policy. At any given time, approximately two dozen individuals carry the burden for all of the

members and after a few years most of them are exhausted by the tasks which they have voluntarily borne. Their valuable experience and wisdom is then lost to us. The best way to lessen this attrition of talent is for more of the membership to give some time and effort to the Association. If you are not interested in putting your name forward for the Executive Committee, please use the form below to let us know if you would like to participate in MUFA's efforts by serving on one of the following committees.

Yes, I am interested in working more closely with the Faculty Association. My interests are:

- |                  |                          |                  |                          |                          |                          |
|------------------|--------------------------|------------------|--------------------------|--------------------------|--------------------------|
| MUFA Council     | <input type="checkbox"/> | Membership       | <input type="checkbox"/> | Grievances               | <input type="checkbox"/> |
| Academic Affairs | <input type="checkbox"/> | Pension          | <input type="checkbox"/> | Tenure                   | <input type="checkbox"/> |
| Human Rights     | <input type="checkbox"/> | Public Relations | <input type="checkbox"/> | <i>Ad Hoc</i> Committees | <input type="checkbox"/> |
| Library          | <input type="checkbox"/> | Remunerations    | <input type="checkbox"/> | Special Assignment       | <input type="checkbox"/> |

Are there other areas where the Faculty Association might be useful to its members? \_\_\_\_\_

NAME \_\_\_\_\_ EXTENSION \_\_\_\_\_

DEPARTMENT \_\_\_\_\_ E-MAIL \_\_\_\_\_

Return form to McMaster University Faculty Association, HH 103A