



McMASTER EMPLOYEES' PENSION
SURPLUS COMMITTEE

ECKLER PARTNERS LTD.
Actuaries and Consultants
Internationally Woodrow Milliman

WHO REPRESENTS YOU

**YOUR COMMITTEE: *McMaster Employees'
Pension Surplus Committee***



CFA



MURA

TMG

WHO REPRESENTS YOU (CONT.)

**KOSKIE
MINSKY**
BARRISTERS & SOLICITORS
LEGAL COUNSEL

ACTUARIAL CONSULTANTS

ECKLER PARTNERS LTD.
Actuaries and Consultants
Internationally Woodrow Milliman

CHRONOLOGY

- AUGUST, 1998
UNIVERSITY ESTABLISHES
JOINT ADMINISTRATION /
EMPLOYEE WORKING GROUP

- SEPTEMBER, 1999
DRAFT ORIGINAL PROPOSAL

- EARLY 2000
NEGOTIATIONS

- SEPTEMBER, 2000
MCMMASTER EMPLOYEES'
PENSION SURPLUS COMMITTEE
ESTABLISHED

- SEPTEMBER, 2000
REVISED UNIVERSITY PROPOSAL

CURRENT STATUS OF THE PLAN

(AT JULY 1, 2000)

| | |
|------------------------------------|-----------------------------|
| ACTUARIAL VALUE OF ASSETS | \$971,680,000 |
| ACTUARIAL VALUE OF PENSIONS | <u>(647,406,000)</u> |
| FUNDING EXCESS (SURPLUS) | \$324,274,000 |
| | |
| PROPOSED SURPLUS WITHDRAWAL | <u>(150,000,000)</u> |
| ESTIMATED SURPLUS “BUFFER” | \$174,274,000* |

*** BEFORE EXPENSES**

*** THIS AMOUNT MAY CHANGE**

TO COMPLETE THE SURPLUS SHARING AGREEMENT THE UNIVERSITY MUST:

- 1. OBTAIN CONSENT FROM VIRTUALLY ALL INDIVIDUALS
ENTITLED TO BENEFITS FROM THE PLAN**
- 2. OBTAIN COURT APPROVAL**
- 3. OBTAIN REGULATORY APPROVAL**

LEGAL OPINION RE: SURPLUS

- WHEN THE PLAN IS ON-GOING, NO ONE ACTUALLY “OWNS” THE SURPLUS
- ONTARIO COURT OF APPEAL (1995): WHILE PLAN IS ON-GOING THE UNIVERSITY HAS THE LEGAL RIGHT TO UNILATERALLY TAKE CONTRIBUTION HOLIDAYS
- COURT DID NOT MAKE A FINDING RE: SURPLUS OWNERSHIP ON WIND-UP, BUT DID HOLD THAT THE UNIVERSITY CAN NOT AMEND PLAN TO GIVE ITSELF THE SURPLUS

LEGAL OPINION RE: SURPLUS (CONT.)

- LEGAL COUNSEL REVIEWED ALL HISTORICAL PLAN DOCUMENTATION, AND FUNDING AGREEMENTS

- IF THE PLAN WERE WOUND-UP TODAY, LEGAL COUNSEL BELIEVE THAT ALL SURPLUS MAY BELONG TO MEMBERS AND FORMER MEMBERS OF THE PLAN

LEGAL OPINION RE: SURPLUS (CONT.)

BUT:

⇒ **THE UNIVERSITY HAS NO
LEGAL OBLIGATION TO WIND-UP
THE PLAN OR OTHERWISE
DISTRIBUTE SURPLUS AT THIS
TIME**

➤ **THE UNIVERSITY CAN CONTINUE TAKING CONTRIBUTION
HOLIDAYS INDEFINITELY**

THE PROPOSAL

GUIDING PRINCIPLES

1. THE SURPLUS IS SUFFICIENTLY LARGE AND DOES NOT GREATLY BENEFIT ANYONE AT THIS TIME
2. **EQUAL** SURPLUS SHARING BETWEEN UNIVERSITY AND MEMBERS AFTER DEDUCTING EXPENSES AND SURPLUS “BUFFER”
3. EXISTING ACCRUED PENSION PLAN OBLIGATIONS WILL **NOT BE AFFECTED** BY THIS PROPOSAL
4. PROVISION OF LIMITED TAX-SHELTERING OPTIONS, SUBJECT TO REGULATORY APPROVAL

THE PROPOSAL **(CONTINUED)**

WHO IS INCLUDED IN THE ENTITLEMENT GROUP?

ALL PERSONS WHO, **BETWEEN JULY 1 AND DECEMBER 31, 2000,**
WERE:

- ACTIVE EMPLOYEE MEMBERS OF THE PLAN
- PENSIONERS AND SURVIVING SPOUSAL PENSIONERS
- DEFERRED AND TERMINATED VESTED PLAN MEMBERS
- BENEFICIARIES AND ESTATES OF PERSONS WHO ARE ENTITLED TO A BENEFIT FROM THE PLAN

= APPROX. 4400 MEMBERS

THE PROPOSAL **(CONTINUED)**

WHO IS *NOT* INCLUDED

- ANYONE TRANSFERRED OUT OF THE PLAN PRIOR TO JULY 1, 2000 WITHOUT HAVING MAINTAINED A BENEFIT IN THE PLAN
- ANYONE WHO JOINED THE PLAN ON OR AFTER JANUARY 1, 2001

THE COMMITTEE WILL NOT SUPPORT, AND MAY OPPOSE, THE INCLUSION OF ANY PERSONS WHO ARE NOT PROPERLY PART OF THE ENTITLEMENT GROUP

THE PROPOSAL (CONTINUED)

SURPLUS ALLOCATION FORMULA

- DISTRIBUTION BASED ON PRO-RATED ACTUARIAL VALUE OF PENSION, MODIFIED BY MINIMUMS

MINIMUM SURPLUS DISTRIBUTION:

- ACTIVE AND DEFERRED MEMBERS
\$500 + \$250/Y.O.S. UP TO **\$3,000** (10 YEARS)
- PENSIONERS: **\$5,000**

ROLE OF THE COMMITTEE'S ACTUARIAL CONSULTANT

- **ADVICE ON FINANCIAL/ACTUARIAL ASPECTS OF PROPOSAL**
- **REVIEW OF UNIVERSITY ACTUARY'S CALCULATIONS**
- **PARTICIPATION IN REVIEW OF DATA INTEGRITY**
- **PARTICIPATION IN COMMUNICATION OF PROPOSAL**
- **RESPONSE TO MEMBERS' TECHNICAL QUESTIONS**

THE PROPOSAL

(CONTINUED)

INCOME TAX CONSIDERATIONS

- **CASH PAYMENT**
- **TAXABLE**
- **WITHHOLDING TAX AT SOURCE**

THE PROPOSAL (CONTINUED)

INCOME TAX CONSIDERATIONS (CONTINUED)

➤ POSSIBLE TAX-SHELTERING OPTIONS

1. ALL PERSONS ENTITLED UNDER AGE 69:

- TRANSFER TO RRSP, IF AVAILABLE
CONTRIBUTION ROOM

THE PROPOSAL (CONTINUED)

INCOME TAX CONSIDERATIONS (CONTINUED)

➤ **POSSIBLE TAX-SHELTERING OPTIONS**

2. ACTIVE EMPLOYEE MEMBERS:

- **BUY-BACK OF INITIAL UNIVERSITY SERVICE IF YOU DID NOT JOIN THE PLAN WHEN FIRST STARTED EMPLOYMENT WITH THE UNIVERSITY (BETWEEN 6-18 MONTHS)**

THE PROPOSAL **(CONTINUED)**

INCOME TAX CONSIDERATIONS (CONTINUED)

➤ POSSIBLE TAX-SHELTERING OPTIONS

3. PENSIONERS AND DEFERRED MEMBERS

➤ REFUND OF PRE-1991 CONTRIBUTIONS WITH INTEREST TO AN RRSP OR RRIF

THE PROPOSAL (CONTINUED)

INCOME TAX CONSIDERATIONS (CONTINUED)

➤ POSSIBLE TAX-SHELTERING OPTIONS

4. EVERYONE

- CASH PAYMENT
- TRY TO STAGGER PAYMENTS OVER TWO CALENDAR YEARS?
- TAXABLE DEDUCTIONS AT SOURCE

THE PROPOSAL **(CONTINUED)**

INCOME TAX CONSIDERATIONS (CONTINUED)

➤ POSSIBLE TAX-SHELTERING OPTIONS

**ALL OPTIONS ARE SUBJECT TO ACCEPTANCE BY
CANADA CUSTOMS AND REVENUE AGENCY (CCRA)
*(FORMERLY REVENUE CANADA)***

ACTUARIAL VALUE OF PENSION

- AMOUNT REQUIRED TO FUND FUTURE PENSION PLAN BENEFITS, (BASED ON SERVICE TO JULY 1, 2000 FOR ACTIVE MEMBERS)
- TAKES ACCOUNT OF FUTURE INVESTMENT INCOME (AT 6.5%)
- REFLECTS POSSIBLE FUTURE SALARY INCREASES (AT AN ASSUMED RATE OF 5.5%)
- INCLUDES SURVIVOR AND OTHER DEATH BENEFITS
- INCLUDES TERMINATION OF EMPLOYMENT BENEFITS

LIABILITIES & SURPLUS SHARING

AS AT JULY 1, 2000

(AMOUNTS IN \$1,000's)

| | <u>NUMBER</u> | <u>ACTUARIAL VALUE OF PENSIONS</u> | | <u>SURPLUS SHARE</u> |
|-------------------|---------------|--|----------|--------------------------|
| ACTIVE MEMBERS | 2,889 | 348,165 | (53.8%) | 40,071 |
| PENSIONERS | 1,081 | 277,087 | (42.8%) | 32,356 |
| DEFERRED/INACTIVE | 391 | 22,154 | (3.4%) | 2,573 |
| TOTAL | 4,361 | 647,406 | (100.0%) | 75,000 |

ACTIVE MEMBER LIABILITIES AND SURPLUS SHARES

(AMOUNTS IN \$1,000's)

| | <u>NUMBER</u> | <u>ACTUARIAL VALUE OF PENSIONS</u> | <u>SURPLUS SHARE</u> |
|----------------------|---------------|--|--------------------------|
| STAFF | 1,933 | 146,055 (22.6%) | 16,886 |
| NON-CLINICAL FACULTY | 759 | 160,218 (24.7%) | 18,384 |
| CLINICAL FACULTY | 124 | 32,318 (5.0%) | 3,703 |
| DISABLED MEMBERS | 73 | 9,574 (1.5%) | 1,098 |
| TOTAL | <u>2,889</u> | <u>348,165 (53.8%)</u> | <u>40,071</u> |

MAIN FACTORS AFFECTING ACTUARIAL VALUE OF PENSION

➤ **ACTIVE MEMBERS**

AGE

SALARY

YEARS OF SERVICE

➤ **PENSIONERS**

AGE

PENSION AMOUNT

SPOUSE'S AGE (IF APPLICABLE)

➤ **DEFERRED MEMBERS**

AGE, PENSION AMOUNT

SURPLUS SHARE EXAMPLES

ACTIVE MEMBERS

| | <u>AGE</u> | <u>YEARS OF SERVICE</u> | <u>SALARY</u> | <u>ACTUARIAL VALUE</u> | <u>SURPLUS SHARE</u> |
|----|------------|-----------------------------|---------------|----------------------------|--------------------------|
| #1 | 25 | 1 | \$32,000 | \$2,700 | \$750 |
| #2 | 40 | 15 | \$45,000 | \$95,600 | \$10,500 |
| #3 | 40 | 15 | \$80,000 | \$179,800 | \$19,800 |
| #4 | 60 | 15 | \$45,000 | \$118,100 | \$13,000 |
| #5 | 60 | 30 | \$100,000 | \$423,100 | \$46,500 |

NOTE: AMOUNTS ARE APPROXIMATIONS ONLY

SURPLUS SHARE EXAMPLES

PENSIONERS

| | <u>AGE</u> | <u>SPOUSE AGE</u> | <u>MONTHLY PENSION</u> | <u>ACTUARIAL VALUE</u> | <u>SURPLUS SHARE</u> |
|----|------------|-----------------------|----------------------------|----------------------------|--------------------------|
| #1 | 55 | 58 | \$2,100 | \$389,900 | \$42,900 |
| #2 | 65 | 63 | \$4,100 | \$692,000 | \$76,100 |
| #3 | 75 | N/A | \$270 | \$24,400 | \$5,000 |
| #4 | 75 | 73 | \$4,100 | \$489,800 | \$53,900 |
| #5 | 90 | N/A | \$650 | \$38,000 | \$5,000 |
| #6 | 90 | 88 | \$4,100 | \$243,000 | \$26,700 |

NOTE: AMOUNTS ARE APPROXIMATIONS ONLY

BUY-BACK OF INITIAL UNIVERSITY SERVICE

- **AVAILABLE ONLY TO ACTIVE MEMBERS ON
DISTRIBUTION DATE**
- **UP TO 18 MONTHS MAY BE AVAILABLE**
- **INCREASES FUTURE PENSION/TERMINATION/DEATH
BENEFITS**
- **PRICED ON FAVOURABLE BASIS
(ASSUMES SINGLE MALE RETIRING AT AGE 65)**
- **USE TABLE TO ESTIMATE COST OF BUY-BACK**

BUY-BACK EXAMPLE

1. CALCULATE SERVICE BEFORE ENROLMENT DATE (E.G. 0.5 YEARS)
2. ESTIMATE COST OF BUYING BACK ONE YEAR FROM TABLE
(E.G. \$2,734 AT AGE 45 WITH \$40,000 PENSIONABLE EARNINGS)
3. MULTIPLY TO GET BUY-BACK COST
(e.g. $0.5 \times \$2,734 = \$1,367$)

BUY-BACK EXAMPLE

(Continued)

- **SURPLUS SHARE IN EXCESS OF BUY-BACK COST PAYABLE IN CASH (MAY BE TRANSFERRED TO RRSP IF YOU HAVE CONTRIB. ROOM)**
- **PARTIAL BUY-BACK IF BUY-BACK COST EXCEEDS SURPLUS SHARE**

REFUND OF PRE-1991 CONTRIBUTIONS

- **AVAILABLE ONLY TO PENSIONERS AND DEFERRED VESTEDS**
- **AMOUNT SHOWN ON SURPLUS SHARING STATEMENT**
- **UP TO AGE 69, MAY BE TRANSFERRED TAX-FREE TO RRSP/RRIF**
- **ABOVE AGE 69, MAY BE TRANSFERRED TAX-FREE TO RRIF**

REFUND OF PRE-1991 CONTRIBUTIONS

(Continued)

- **SURPLUS SHARE IN EXCESS OF PRE-1991 CONTRIBUTIONS PAYABLE IN CASH (TRANSFERABLE TO RRSP IF YOU HAVE ROOM)**

- **PARTIAL REFUND IF SURPLUS SHARE LESS THAN PRE-1991 CONTRIBUTION AMOUNT**

REFUND OF PRE-1991 CONTRIBUTIONS **FOR ACTIVE MEMBERS?**

- **CCRA POSITION - NOT POSSIBLE IF FUTURE MEMBER CONTRIBUTIONS REQUIRED**

- **MAY BE POSSIBLE FOR MEMBERS TERMINATED SINCE JULY 2000**

- **EVEN IF PERMITTED BY CCRA, PROBLEMATIC DUE TO POSSIBLE IMPACT ON FUTURE TERMINATION / RETIREMENT BENEFITS**

THE PROPOSAL **(CONTINUED)**

OTHER ELEMENTS OF THE PROPOSAL:

- **ALL EXPENSES OF COMMITTEE AND UNIVERSITY PAID FROM PLAN SURPLUS BUFFER AND NOT FROM SURPLUS SHARES (IF APPROVED BY REGULATOR)**
- **THE MCMMASTER UNIVERSITY FUTURES FUND ("MUFF") WILL BE DISCONTINUED AFTER ITS NEXT EXPIRY DATE (APRIL 30, 2001).**
- **THE PROPOSAL DOES NOT AFFECT ANY FUTURE AGREEMENTS WITH EMPLOYEE ASSOCIATIONS**

RECOMMENDATION

- THE COMMITTEE RECOMMENDS TO VOTE “YES”
- MUSA RECOMMENDS TO VOTE “YES”
- MUFA RECOMMENDS TO VOTE “YES”
- CFA RECOMMENDS TO VOTE “YES”
- MANAGEMENT GROUP RECOMMENDS TO VOTE “YES”
- MURA RECOMMENDS TO VOTE “YES”

RECOMMENDATION

(CONTINUED)

- **IF YOU VOTE “NO” YOU WILL NOT RECEIVE ANY SURPLUS FROM THIS PROPOSAL AND WILL REMAIN IN A SEPARATE PENSION PLAN FROM EVERYONE ELSE WHO CONSENTED**

- **FAILURE TO VOTE COUNTS AS A “NO” VOTE**

- **IF PROPOSAL RECEIVES LESS THAN 90% SUPPORT FROM THE ACTIVE EMPLOYEE MEMBERS OR LESS THAN 90% FROM THE PENSIONER / DEFERRED GROUP, THE UNIVERSITY MAY CANCEL THE PROPOSAL**

WHAT HAPPENS NEXT?

IF THE PROPOSAL IS ACCEPTED BY THE MEMBERSHIP:

- **KOSKIE MINSKY, WITH THE APPROVAL OF THE COMMITTEE, WILL FINALIZE A DETAILED SURPLUS SHARING AGREEMENT WITH THE UNIVERSITY WHICH IS AS GOOD AS THE PROPOSAL, AND SIGN IT ON BEHALF OF THOSE WHO HAVE RETAINED THEM TO SIGN**

- **IF PROPOSAL RECEIVES BETWEEN 90% AND 100% SUPPORT THE UNIVERSITY WILL ESTABLISH A SEPARATE PLAN FOR THOSE WHO CONSENT. BENEFITS UNDER THIS PLAN WILL BE IDENTICAL TO THE CURRENT PLAN.**

WHAT HAPPENS NEXT? **(CONTINUED)**

**IF THE PROPOSAL IS ACCEPTED BY THE MEMBERSHIP
(CONTINUED):**

- **COURT PROCEEDING TO APPROVE THE AGREEMENT WILL BE INITIATED**

- **APPLICATION FOR SURPLUS WITHDRAWAL WILL BE FILED WITH THE SUPERINTENDENT**

- **THE AUTHORIZATIONS WILL ALLOW KOSKIE MINSKY TO REPRESENT YOU BEFORE THE COURTS AND TRIBUNALS**

WHAT HAPPENS NEXT? **(CONTINUED)**

**IF THE PROPOSAL IS ACCEPTED BY THE MEMBERSHIP
(CONTINUED):**

- **APPROVALS MUST BE OBTAINED FROM CCRA**

- **MEMBERS WILL BE SENT PAYMENT OPTIONS, WHICH MUST BE EXERCISED PRIOR TO SUPERINTENDENT'S CONSENT**

- **PAYMENTS OF SURPLUS ENTITLEMENTS ARE EXPECTED BY WINTER 2001/2002. PAYMENTS MUST START BY END OF THE YEAR IN ORDER TO BE STAGGERED.**

WHAT HAPPENS NEXT? **(CONTINUED)**

IF THE PROPOSAL IS **NOT** ACCEPTED BY THE MEMBERSHIP:

- THE UNIVERSITY HAS THE OPTION TO CANCEL THE DEAL
- THE UNIVERSITY HAS INDICATED THAT IT DOES NOT INTEND TO RE-NEGOTIATE ANOTHER SURPLUS SHARING PROPOSAL

IN CONCLUSION...

1. MEMBERS SHOULD SIGN BALLOTS
(**AUTHORIZATION AND RETAINER**)
2. RETURN BALLOTS TO KOSKIE MINSKY **NO LATER THAN
APRIL 30, 2001**
3. KOSKIE MINSKY CAN BE REACHED AT:
 - **1-888-233-2852**
 - **mcpension@koskieminsky.com**
4. PLEASE HELP US FIND MEMBERS WE HAVE BEEN UNABLE
TO LOCATE