Pension Plan Information Session

29 March 2022

Pension Basics

WLUFA
Wilfrid Laurier University
Faculty Association

Agenda

1. Understanding Pension Plans
    - Types of Plans: DB and DC
    - Types of Plans: SEPPS and JSPPs

2. Assessing Pension Plan Health
    - Going Concerns, Solvency

3. Understanding Pension Plan Contributions and Benefits
    - Key Concepts
    - Contributions
    - Benefits

1. Understanding Pension Plans

Concept: A Sponsor is the body that maintains a registered pension plan. In our case, that is Wilfrid Laurier University.

There are two types of **plan sponsorship.**

The Laurier Pension Plan is a Single Employer Plan **(SEPP**). The university has sole responsibility for funding the plan and has the authority to make funding decisions and administer surpluses. In periods of surplus, a single employer may, for example, choose to reduce their contributions (take a "holiday").

Another type of sponsorship is a Jointly Sponsored Pension Plan **(JSPP)**.

Here there may be more than one employer sponsoring a plan or employees and employers together sponsor a plan, or both.

In a JSPP all the sponsors are equally responsible for ensuring that the plan meets its obligations and they share risk.

Decisions made by a JSPP on such things as the allocation of surpluses have to be supported by all the sponsors.

Types of Pension Plans

- There are two main types of pension plans:
  - **Defined Contribution Plans,** in which the amount you and your employer *contribute* to the plan is fixed. The amount you earn from the plan in retirement varies depending on the performance of the plan's investments.
  - **Defined Benefit Plans,** in which the amount you *earn* in retirement is fixed but the contributions you and the employer make may increase or decrease over time.

The Laurier Pension is **a Hybrid Plan,** which means it is *both* a Defined Contribution and a Defined Benefit plan.

In Laurier’s pension documents, the Defined Contribution Plan is known as the **Money Purchase Pension (MPP)**. The Defined Benefit Plan is referred to as the **Minimum Guaranteed Pension (MGP).**

The appeal of a hybrid pension is that when you retire, you receive the pay-out of the plan (MPP or MGP) whose value is higher.

2. Pension Plan Health

The vulnerability of all SEPPs is that they depend on the financial health of one employer, on a stable or growing number of contributors to the plan, and on the fund managers generating profits on investments.

Because of their vulnerability, the Province oversees SEPPs to better ensure their solvency.

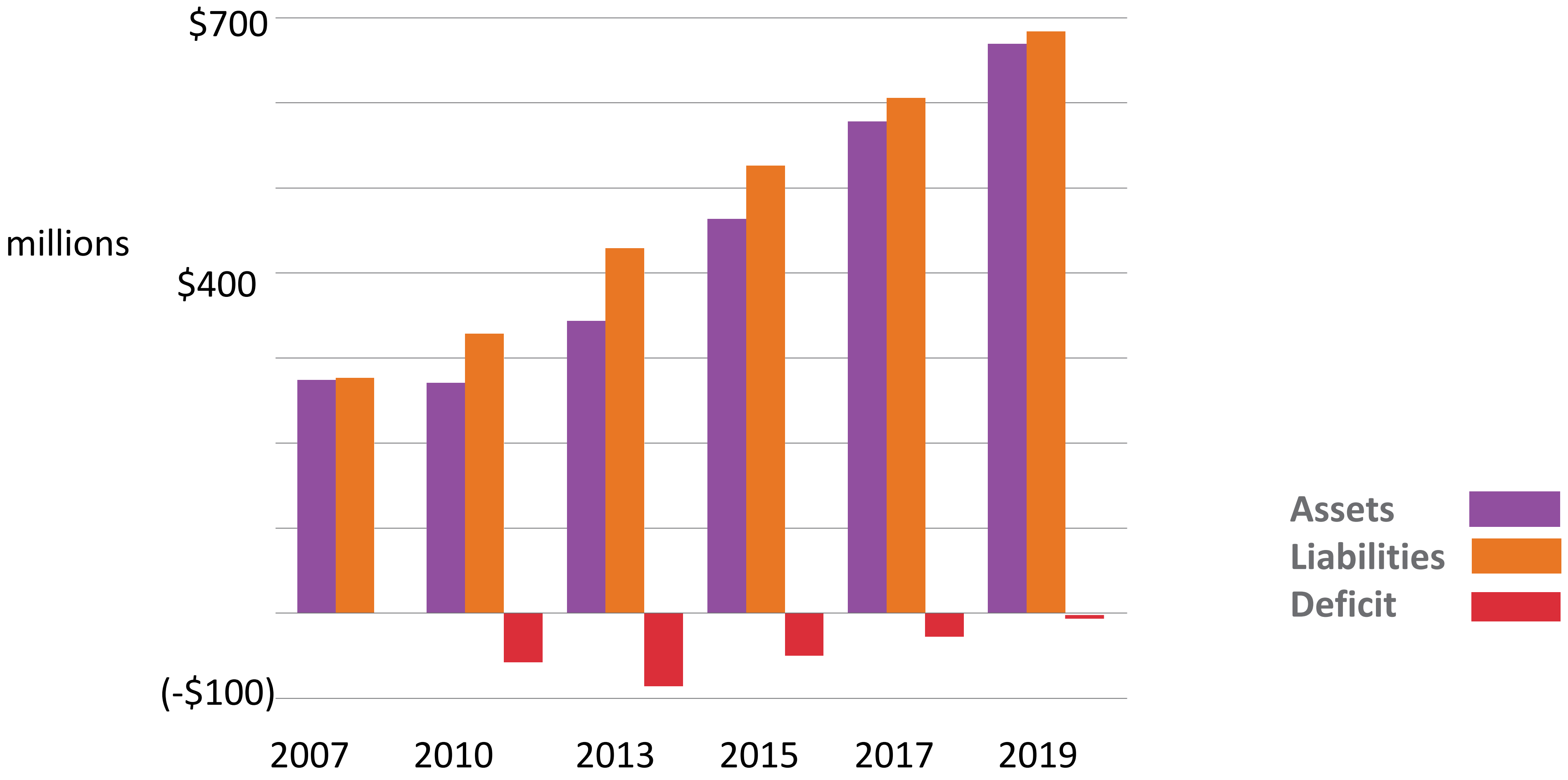
Under provincial legislation, if there is a deficit in the Laurier Pension Plan (which happens if the plan's investments do not generate enough income to meet its obligations), the university is required to put more money into the fund to cover the shortfall.

Different valuations are used to determine the health of a pension plan. The two most pertinent are:

1. **Going Concern**
   - Compares assets to liabilities assuming the plan will continue indefinitely
   - Going concern deficiencies can be amortized over period of up to 10 years
2. **Solvency**
   - Compares assets to liabilities on a plan termination basis (excluding certain benefits like indexation)
   - Solvency determines when additional employer contributions are required
   - Solvency deficiencies below 85% of the funding threshold must be amortized over a period of no longer than 5 years.

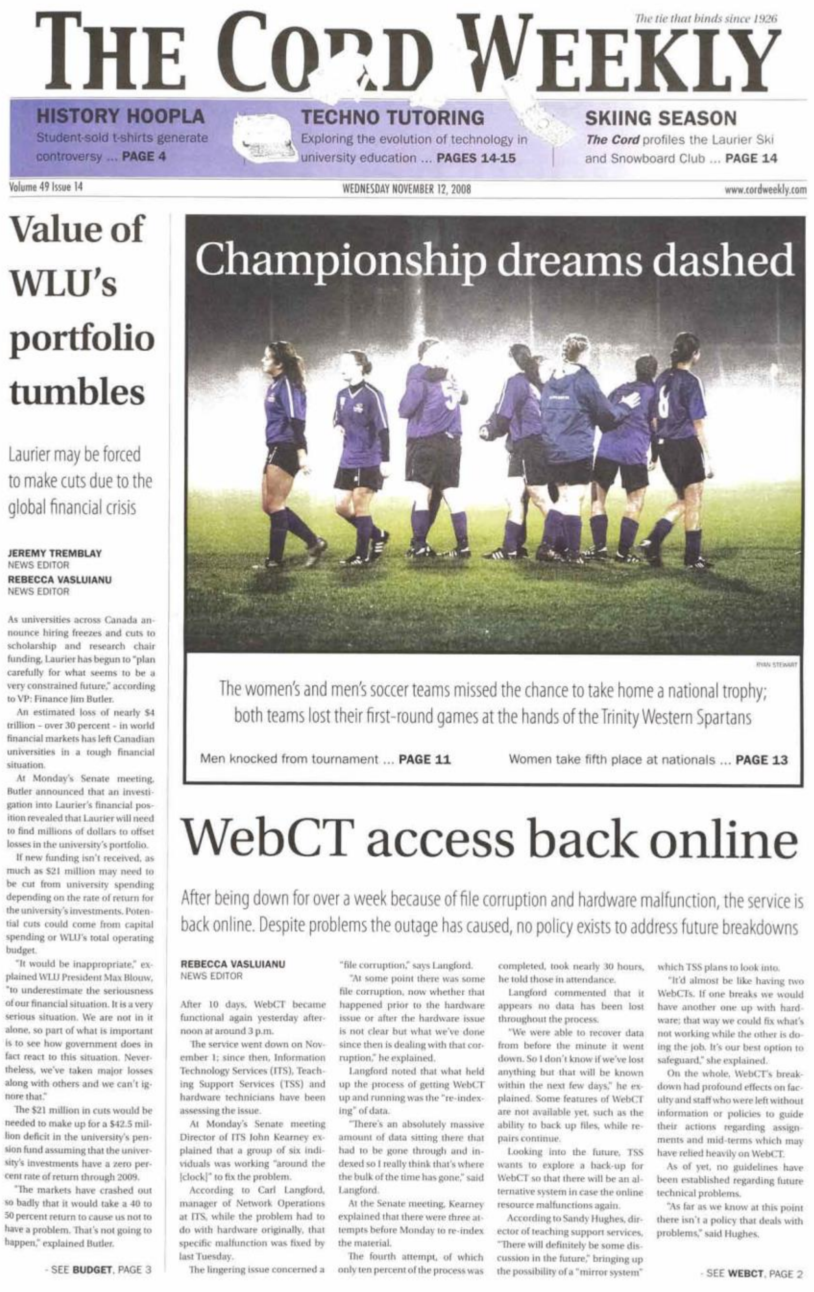
Laurier Pension Plan: Going Concern Valuations

As of its most recent valuation (April 2019) the Plan was 98.7% funded on a going concern basis, and 95.0% funded on a solvency basis. It has a a going-concern deficit of $8.9 million. The university is paying $762,000 per year to the plan to address the Solvency deficit.



Who Pays for Deficits?

- Although the sponsor is theoretically solely responsible for deficits, in reality the money that the university puts into Solvency deficits is no longer available for other things.
- Over the past decade the employer has also asked employees to increase their contributions to cover plan liabilities:
  - Member contributions increased from 7.0% to 8.0% of earnings below the CPP wage base and 10.0% of earnings above for an increase of approximately 2% of earnings
  - Changes to early retirement provisions applied to the MGP to increase the reduction for members who retire before age 65
  - Reduced automatic indexation of MGP benefits earned on and after January 1, 2013 from 100% to 50% of CPI.
  - Members who choose to take a commuted value lose eligibility for post-retirement benefits.



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Value of WLU's portfolio tumbles

Laurier may be forced to make cuts due to the global financial crisis

JEREMY TREMBLAY
NEWS EDITOR
REBECCA VASLUIANU
NEWS EDITOR

As universities across Canada announce hiring freezes and cuts to scholarship and research chair funding, Laurier has begun to "plan carefully for what seems to be a very constrained future," according to VP: Finance Jim Butler.

An estimated loss of nearly $4 trillion – over 30 percent – in world financial markets has left Canadian universities in a tough financial situation.

At Monday's Senate meeting, Butler announced that an investigation into Laurier's financial position revealed that Laurier will need to find millions of dollars to offset losses in the university's portfolio.

If new funding isn't received, as much as $21 million may need to be cut from university spending depending on the rate of return for the university's investments. Potential cuts could come from capital spending or WLU's total operating budget.

"It would be inappropriate," explained WLU President Max Blouw, "to underestimate the seriousness of our financial situation. It is a very serious situation. We are not in it alone, so part of what is important is to see how government does in fact react to this situation. Nevertheless, we've taken major losses along with others and we can't ignore that."

The $21 million in cuts would be needed to make up for a $42.5 million deficit in the university's pension fund assuming that the university's investments have a zero percent rate of return through 2009.

"The markets have crashed out so badly that it would take a 40 to 50 percent return to cause us not to have a problem. That's not going to happen," explained Butler.

- SEE **BUDGET**, PAGE 3

Championship dreams dashed

RYAN STEWART

The women's and men's soccer teams missed the chance to take home a national trophy; both teams lost their first-round games at the hands of the Trinity Western Spartans

Men knocked from tournament ... PAGE 11

Women take fifth place at nationals ... PAGE 13

WebCT access back online

After being down for over a week because of file corruption and hardware malfunction, the service is back online. Despite problems the outage has caused, no policy exists to address future breakdowns

REBECCA VASLUIANU
NEWS EDITOR

After 10 days, WebCT became functional again yesterday afternoon at around 3 p.m.

The service went down on November 1; since then, Information Technology Services (ITS), Teaching Support Services (TSS) and hardware technicians have been assessing the issue.

At Monday's Senate meeting Director of ITS John Kearney explained that a group of six individuals was working "around the [clock]" to fix the problem.

According to Carl Langford, manager of Network Operations at ITS, while the problem had to do with hardware originally, that specific malfunction was fixed by last Tuesday.

The lingering issue concerned a "file corruption," says Langford.

"At some point there was some file corruption, now whether that happened prior to the hardware issue or after the hardware issue is not clear but what we've done since then is dealing with that corruption," he explained.

Langford noted that what held up the process of getting WebCT up and running was the "re-indexing" of data.

"There's an absolutely massive amount of data sitting there that had to be gone through and indexed so I really think that's where the bulk of the time has gone," said Langford.

At the Senate meeting, Kearney explained that there were three attempts before Monday to re-index the material.

The fourth attempt, of which only ten percent of the process was completed, took nearly 30 hours, he told those in attendance.

Langford commented that it appears no data has been lost throughout the process.

"We were able to recover data from before the minute it went down. So I don't know if we've lost anything but that will be known within the next few days," he explained. Some features of WebCT are not available yet, such as the ability to back up files, while repairs continue.

Looking into the future, TSS wants to explore a back-up for WebCT so that there will be an alternative system in case the online resource malfunctions again.

According to Sandy Hughes, director of teaching support services, "There will definitely be some discussion in the future," bringing up the possibility of a "mirror system" which TSS plans to look into.

"It'd almost be like having two WebCTs. If one breaks we would have another one up with hardware; that way we could fix what's not working while the other is doing the job. It's our best option to safeguard," she explained.

On the whole, WebCT's breakdown had profound effects on faculty and staff who were left without information or policies to guide their actions regarding assignments and mid-terms which may have relied heavily on WebCT.

As of yet, no guidelines have been established regarding future technical problems.

"As far as we know at this point there isn't a policy that deals with problems," said Hughes.

- SEE **WEBCT**, PAGE 2

"$21 million in cuts would be needed to make up for a $42.5 million deficit in the university pension fund," Max Blouw told *The Cord* on 12 November 2008. Ultimately, the university deferred its payments on the pension deficit and announced in June 2009 that it would only need to make cuts to operations of $8.9 million. But, added Jim Butler, VP Finance, "the amount of debt created by the pension and benefits payments really questions the sustainability of the current system." *The Cord Weekly*, 24 June 2009.

3. Contributions

Some Key Concepts

Contribution Rate: The percentage of nominal salary that is contributed to the plan. Contribution rates are lower below the YMPE/YAMPE.

Accrual Rate: The rate at which an employee builds benefits. It is expressed as a % and it is again lower below the YMPE/YAMPE.

Indexing: This is the increase in benefits after retirement, designed to mitigate inflation.

YMPE (Yearly Maximum Pensionable Earnings): The YMPE is set each year by the Canada Revenue Agency. It is the salary rate over which you stop making Canada Pension Plan (CPP) contributions for the year. In 2021, the YMPE was $61,000. Because members are contributing to the CPP, the rate of their contribution to their own pension plan is adjusted.

YAMPE (Yearly Additional Maximum Pensionable Earnings): In 2025, the maximum level of earnings used to calculate contributions under the CPP will go up 14% by the creation of an “Additional Maximum”. The Laurier Plan has not adjusted contributions to the higher YAMPE level. If it does, then the lower contribution rate would be paid on a higher percentage of salary.

Contribution Levels

Defined Contributions under the Laurier Plan are:

1.37% of the average of your best five years' earnings up to the average Year's Maximum Pensionable Earnings (YMPE)

PLUS

2.0% of your best five years' earnings above the average YMPE

These numbers are multiplied by years of service to arrive at the member's **Minimum Guaranteed** (MGP) or **Defined Benefit** (DB) pension

Under the Laurier Pension Plan, members contribute 8% of their pensionable earnings per year up to the YMPE and then 10% above the YMPE. Currently, this works out to an average of 9% of pensionable earnings.

The employer contributes 7% of pensionable earnings to the member's Money Purchase Plan (MPP) and 3.23% for the administration cost of the Minimum Guaranteed Pension (MGP). There are also Solvency payments. The employer's total contribution works out to 10.65% of the member's pensionable earnings.

4. Benefits

The Money Purchase Plan

Each year of your retirement, the value of your Money Purchase Pension is determined based on the balance of your account, standardized mortality tables, and the annuity conversion factor rate. If the value of your MPP is greater than your Minimum Guarantee Pension (MGP) amount, you will receive the higher amount. If the value is lower than the MGP, you will receive the minimum guaranteed amount.

Early retirement

Under the Laurier Pension Plan, members may retire after age 55, but reductions are applied if the member retires before age 65:

- For service prior to January 1, 2013:
  - 1.5% per year if age 60 to 64
  - 2.5% per year if age 55 to 59

- For service after January 1, 2013:
  - 3% per year if age 60 to 64
  - 5% per year if age 55 to 59

Members who retire early and have accrued service before January 1, 2013, receive a blended reduction rate.

Working After Retirement

The WLU Plan currently allows members to cease accrual, commence their pensions and remain employed on and after the member’s Normal Retirement Date.

Indexing

Indexing works differently, depending on whether the retiree receives an MPP or an MGP pension.

- MGP benefits are indexed based on increases in the Consumer Price Index (100% of CPI for pre-2013 service and 50% of CPI for post- 2013 service up to maximum of 4%). This indexing is guaranteed.
- For the MPP, the average rate of interest earned by the Plan fund during the most recent four-year period, less the conversion interest rate used to calculate your initial pension benefit is used to calculate benefit payments. The MPP fluctuates with market returns.

Supplementary Pension Plan

Laurier sponsors a non-registered Supplemental Pension Arrangement (SPA) for certain employees to provide benefits in excess of the Income Tax Act maximum pension limits.

Commuting

Commuting a pension means transferring the lump sum value out of the plan. Under the Laurier Pension Plan, this option is available to members who, at the time of their retirement, decide to remove the value of their Money Purchase Plan pension, plus the additional value of the retirement year's Minimum Guarantee Pension, if any, from the plan and manage it themselves. Members who choose this option lose retiree benefits as they are severing their connection to the Pension Plan.

Post-Retirement Death Benefit

Many pension plans include a form of post-retirement death benefit whereby the pension is paid to designated persons for a “guaranteed” period. If the member passes away before the end of the guarantee period, the member’s surviving beneficiary is entitled to the full pension payments for the remainder of the guarantee period.

If the member outlives the guaranteed period, they will continue to receive their pension for the duration of their life, but no amount will be paid to the member’s beneficiary or estate upon their passing.

Members with a spouse on the date of their first monthly pension payment must by law hold a “joint and survivor pension.” This means the member will have a reduced monthly benefit for the remainder of their lifetime, and at least 60% of the reduced amount will continue to their spouse after death until the end of the spouse’s lifetime. The joint and survivor pension may be waived only by written notice.

Under the Laurier Plan, the **normal form** is a pension payable for life with a guarantee period of 5 years.

Questions?