2011 Actuarial Valuation Results

&

Proposals to address the solvency deficit and contribution shortfall

April 15, 2012

Presented by the
Pension Plan for the Members of the
Canadian Union of Public Employees, Local 1001
Board of Trustees

Karen Kehoe, Paul Picco, Tom Robinson
& Alex Sorrentino

CUPE·SCFP
On the front line • Au coeur de l'action

NATURE OF OUR PLAN

Defined Benefit pension plan

- A defined benefit plan promises a pension based on years of service and level of earnings
- Present benefit formula is 1.3% of earnings up to the Year's Maximum Pensionable Earnings (YMPE) plus 2% of earnings in excess of the YMPE
- The YMPE for 2012 is $50,100
- From the years of 1996 to 2005, the benefit accrual rate was 1.55% (earned through past benefit improvements from surplus distributions)
- Long term funding of the plan is required to fulfill the pension promise

Contribution levels

- Contribution levels are defined in the collective agreement
- Presently the amount is a tiered rate of:
  - 6% of earnings up to the first $3,500
  - 4.2% of earnings up to the YMPE
  - 6% of earnings in excess of the YMPE
- Contribution rates average to 4.37%
- University matches employee contributions but has no obligation to increase contributions if the fund has an emerging deficit
- When contributions are insufficient to cover the cost of benefits they may have to be reduced or contributions may have to be increased

Actuarial Valuation

- Required to be filed with the regulatory authorities every three years
- Establishes the plan position on a solvency basis
- Establishes the plan position on a going-concern basis
- Establishes the contribution requirements for the following three years

SOLVENCY VALUATION

The solvency basis of the valuation is a stress test imposed by the regulators to determine the value of the plan were it necessary to wind up. Assumptions are prescribed and tied to market conditions. The premise is that the plan is terminated at the valuation date.

The financial position of the plan as at July 1, 2011 on a solvency basis is set out below. It utilizes the smoothing option, which averages both assets and interest rates. The method changes the solvency position for reporting purposes only.

Solvency Valuation Using 5-year Smoothing

ASSETS	
Market Value of Assets	$ 20,733,100
Accounts Payable	(20,900)
Wind-Up Expenses	(100,000)
Asset Adjustment	513,300
Total Assets	$ 21,125,500
LIABILITIES	
Active Members	$ 10,604,800
Deferred Members	132,800
Pensioners	11,296,300
Total Liabilities	$ 22,033,900
Solvency Excess/(Deficiency)	**($ 908,400)**
Difference of Assets and Liabilities	

Based on the latest actuarial valuation, it is determined that the solvency ratio is 91.5%. The pension plan is underfunded as determined by Ontario solvency regulations.

How did the solvency deteriorate?

- Fund assets did not perform as well as expected
- Sustained drop in market interest rates inflates liabilities
- Membership continues to age
- Three more years of benefit accruals

Available Solvency Relief Measures

Normally, a solvency deficit must be amortized over a period not exceeding 5 years. We owe $ 202,000 per year for 5 years.

However, Ontario legislation allows the use of a temporary solvency funding relief measure: the pension plan may amortize over a 10 year period, thus $ 111,900 per year.

To make use of this measure, the plan must notify all members and provide an objection form. The option form will be mailed to all active, deferred and retired members. The solvency relief measure is not available if more than 1/3 of any group objects. The members have 45 days, or until May 31, 2012, to indicate their objection. No action is required if you consent to the plan using the relief measure.

Once the solvency relief measure is adopted, there is a continuing disclosure obligation, which means the plan must report the annual progress of the amortization payment schedule.

How to bridge the gap?

An employee contribution increase is necessary:

- Creates income to pay the deficit
- May establish a contribution reserve, which will cover the next three years only

If contributions are not increased, the only remedy is a benefit reduction. The regulator cannot impose a contribution increase but can force a benefit reduction (accrued and/or future) to balance things out.

GOING CONCERN VALUATION

The going-concern basis of the valuation uses long term predictive assumptions as to how the future will unfold. Its premise is that the plan will continue to exist indefinitely.

The financial position of the plan as at July 1, 2011 on a going-concern basis is set out below. It also references the results from the previous valuation.

Going-Concern Valuation

	July 1, 2008	July 1, 2011
Actuarial Value of Assets	$ 20,813,600	$ 20,712,200
Actuarial Liabilities		
Active Members	$ 8,779,900	$ 9,963,400
Deferred Members	173,900	101,900
Pensioners	10,705,000	10,175,600
Contribution Reserve	402,500	422,200
	$ 20,061,300	$ 20,663,100
Funding Surplus/(Deficit)	$ 752,300	$ 49,100

Based on the latest actuarial valuation, as at July 1, 2011, the going concern position is at a surplus, thus there is no going-concern deficit to amortize. However, a contribution shortfall continues to be an issue.

Over the three year period from July 1, 2011 to June 30, 2014, the shortfall is expected to use up $422,200 of the assets, so a reserve was set up for this purpose.

Current Service Cost

Current service cost is the cost of benefits credited to members of a plan in a given year. For several years now, the value of new benefits earned each year is higher than the total contributions going into the plan.

Current Service Cost for 2011—2012

	$	**% of payroll**
Total Required Contributions	652,600	10.81
Employee Contributions	263,500	4.37
Employer Contributions	263,500	4.37
Total Contributions	527,000	8.74
Contribution Shortfall	125,600	2.07

Due to the a contribution shortfall, a contribution increase is required.

OUR MESSAGE

We must either raise contribution levels, reduce future benefit accrual rates or both in order for the plan to be sustainable. Further, by law, a solvency deficit must be eliminated, though it can be amortized over a number of years.

The Board of Trustees is proposing two options — based on actuarial costing — which we believe are the most bearable for our membership to tolerate, to remedy the situation. The Trustees are seeking the members' direction and support.

OPTIONS

The membership must choose between the two options provided below. Either measure will result in the plan being able to address both its solvency deficit and contribution shortfall.

Option 1 — Increase contributions to cover the full current service cost, no change in benefit accrual rate

Employee contributions will be increased to a flat 7%

- Contributions will be increased to a flat 7% of earnings from the present tiered rate of:
  6% of earnings up to the first $3,500
  4.2% of earnings up to the YMPE
  6% of earnings in excess of the YMPE
- Given that the average contribution rate is 4.37%, the net change will be an increase of 2.63%
- Employer contributions would stay the same

Option 2 — Increase contributions and reduce future benefit accrual rate

Employee contributions will be increased to a flat 6.3% + benefit accrual rate reduction to 1.2%

- Contributions will be increased to a flat 6.3% of earnings from the present tiered rate of:
  6% of earnings up to the first $3,500
  4.2% of earnings up to the YMPE
  6% of earnings in excess of the YMPE
- Given that the average contribution rate is 4.37%, the net change will be an increase of 1.93%
- Employer contributions would stay the same
- Benefit accrual rates would drop from the present rate of 1.3% to 1.2%, for a net change of 0.10%
- Benefit accrual rate of 1.2% will be effective as at July 1, 2012

Choosing either option will result in the annual contribution shortfall being eliminated and allowing the plan to make the special minimum payments towards the amortized solvency deficit.

Will this fix our problems forever?

Please be aware that either option does not include any "buffer". Adopting either option would suffice, for now. There are no margins incorporated into either option to cushion future deviations in current service cost or plan position.

Please note that the next valuation could reveal new deficits if the future unfolds unfavourably and additional amortization payments would be required.

The Trustees implore the Union executive, negotiating committee and the membership to put the issue of employer contribution increases on the table at upcoming collective bargaining. The Trustees will further work with Kevin Skerrett, CUPE National pension representative, to create proposals to this end.

What if none of these options are adopted?

The regulator, the Financial Services Commission of Ontario, can force a benefit reduction (accrued and/or future). The decision as to how to make our plan sustainable will be out of our hands and a more aggressive decision would be expected.

PLAN TEXT AMENDMENTS
PROPOSAL SUMMARY

Amendment to require members on WSIB to make full employee contributions

- Currently, members on WSIB have their employee contributions deemed, while earning full credited service for the period
- Currently, employer contributions continue to be made
- Members are being paid by the employer, not through the Worker's Compensation Insurance Board (this practice has been in effect for countless years and limits the Employer's premiums)
- Currently, members on <u>modified</u> WSIB programs make full contributions
- Continued deeming of this service puts additional strain on the current service cost

Amendment to allow members on leaves covered under the Employment Standards Act (i.e. maternity, parental, family emergency, adoption, compassionate care etc.) to purchase past service for this time

- Purchasing of past service for maternity and parental leaves is already a practice, although not included as a provision in the plan text or the collective agreement
- Amendment would expand and codify practice
- The member would be allowed to purchase accruals subject to making up contributions over a set time
- Proper documentation would be required to support request
- Purchasing of past service will not be permitted for non-ESA mandated leaves (i.e. unpaid leaves of absence, educational leave etc.)

The Trustees are seeking the membership's approval to go forward with the submission of these amendments to the regulator. The effective date for both will be July 1, 2012.