Employee Future Benefits

McMaster University

Employee Future Benefits (Pension and Other)

The University records the benefits plans' asset and liability values and the related expenses as determined actuarially. Any actuarial gains or losses, including changes resulting from adjustment of actuarial assumptions and investment experience gains and losses, are amortized to income using the corridor method over the average remaining service life of active employees.

Pension

The funded status of the defined benefit pension plans, measured at April 30, 2007, is a deficit of $98.8 million (2005/06-deficit of $92.4 million). The change is attributable to the actuarial loss resulting from a reduction in the discount rate assumption, partially offset by better-than-expected investment returns.

The change in the funded status of the defined benefit pension plans from April 30, 2006 to April 30, 2007 is summarized as follows:

Change in Funded Status of Pension Benefit Plans

		$ millions
Funded status, April 30, 2006	**$**	**(92.4)**
Costs in the period:		
Current service cost		(32.5)
Interest on liabilities		(60.7)
Actual return on plan assets		117.4
		24.2
Actuarial (loss) related to changes in discount rate and salary assumptions		(42.4)
Actuarial (loss) related to changes in assumptions		(30.0)
Past service cost reductions		1.1
Plus: University contributions		40.7
Funded status, April 30, 2007	**$**	**(98.8)**

Investment returns were stronger than expected and exceeded current service cost and interest on liabilities generating a net reduction in the deficit position. This reduction was more than offset by changes in actuarial assumptions ($42.4 million) and the impact of updating of the accounting valuation to reflect the July 2006 actuarial valuation for funding purposes ($30.0 million). A change in the discount rate to 5.3% from 5.5% was required to reflect the market interest rate on April 30, 2007. This small discount rate reduction had a sizable impact on the funded position due to the long (17 year) duration of the liabilities. There was no change for the expected long-term rate of return on plan assets at 7.0%.

The pension expense for 2006/07 of $41.9 million (2005/06-$36.6 million) includes amortization of actuarial losses of $14.0 million (2005/06-$13.9 million).

The University submitted its tri-annual funding valuation for the salaried pension plan as of July 1, 2006 and is required to submit the funding valuation for the hourly pension plan as of July 1, 2007. A funding plan that identifies the salaried pension plan contributions to be made prior to the next valuation has been completed. In 2006/07, deficit amortization payments of $5.2 million were funded from an internal reserve. Subsequent payments estimated at $20.6 million will be funded from internal endowments and are expected to be recovered from operating funds over a long-term period.

The University has adopted measures to reduce future pension expenses including the following:

- employees who began at McMaster July 1, 2006 or later will not be subject to two-year vesting
- the employee contribution rate for the majority of active members has increased by .75% of pensionable salary each in 2006/07 and in 2007/08
- for Canadian Auto Workers (CAW) employees, the contribution rate increases by an additional .5% of salary in 2008/09
- for selected employee groups factor 80 retirements for early unreduced pension will increase, on a gradual basis, to factor 85 by 2011.

Other – Post-Retirement and Post-Employment Benefit Plans

The deficit status of the non-pension post retirement benefit plan as at April 30, 2007 amounted to $223.3 million an increase of $39.1 million from April 30, 2006. The significant changes are outlined in the chart below:

Change in Funded Status of Non-Pension Benefit Plans

		$ millions
Funded status, April 30, 2006	**$**	**(184.2)**
Costs in the period:		
Current service cost		(7.7)
Interest on liabilities		(10.6)
		(18.3)
Actuarial (loss) related to change in assumptions for discount rate		(22.1)
Other		(2.9)
University contributions		4.2
Funded status, April 30, 2007	**$**	**(223.3)**

A full actuarial valuation was completed in May 2007. Based on advice from the actuary, the assumptions used to project the cost of future health benefits were adjusted and a more conservative mortality table was incorporated into the calculation of the obligation. The discount rate is based on high quality corporate bond yields as at April 30, 2007, resulting in a reduction in the rate of 0.50%, which accounts for 57% of the increase in the liability.

Non-pension future employee benefit expense in 2006/07 of $22.2 million increased by $1.7 million from 2005/06. The increase reflects higher current service and interest costs as well as the requirement to amortize $3.9 million of previously unamortized actuarial losses.

The University continues to fund future non-pension benefits on a cash basis and has budgeted $4.9 million in 2007/08. This amount is consistent with estimates provided by the actuaries. Expected cost increases for future years as projected by the actuaries are being incorporated into multi-year financial plans to ensure that funds are available to cover this increasing cost.

In 2005/06 and 2006/07, the University made changes to the design of current post retirement benefit plans to ensure value-for-money, cost effectiveness and cohesion with its human resource strategic goals and objectives.