Newsletter

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Pat Chow-Fraser, EDITOR

Pension Surplus Negotiations

[Reported at General Meeting on December 14, 1999]

I have been involved on your behalf with negotiations concerning the surplus in our pension plan for over a year now. Discussions about the pension surplus go back to the mid-1980's when the surplus first emerged and the University sought to use the surplus to ease pressures on University budgets. To make it as simple as possible, the University began to take pension contribution holidays (paying less than the current service cost into the pension plan) and indicated an interest in revising the Pension Plan text to allow it to actually remove funds from the Plan. MUFA led a challenge to these attempts to use the surplus and engaged in a court challenge (Maurer vs. McMaster) to prevent the University from doing all that it intended. At the end of the court challenge the University was granted the right to continue to take pension holidays but was denied access to the surplus in the plan.

Since that time, the surplus has continued to grow and now stands at about $300 million. This growth has been in spite of the fact that the University has not paid anything into the plan for some years and in some recent years employees have been given partial pension contribution holidays as part of salary settlements. It is likely that the surplus would continue to grow even if no further monies were paid into the pension plan ever again

It is in this context that we have been discussing the surplus over the past year. The committee involved is appointed by the President and has representatives from 5 Plan groups (MUFA, MUSA, Clinical Faculty Association, Managerial Employees (exempt group) and Retirees, as well as three Administration representatives. We were provided advice by the University's actuary in all these meetings.

John Platt reported in the September Newsletter that the committee was close to recommending an agreement that involved pension improvements for employees and cash withdrawals for the University to be used for endowment funds and to fund retiree benefits (the University has an obligation to pay these but no fund from which to pay them at the moment)..

As that Newsletter went to press, the Plan group representatives had concluded that the agreement was now clear enough in its outlines that we should seek independent professional advice. In late September we met with a lawyer from the firm of Koskie Minsky and an actuary from Eckler Partners to review the offer. They immediately identified serious problems with the agreement we had arrived at which have subsequently led us to abandon that approach and start a new one.

The key issue our advisors identified is that in order to get approval to withdraw surplus from the Plan we will need to get about 95% support of all plan members eligible to vote – current employees, current retirees and surviving spouses. Our agreement was based on the mistaken notion that we had simply to get a reasonable proportion (say 2/3) of those voting to agree to the deal.

Their professional opinion is that the only way we are likely to get the degree of support necessary is in the context of a "cash settlement". By cash settlement is meant an agreement where every individual is asked to vote on whether he or she will vote to accept a particular amount of cash. The agreement we had reached was quite complex and failed to benefit every individual in an equitable manner. Cash is simple and a reasonably equitable form for distribution is available. The cash may come in a tax sheltered form, but the essential thing is that it can be taken as cash. Pension improvements by their nature defer taxes until receipt so it will be a challenge to us to try to devise a tax efficient scheme.

As a consequence of the view of our advisors that we need to look at cash deals, we have been examining such possibilities for the last few weeks. We do not as yet have a specific offer from the Administration, and do not expect one before mid to late January, so I am not in a position to outline any possibilities to you. However, what I can say is that we have been advised that the most equitable settlement would be one in which individuals were offered a payment in proportion to their share of liabilities in the Plan (basically the amount owed to them). This seems about as equitable an approach as is possible. Individuals will benefit according to the amount "owed" them from the pension plan at the time of distribution.

The only other method of distribution that has been used in like circumstances is a contribution based method. That is, distribute according to accumulated contributions. In this approach, though, it is necessary to adjust for pensions received. Suppose two individuals have each contributed the same amount but one retired earlier and already has received $50,000 from the Plan while the other has yet to receive any benefit. Clearly it would be inequitable without an adjustment. Even with adjustments, however, there are other difficulties with the contribution based approach, not the least of which is that it requires more data, and data which may not be readily available. It would be misleading, however, to suggest that the liability distribution method is without flaws, though it seems to be the better of the two approaches available.

I know the question burning in your minds is how much cash are we talking about and I know you won't let me leave without getting some indication of the magnitude involved? Suppose we are distributing $60 million to employees/retirees and someone had an average share of the liabilities, then if there are 4000 plan members, the rough share would be worth ($60m/4000 =) $15,000. Our consultants indicate, in fact, that about $150 million in cash could be withdrawn from the pension plan in any agreement so we might be talking $75 million rather than the $60 million in the example above. Also, the 4000 is a very rough estimate of the Plan members.

Finally, let me say a few words about timetable. First we must get an agreement with the Administration. Their lawyers have indicated that they are unlikely to get something to us until the latter part of January. If we reached an agreement almost immediately, which I have to think is unlikely, it is possible that we could gear up for a vote this spring. However, there will be considerable work to do before a vote and the requirements of getting 95 plus percent means we must ensure there are no slip-ups. It will be tight to get a vote by mid-May, in my view, and if we don't vote by mid-May, I can't see a vote happening before the fall when faculty have returned to campus. Once the vote is complete and the University through the Board of Governors has approved the agreement, we will need to take the matter to the Financial Services Commission of Ontario. Realistically, a pay out is probably a year away, in my view.

Les Robb

Tip for Married Faculty Considering Retirement

If your spouse has a good benefit plan at her or his own place of work, it may be that you have not paid much attention to whether your benefits are set up as "family coverage" or "single coverage". As you approach retirement, this is something that it would be best for you to review. McMaster continues to pay all the premiums on medical and dental benefits into retirement while other plans may require the plan member to take over some or all of the cost. Your coverage continues in the form it is in on the date of retirement — if you have single coverage at that date you will continue to have single coverage. The message is clear — switch to family coverage before retirement or, better yet, right now. There is no reason not to do so (though there was once a reason to do so when we paid our own OHIP premiums). You might think you are doing McMaster a good turn by registering for "single" coverage. You are not. It is true that family coverage is more expensive to buy from an insurance company. But McMaster self-insures. Insurance companies only manage the plan for us.

A recent experience might help to convince you this is a matter worth checking into. A faculty member who took the early retirement package last year recently discovered that his spouse no longer had any medical coverage. His spouse had a very good plan of her own and always used that plan so the faculty member never paid much attention to how his coverage was set up. On retirement, his spouse took a cash "termination benefit" from her employer rather than a pension. By doing this, however, she lost her own medical coverage. As the McMaster employee had only single coverage at retirement, this is what he kept after retirement. The moral of the story: check your coverage now.

Les Robb
Professor of Economics

Mini-Holiday from Dues Payments

Once again MUFA members will see slightly larger February and March paycheques. At its regular meeting on February 3, 2000, the Executive of the McMaster University Faculty Association voted unanimously to reduce the mill rate from 5.3 to 1.5 for the months of February and March ONLY. A surplus of income over expenditures for this fiscal year is projected in the Nine-Month Budget review 1999/2000. In addition, MUFA reserves are in a healthy state.

Welcome New MUFA Members

Chan Y. Ching	Mechanical Engineering
Tim Davidson	Electrical & Computer Engineering
Jessica Nicholson	Human Resources & Management

Know Your Benefits

Coordination of Benefits

If you or one of your dependents are eligible for medical or dental coverage under another plan, the benefits from that plan will be coordinated with the McMaster plan so that the total benefits from all plans will not exceed the expenses actually incurred.

You and your spouse should first submit your own claims through your respective employer's plan. Claims for dependent children should be submitted to the plan of the parent who has the earlier birth date in the calendar year (the year of birth is not considered). You may submit a claim to the plan of the other spouse for any amount which is not paid by the first plan. This applies even if both spouses work at McMaster.

If any claims are eligible for reimbursement from any government or automobile insurance plan, claims should first be submitted to that plan. The balance of the claim may then be submitted to the McMaster plan.

Imagine if instead of cryptic, geeky text strings, your computer produced error messages in Haiku....

The Web site you seek
cannot be located but
endless others exist

Chaos reigns within.
Reflect, repent, and reboot.
Order shall return.

ABORTED effort:
Close all that you have.
You ask way too much.

First snow, then silence.
This thousand dollar screen dies
so beautifully

With searching comes loss
and the presence of absence:
"My Novel" not found.

A crash reduces
your expensive computer
to a simple stone.

Three things are certain:
Death, taxes, and lost data.
Guess which has occurred.

Out of memory.
We wish to hold the whole sky,
But we never will.

Serious error.
All shortcuts have disappeared.
Screen. Mind. Both are blank.

McMaster's Pension Plan

A Performance Review

Actuarial Valuation of the Pension Plan as at July 1, 1999

Excerpts from Report to the Pension Trust Committee
Prepared by William M. Mercer Ltd.

When conducting a valuation on a going-concern basis, the relationship is determined between the respective values of assets and accumulated benefits, assuming the Plan will be maintained indefinitely.

FINANCIAL POSITION: The results of the valuation as at July 1, 1999, in comparison with those of the previous valuation as at July 1, 1998, are summarized as follows:

Financial Position - Going-Concern Basis ($000's)

	July 1, 1999	July 1, 1998
Actuarial value of assets	$ 915,416	$ 836,931
(adjusted for in-transit items)		
Actuarial liability		
Present value of accrued benefits for:		
Active Members	$ 338,016	$ 321,504
Pensioners & Survivors	256,302	244,203
Deferred Pensioners	1,803	1,701
Additional Voluntary Contributions	105	90
Inactive - status undecided	13,411	10,832
Total liability	$ 609,637	$ 578,330
FUNDING EXCESS (unfunded liability)	$ 305,779	$ 258,601

CURRENT SERVICE COST: The estimated value of the benefits that will accrue on behalf of the active members during 1999/2000, in comparison with the corresponding value determined in the previous valuation as at July 1, 1998, is summarized below:

Employer's Current Service Cost ($000's)

	July 1, 1999	July 1, 1998
Total Current Service Cost	$ 21,881	$ 20,988
Estimated members' required contributions*	$ 5,721	$ 5,570
Estimated employer's current service cost	$ 16,160	$ 15,418
Employer's current service cost expressed as a percentage of members' contributions	282%	277%

*Members will contribute 50% of this amount during the 1998/1999 and 1999/2000 Plan years. The remainder will be funded through surplus assets in the Plan.

MEMBERSHIP DATA: Plan membership data is summarized below.

Plan Membership

	July 1, 1999	July 1, 1998
Active Members	2,791	2,736
Pensioners and Beneficiaries	1,026	994
Deferred Pensioners	59	60
Inactive-Status Undecided	302	279
TOTAL MEMBERSHIP	4,178	4,069

Combined Managers: Asset Commitment Comparables

		Market	Value	Asset	Mix			
	Jun98	Sep 98	Dec98	Mar99	Jun99	Min	Bench	Max
	%	%	%	%	%	%	%	%
EQUITIES								
Canadian (JF/Linc)	16.7	17.9	18.1	18.8	19.2			
Canadian (Index)	12.1	10.1[3]	10.8	11.1	11.5			
Total Canadian	**28.8**	**28.0**	**28.9**	**29.9**	**30.7**	**25**	**35**	**60**
U.S. (JF/Linc)	11.4	10.6	11.5	9.8	10.1		10	
U.S. (Derivative)[1]	5.5	5.4	6.0	6.3	6.5			
Non-North American	10.1	9.8	10.7	10.7	10.6		10	
Total Foreign	**27.0**	**25.8**	**28.2[3]**	**26.8**	**27.2**	**10**	**20**	**25[2]**

TOTAL EQUITIES	**55.8**	**53.8**[3]	**57.1**[3]	**56.7**	**57.9**	**35**	**55**	**75**
FIXED INCOME								
Bonds (JF/Linc)	25.1	25.2	23.0[3]	24.1	23.6			
Bonds (Index)	14.1	15.8	14.8	14.9	14.4			
Total Bonds	**39.2**	**41.0**	**37.8**[3]	**39.0**	**38.0**	**25**	**42**	**50**
Cash	5.0	5.2	5.1	4.3	4.1	0	3	15
TOTAL FIXED INCOME	**44.2**	**46.2**[3]	**42.9**[3]	**43.3**	**42.1**	**25**	**45**	**65**
TOTAL FUND	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**			

[3]change in weighting of +/- 2% since previous quarter — [1]Deemed to be Canadian content —
[2]Maximum of 20% by book value

COMMENTS: The market value of the Fund increased from $892.7 million on March 31 to $916.5 million on June 30, 1999 after accounting for net cash withdrawals of $8.4 million.

The above table provides the breakdown of the Fund by asset class. There was an increase in overall equity exposure of the Fund from 56.7% at March 31 to 57.9% on June 30, 1999, due to the higher returns earned by equities compared to fixed income secuirites.
Prepared by James P. Marshall, Inc.