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McMASTER FACULTY
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ASSOCIATION

October 26, 2009

Dr. John Berlinsky
President, McMaster University
Faculty Association (MUFA)
Hamilton Hall Room 103A

Re: Increases to Pension Contribution Rates

Dear John,

Earlier this year, in response to the dramatic changes in the world economy and the impact of a general economic downturn, Provost and Vice-President (Academic), Ilene Busch-Vishniac, and I provided an economic update for McMaster University. This update outlined the impact of the downturn on University budgets and forecasts, and highlighted the need to continue to make financial plans to cover the mounting costs of post-retirement benefits and the additional payments that will be required to make up for losses in the investment value of the pension plan. I assembled a committee (PACICES) to advise me on how McMaster might best address the financial difficulties imposed by the current economic situation, and its report has been made public and community input encouraged. I certainly appreciate your participation as a representative of MUFA on PACICES and your contributions to the work of the Committee. Unfortunately, the province's financial situation has continued to decline and although education remains a high priority, Ontario's projected long-term deficits provide little optimism for significant new provincial spending.

At the September meeting of the Joint Committee, Administration representatives made a suggestion that I wish to make more formally here. The McMaster University Faculty Association is operating under a contract that will expire at the end of June, 2011. Although we have discussed our Administration's desire to close the defined benefit pension plan for new members of MUFA, grandparenting the existing plan for all currently covered members and retirees, we are well aware that this proposal for a major change outside of the normal negotiation time for a new contract is not acceptable to MUFA.

Instead, this issue will be a significant aspect of negotiations next year for the MUFA contract that will commence in July of 2011. At the Joint Committee meetings, MUFA members of the team have expressed great interest in seeing the University move forward on a PACICES report recommendation that a campus-wide team be assembled to consider various pension options, rather than the current defined benefit and RRSP plans currently in use on our campus. As you know, I am committed to reviewing and acting on the report once the final version has been presented to me by Dave Lazzarato.

What we present for your consideration is what our Administration views as a compromise position. We seek an increase, for the remainder of the current contract, in employee contributions to the pension plan for all active MUFA members in order to bring employee contributions for salaried faculty into alignment with other salaried employees on campus. Such a move will strengthen the condition of the pension plan and align MUFA member pension payments with those of the largest salaried staff groups on our campus. It will also facilitate discussions through COU with the Ministry of Finance, which has revealed a strong belief that the employee pension contributions of the university sector are significantly low compared to peers in the public sector. Indeed, HOOPP employee contributions are at 6.9% below the year's maximum pensionable earnings and 9.2 above%, OMERS is at 6.3% and 9.5%, TPP is at 10.4% and 12%, and CAAT is between 9.3% and 11.1%. By contrast employee contributions of MUFA members are currently at 5.0 and 6.5%. Moreover, it will help the University's operating budget by providing a measure of increased fiscal flexibility, and may even permit us to continue to avoid the sort of firm faculty hiring freezes that our sister institutions in Ontario have already implemented. Finally, I am sure it will be recognized as a significant show of good will on the part of the Faculty Association.

The costs related to the salaried pension plan are of particular concern as they continue to escalate at a rate that challenges the University's ability to pay. Consider that:

- The annual service cost for 2008/2009 was $44 million. This is covered by employee contributions of $14 million and employer contributions of $30 million paid from the operating budget.
- The official 2008 valuation resulted in an ongoing deficit of $75.7 million as at July 1, 2008 with resultant deficit repayment obligations of $8.4 million per year. This payment has a significant impact on operating funds.
- The next valuation must be filed with FSCO no later than July, 2011. It's expected that the deficit repayment obligations will then be much higher. Given the effect of recent turmoil in the financial markets, our latest but preliminary actuarial estimates are that special payments to the pension plan could reach $38 million in 2011/12. Such payments would have a very large, negative impact on our operating budgets.

In response to this financial challenge, changes to the compensation provisions for many employee groups here at McMaster University have been introduced. These changes include increases in employee pension contribution rates. The following chart highlights the employee pension contribution rates for the larger employee groups that participate in the salaried pension plan.

Employee Pension Contribution Rates				
Employee Group	Current Contribution Rates	January 2010	January 2011	January 2012
MUFA	5% up to the YMPE[2]; 6.5 % in excess of the YMPE[2] and up to the ITA Maximum[3]	5% up to the YMPE[2]; 6.5 % in excess of the YMPE[2] and up to the ITA Maximum[3]	5% up to the YMPE[2]; 6.5 % in excess of the YMPE[2] and up to the ITA Maximum[3]	To be negotiated
CAW[1]	5.5% up to the YMPE[2]; 7% in excess of the YMPE[2] and up to the ITA Maximum[3]	5.75% up to the YMPE[2]; 7.5% in excess of the YMPE[2] and up to the ITA Maximum[3]	6.25% up to the YMPE[2]; 8.25% in excess of the YMPE[2] and up to the ITA Maximum[3]	6.5% up to the YMPE[2]; 8.75% in excess of the YMPE[2] and up to the ITA Maximum[3]
SAAO (Senior Academic and Administrative Officers)	5% up to the YMPE[2]; 6.5% in excess of the YMPE[2] and up to the ITA Maximum[3]	5.5% up to the YMPE[2]; 7.25% in excess of the YMPE[2] and up to the ITA Maximum[3]	6% up to the YMPE[2]; 8% in excess of the YMPE[2] and up to the ITA Maximum[3]	6.5% up to the YMPE[2]; 8.75% in excess of the YMPE[2] and up to the ITA Maximum[3]
TMG (The Management Group)	5% up to YMPE[2]; 6.5% in excess of the YMPE[2] and up to the ITA Maximum[3]	5.5% up to YMPE[2]; 7.25% in excess of the YMPE[2] and up to the ITA Maximum[3]	6% up to YMPE[2]; 8% in excess of the YMPE[2] and up to the ITA Maximum[3]	6.5% up to YMPE[2]; 8.75% in excess of the YMPE[2] and up to the ITA Maximum[3]

In keeping with the changes that have been agreed to by CAW, SAAO and TMG, I would like to request that MUFA members consider increasing their employee pension contribution rates to 5.5% up to the YMPE and 7.25% in excess of the YMPE and up to the ITA Maximum effective the first full pay period in January, 2010. I would also request a further increase to the employee

[1] The recently renewed Collective Agreement with CAW Local 555, Unit 1, expiring August 31, 2012, in conjunction with a separate memorandum of agreement, provides that bargaining unit members will continue to have Factor 80 for the term of the collective agreement, and any subsequent renewal collective agreement, provided members pay a premium for the value of the superior benefit of Factor 80 relative to Factor 85. This premium will be paid through increases to employee pension contributions; in June 2012, the actual cost of maintaining Factor 80 relative to Factor 85 will be used to determine the required change to these contributions for the renewal collective agreement in August 2012.

[2] YMPE = Year's Maximum Pensionable Earnings. YMPE for 2009 is $46,300 and is adjusted each calendar year.

[3] ITA Maximum = Income Tax Maximum. The ITA Maximum for 2009 is $136,112 and is adjusted each calendar year.

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pension contribution rates to 6% up to the YMPE and 8% in excess of the YMPE and up to the ITA Maximum effective the first full pay period in January 2011. This would effectively equalize contribution rates between MUFA, SAAO and TMG. Please note that the employee pension contribution rates for CAW are slightly higher to reflect their continued 'Rule of 80' provision. Any further increases for MUFA members would be the subject of discussion for Joint Committee in 2011.

If MUFA agrees to this change, the impact for each individual member would be quite modest. The table below shows the impact for three different levels of faculty base salary assuming a 1.0 CPM increase effective July 1, 2010.

If your current base salary is ...	**Your additional pension contribution 1/2010 through 6/2010 would be**	**Your additional pension contribution 7/2010 through 6/2011 would be**	**Your total increase in pension contribution for the remainder of the contract would be**
$75,000	$222	$735	$957
$110,000	$353	$1,131	$1,484
$145,000	$462	$1,403	$1,865

Pension contributions are tax deductible so the overall cost of the increased pension contributions for the individual would be lowered by his/her tax rate. With this model, the total cost increase in employee contributions from MUFA for the eighteen months of increased contributions would come to about $1,400,000 based on the October 28, 2009 membership.

I believe that MUFA's agreement to increase employee pension contribution rates would send a very positive message to the University community. It would allow us to model an approach that is fair and equitable, that honours promises made in the past, and that is built upon our solid framework of collegiality and collaboration.

Thank you for your consideration of this change.

Sincerely,

Peter George

cc: Ilene Busch-Vishniac, Provost and Vice-President (Academic)
Mark Haley, Assistant Vice-President (Human Resources Services)