PACICES

President's Advisory Committee on the Impact of the Current Economic Situation

Final Report

February 2010

McMaster University

INTRODUCTION

The President's Advisory Committee on the Impact of the Current Economic Situation (PACICES) was established by President Peter George to provide strategic advice and develop strategies to ensure the long-term sustainability of the University. (For full Terms of Reference see Appendix A.) Committee members represent a cross section of the University community including the faculties, the Board of Governors, staff, students, senior management and union leadership. (A complete list of Committee members is available in Appendix B.)

The current economic situation facing McMaster and all Ontario universities is the combination of a significant historic comparative underfunding relative to universities in other provinces combined with the economic pressures that the Ontario provincial and federal governments are facing as a result of the recession. While the Canadian and Ontario economies are beginning to show signs of improvement, the length and strength of the recovery will significantly influence the province's ability to respond to the historical underfunding.

Committee members have spent a great deal of time learning as much as possible about the institution's priorities and processes, the University's financial situation and considering recommendations to address the challenges McMaster faces. A number of internal resources and external experts have also provided valuable information and context for the Committee.

McMaster University's evolution over the past decade has been significant. Its student population has grown by more than 60%, its research enterprise has expanded to more than $340 million in awards and approximately $180 million a year in activity, its reputation as a world-class university has grown, and McMaster is consistently named one of only four Canadian universities listed in the Top 100 in the World. Preserving, protecting and building upon McMaster's strengths and its strong tradition of providing students with high quality and innovative education must not be compromised as it decides how to respond to the challenges it faces.

The University is a complex organization, in its structure, its governance, and in its varied roles both as a teaching and a research institution. Its funding system is equally complex as it receives revenues from many sources but primarily from the provincial and federal governments, together with tuition fees that are regulated by the province. As a result, the University does not control its sources of revenues and a significant portion of the funds that it receives are targeted to specific uses. These factors result in a structural situation where the University has limited flexibility in deciding how to use the resources it does receive. While these issues are common among all universities in Ontario, this fact does not diminish the burden these realities place on McMaster.

Not all of the consequences are yet understood, but it is clear that the effects of the global economic crisis on Canada and Ontario, have punctuated the pre-existing financial strains on both the income and spending sides of the University, placing McMaster at a critical juncture. The University has reported significant losses in each of the last two fiscal years and, without material changes, is expected to continue to do so into the foreseeable future. The most recent projections also result in an elimination of uncommitted resources by April 2012; which would result in the University not having the resources necessary to carry out its existing mandate.

The University's vision, its long-term priorities, and the steps it takes in the short and medium term will determine the University's ability to achieve its goals and to maintain or extend its international reputation for excellence. The Committee believes that the importance of taking well considered actions as soon as possible after the next provincial funding announcement is made cannot be overstated in order to protect the University against certain and potentially serious long-term threats.

The Committee is encouraged that as a result of the dialogue in PACICES discussions to date, certain of the recommendations included in this report have already begun to be acted upon.

The financial challenges facing the University affect everyone at McMaster and will take a conscious effort by everyone (faculty, staff, students and the University's leaders) to focus on the common goal of ensuring the long-term sustainability of the University. The key ingredients of effective teamwork are trust, respect and empathy. All of these will be required to ensure everyone feels that they are being heard, that there are opportunities to contribute to the discussion about the changes required, and that everyone works together to implement the actions decided upon for the long-term benefit of the University.

CONTEXT

A number of issues contribute to the overall financial condition of the University. We have chosen to highlight eight factors at this time that are particularly significant.

1. McMaster has been proactive in the management of its costs over the past several years. All units have been asked to absorb inflationary increases in costs and while managers have found solutions, difficult decisions have had to be made. The result is that McMaster is in better financial condition than it would have been had it not taken the actions it has. However, in its two most recent fiscal years, ending April 30, 2008 and 2009, the University has reported net losses of $14 million and $54 million, respectively.

2. The provincial government has taken significant steps to close the funding gap but Ontario is still last in funding in Canada on a per capita basis, with operating grants per student of approximately $6,100 versus a Canadian average of $8,500 and a high of $9,700[1]. These are differences of 39% and 59%, respectively. If Ontario funded at the above noted national average, it would result in an additional $57.8 million of annual revenue (based on 24,100 current full-time equivalent students).

A significant portion of the funding increases from *Reaching Higher* originally targeted to improvements in the quality of education were instead spent on the growth in the number of students across the province. Given the historical growth in students and the expected growth, if Ontario is to achieve its stated objective of having a 70% (currently 41%)[2] participation rate in higher education, the comparative underfunding needs to be addressed immediately.

In comparison with other universities in the G13 (Canada's 13 leading research-intensive universities), Ontario institutions were the only ones to experience a decrease in the per student funding level between 2006-07 and 2008-09[3]. Indeed, in universities over the past 30 years, the per student revenue, when adjusted for CPI, shows sharp decreases in the 1990s and only a leveling off in the past five years[4].

3. When government research grants are received they cover the direct costs of research but only a portion of the indirect costs[5]. Therefore, the more successful the University is in securing research grants, the more resources are required from elsewhere in the operating and capital budgets to pay for the full cost of research. As a highly research-intensive university this financial disconnect is very acute for McMaster.

---

[1] Source: Council of Ontario Universities, 2007 Resource Document, March 2007 (note that the data are taken from the year 2003-04, the last published year with national comparators).

[2] Norrie, K. and Lin, S. (2009). *Postsecondary Education Attainment and Participation in Ontario*. Higher Education Quality Council of Ontario.

[3] Based on information compiled in the President's Fact Book and shared as part of the G13 data exchange.

[4] Snowdon et al, (2009). *Revisiting Ontario College and University Revenue Data*, Higher Education Quality Council of Ontario.

[5] The cost of conducting research at a Canadian university such as McMaster includes not only the direct costs of the project but also a range of indirect costs. These indirect costs include many expenditures that are frequently taken for granted but are real costs incurred by the University to supply the infrastructure required to allow a sponsored research project to proceed. Indirect costs include support for the libraries, the provision and maintenance of space, computing and networking support, accounting and other administrative services, Health Physics, Security, etc.

4. The Committee requested that management prepare high-level financial projections to provide directional financial information on the degree of variance that would occur if no other mitigating actions were taken and to focus attention on strategies that would be required to address the problem. The Committee has reviewed this unaudited four-year projection of revenues, expenses and balance sheets (Appendix C) for the University and, based on moderate funding and cost inflation assumptions, and the use of the full accrual basis of accounting, the University could face potential deficits of between $42 million and $83 million for each of the fiscal years 2010-2013. The midpoint of that range of $62 million represents 7.7% of projected 2010 total revenue of McMaster. These projections include the full cost of the pension deficit[6], non-pension, post-retirement benefits[7] and the impact of investment losses on long-term assets which are not included in the operating fund budget. The University has prepared its 2009-10 ongoing operating fund budget by implementing short-term cost saving strategies and by funding one-time costs of $22 million from departmental reserves. These types of short-term strategies will not be able to effectively address the financial challenges contained in the 2011-2013 projections.

5. Existing pension and benefits, including post-retirement benefits, for most employee groups at McMaster are comparable to its peer institutions in Ontario and are among the best offered in Ontario (public or private sector).

The funding deficit between the obligations and the assets available for the pension benefits has grown considerably, in part, due to the recent poor investment climate. At July 2009, the pension deficit is estimated at approximately $298 million (Appendix D) on a going concern basis[8] and the present value of the expected future cost of post-retirement obligations, is estimated at approximately $195 million (Appendix E); resulting in an underfunding situation of approximately $493 million in total. Even if the University were to fund this gap on a straight line basis over a 20-year period, the annual cost of funding these obligations, including the appreciation of the amounts for lost investment income, would be approximately $45 million. Only $9 million of this amount has been included in the projections for 2010, increasing to $50 million in 2013.

6. The Available Expendable Resources (AER) (Appendix C) of the University represents uncommitted funds the University holds that could be available to settle its debts. These funds provide operating flexibility, support debt management and provide the ability to take advantage of opportunities as they arise. McMaster's AER have been seriously depleted in the last couple of years ($203 million and $145 million, respectively, at the end of fiscal years 2008 and 2009) and the projected deficits identified earlier would eliminate all AER by the end of April 2012. If this were to occur it would significantly increase financial risk and impair McMaster's ability to deliver on its mission and commitments.

7. The University has $33.7 million (including pledges) still to fundraise for capital projects that have been approved to date.

8. Consistent with other universities in Ontario, McMaster prepares its internal reports and budgets predominantly on a cash basis and pursuant to the concepts of fund accounting and on a full accrual basis for the preparation of its audited financial statements. The use of different accounting conventions for different purposes has contributed to confusion and a lack of understanding in the McMaster community of some of the issues germane to the financial position of the University.

---

[6] Legally obligated payments are planned, however, no payments have been budgeted to fund the increasing deficit.

[7] Amounts paid are expensed as incurred rather than accrued over service lives of employees.

[8] The going concern valuation assumes that the pension plan will be maintained indefinitely and has a long-term time horizon.

GOVERNMENT

The recent world-wide financial stresses are being felt at both the provincial and federal levels of government. The difficult financial state has reduced government revenue in the short-term, and near-term stimulus spending to help protect and reinforce the economy is adding long-term debt commitments that will limit future government spending. Both the federal and Ontario provincial governments are forecasted to have the largest deficits ever in their current fiscal years and predict significant deficits for many years into the future.

Universities have been fortunate that the Ontario government has made post-secondary education a high priority in recent years. The one-time funding announcement in Budget 2009 allowed full BIU funding for the 2008 and 2009 years. Operating grants to Ontario universities and colleges have increased by $1.7 billion, or about 63%, since 2002-03[9], which speaks directly to the success of *Reaching Higher*. Planning is now underway to develop a successor to *Reaching Higher* and this next incarnation of the provincial commitment to higher education will be fundamental to McMaster's ability to deliver on its promises to students. In recent years, the federal government implemented significant policy changes to student financial assistance to allow greater access to higher education. These changes included increased aid through Canada Student Loans, reduced parental contribution amounts, and expansion of grant programs.

The province is also contributing $780 million in capital funding to universities and colleges to leverage the $2 billion commitment from the federal government for campus renewal. Ottawa has continued to support the development of Canada's universities, their research, and opportunities for both researchers and graduate students through programs such as the Canada Foundation for Innovation.

These government commitments to higher education are important and they have been and will be very helpful in strengthening the University. However, one-time funding and grants that do not cover the full cost of activities do not address the structural financial issues facing universities today. Encouraging and working with government at all levels to find solutions to these long-term and fundamental funding challenges is paramount.

[9] Source: Ontario Government, Ministry of Training, Colleges and Universities (http://www.news.ontario.ca/tcu/en/2009/05/ontario-boosts-support-to-colleges-universities.html)

RECOMMENDATIONS

The recommendations of the PACICES follow:

STRATEGIC

The University operates within regulatory and financial frameworks established by the province of Ontario and the government of Canada. It is also significantly influenced by the intellectual framework within the international community. To ensure that the University is well prepared to address the forces of change in this multi-stakeholder environment, the Committee recommends that the University:

- Undertake a formal re-examination of its mission, strategy, and objectives. This should include a thorough identification and evaluation of alternative approaches available to the University to achieve its chosen objectives, all within the context of the resources that are expected to be available. This will ensure that it remains responsive to forces that influence its relevance and fortunes.
- Establish a definition of excellence, and decide how to distinguish itself by choosing what it wants to do and how, and by choosing what it no longer wants to continue doing. This will provide clarity and direction to guide decision making.
- Evaluate opportunities that will increase internal and external partnerships. The objective is to improve the quality and efficiency of education and research.

GOVERNMENT

Given that government funding represents a significant portion of the University's revenues, government relations play a key role in enabling the success of the University. McMaster University's strength in innovative teaching and research presents the ideal opportunity to take a leadership role in guiding the future of education and research in Ontario and Canada. To ensure that the University maximizes its funding and continues to have influence with government leaders and decision makers, the Committee recommends that the University:

- Establish an annual government and external relations strategy to be approved and monitored by the Board of Governors. This will raise the priority and profile of government relations, provide clear direction and focus, and define roles and responsibilities for all such communication and interaction, including the degree to which the University will coordinate efforts with various national and provincial faculty, staff and students organizations.
- Undertake a leadership role to bring together all stakeholders; government, university, business and others to discuss and develop strategies to guide the future of post-secondary education and research. This should include advocacy with the province of Ontario and the federal government to clearly articulate their future strategies and goals, establish measureable evaluation criteria and commit to future funding frameworks that can be reasonably expected to provide universities the resources needed to achieve the expected results. In return, the universities should offer to establish more tangible methods/criteria to measure their results and commit to reporting these results to the province of Ontario, federal government and the general public on a predetermined timetable. More clearly establishing the link between strategy, funding, accountability and positive results will also help to improve all stakeholders understanding of the value generated from the resources expended.

This will position the University to be an active participant and play a key role in defining future strategy as opposed to being impacted by future strategy.

- Inform the provincial and federal governments of actions undertaken by the University to address funding challenges and the impact of the current economic climate and request equitable treatment should government action address these challenges for other institutions. This will raise awareness with the government and position the University to act, as required.

INTERNAL LEADERSHIP

Only through continuous, open and honest dialogue, debate, and communication will the University community become fully engaged and trusting of one another. The internal community needs as much information as practical about the issues facing the University and what is being done to manage them, and the University's management can only benefit from the constructive advice of others. While University leaders already engage in a variety of communications, the Committee recommends that the University:

- Increase and then maintain the level of two-way communication with all internal stakeholders. This will contribute to an increase in the understanding of the complex issues throughout the University and improve the level of trust within the McMaster community.

OPERATIONAL – FINANCIAL

The financial structure of the University is very complex, and changing economic conditions can have a significant impact on the financial position of the University. The Committee came to realize that few members of the University community have a full and complete view of the University's financial challenges and opportunities. While the Finance Committee of the Board has a complete view of the University's financial situation, there is little oversight of the entire financial planning strategy within the existing operational planning committees. This leads to misunderstanding and the potential for poor decision making at an operational level. In addition, current budget processes and models are difficult to understand and lack transparency. The Committee recommends that the University:

- Expand the mandate, and composition as appropriate, of the University Planning Committee to ensure they consider the overall cash position and liquidity of the University in their annual processes. This will ensure that recommendations and decisions are not made in isolation and that their financial implications are more fully understood.
- Establish financial indicators and policies that would be used by the Board to continually evaluate the financial position of the University. For example, a policy that includes a minimum level of Available Expendable Resources equal to the greater of 15% of revenue and 80% of external debt (projected to be $120 million and $121 million, respectively, at April 30, 2010). This will ensure that the financial impact of all decisions that require the approval of the Board of Governors be considered.
- Establish a new budget model that reflects all capital and operating costs, all other financial activities of the University and uses the accrual method of accounting for all activities. The objective is to provide greater transparency and understanding of University finances.

- Eliminate the projected annual deficits of between $58 million and $83 million for each of fiscal years 2011-2013 through a combination of new, net revenue generation and cost reduction, including, if necessary, a reduction in total remuneration costs.
- Investigate alternatives to optimize tuition revenue balancing net revenue generation and accessibility.

OPERATIONAL – CAPITAL

The Committee recognizes that taking on debt presents a risk to the University and imposes future commitments. Capital expansion is often a key ingredient to support research and academic expansion and, as such, all capital expenditures should be linked to explicit strategic priorities, and deemed mission critical. The Committee recommends that the University:

- Reassess all approved capital projects to ensure that there is a full understanding of the impacts of completing the projects.
- Limit all new projects to those that are fully funded and supported by an appropriately costed and approved business plan. This will significantly reduce the risks associated with additional debt.
- Reassess the benefits and costs of externally sourced loans that could be used to replace internal funding for specific projects and consider the sale or sale/leaseback of specific assets (eg. student residences and parking facilities). This will help to ensure that the cash position of the University is not compromised.

OPERATIONAL – SALARY, BENEFITS AND PENSIONS

The total cost of salary, benefits and pensions, i.e. remuneration, (including a reasonable estimate of the cost to fund the current pension deficit and post-retirement benefit obligations over 20 years) is approximately $540 million[10] in 2009-10, representing 61.4% of adjusted total expenses[11]. Based on the projections reviewed, this cost will grow at a rate faster than the growth of new revenue. The Committee recommends that the University:

- Undertake a collaborative process to complete a full and transparent comparative review of the total compensation costs (salary plus all pre- and post-retirement benefits) for each major group of employees. This will guide the development of compensation policies and decision making regarding changes to compensation.
- Undertake a collaborative process with employees focused on the redesign of current pension benefits. This will reduce the asymmetrical risk borne by the University and the uncertainty of future remuneration costs.
- After taking into account the next provincial funding announcement, any new net revenue generating activities and other cost savings initiatives, the University should reduce the total amount to be spent on remuneration in each of the years of the 2011-2013 forecast periods in order to balance the operating forecasts. Reducing the total amount spent on remuneration should be done in an equitable manner, first, through lowering the amount spent on individual's total remuneration and, secondly, if necessary, by reductions in the number of employees. This will ensure the University remains financially viable.

---

[10] Made up of $504 million of salaries, wage and employee benefits for 2010 (Appendix C) and an additional $36 million of cost to fully fund pension obligations and post-retirement benefits (Context Item #5 – pg. 4).

[11] Total Expenses adjusted to include a reasonable estimate of the cost to fund the current pension deficit and post-retirement benefit obligation over 20 years.

- Adjust future decisions if actual future results are materially different than current projections, including those related to remuneration should reflect that.

OPERATIONAL – GENERAL

The Committee recommends that the University:

- Should consider engaging one or more objective third parties, with appropriate University sector experience, to evaluate whether it is operating in the most effective and efficient manner possible to achieve its goals. The administrative, operational, teaching and research activities of the University should all be included as part of this evaluation.
- Invest strategically in information technology tools and expertise. This will enhance the work environment, enable better institutional data collection and decision making, establish life-long connections to our graduates and better enable and support innovative teaching and research.
- Apply the concept of excellence (referred to earlier) and implement performance monitoring to assist in defining the deliverables of all units and all levels of the University. The subsequent transparent communication of results will promote understanding and continuous improvement.
- Implement a process by which senior management will monitor new hiring and strategic appointments, not to stop hiring but to ensure that hiring supports explicit institutional priorities. Full costing of new hiring will ensure that informed decisions are made regarding the impact of each decision on the financial performance of the University.
- Continuously improve the quality of the learning environment and monitor the cost of learning by examining:
    - the teaching skills required in different Faculties and at different levels of the curriculum to support best practices in student learning;
    - the need and potential for cross-disciplinary and cross-faculty collaboration;
    - the ability to increase teaching partnerships with other institutions;
    - the optimal mix of tenure/tenure track faculty, teaching stream faculty, CLAs and sessional resources required to meet the pedagogical and cost imperatives of the University;
    - the extent to which different models would impact the number of courses able to be offered; and
    - the current model that sees most teaching in the Fall and Winter terms and the underutilization of teaching space in the Summer.

PACICES

President's Advisory Committee
on the Impact of the
Current Economic Situation

TERMS OF REFERENCE

The purpose of the Advisory Committee is to provide strategic advice to the President on mitigating strategies to ensure the long-term sustainability of the University.

Short-term and long-term strategies must:

- preserve the academic and research mission
- develop fiscal strategies to address the current economic realities
- ensure that the University will be poised for action on the other side of this economic downturn

UNIVERSITY COMMITMENTS

Commitment to:

- the core mission of academics and research in a student-centred university
- the goals of *Refining Directions*
- accessibility for students
- renewal of faculty
- strategic growth and capital development where funding sources are secured

PRINCIPLES TO GUIDE THE DEVELOPMENT OF RECOMMENDATIONS

- **Visionary** – the aim is to build organizational capacity to preserve the academic and research mission of the University
- **Transparency** – all recommendations will be fully disclosed to the McMaster community
- **Sustainability** – all recommendations will be assessed for their short-term and long-term impact to the University
- **Holistic View** – all recommendations will be assessed for the financial and non-financial impact
- **Fiscal Accountability** – the recommendations will Employ Best Practice approaches – focus on efficiency and economy
- **Stability** – recommendations will smooth the impact to avoid severe ups and downs

PACICES

President's Advisory Committee
on the Impact of the
Current Economic Situation

COMMITTEE MEMBERS

David Lazzarato - Chair
Board of Governors

Doug Barber
Board of Governors

John Berlinsky
McMaster University Faculty Association

Eric Brown
Faculty of Health Sciences

Mark Chamberlain
Board of Governors

John Connolly
Faculty of Humanities

Susan Denburg
Faculty of Health Sciences

Terry Flynn
DeGroote School of Business

Heather Johnson
CUPE 3906

Azim Kasmani
McMaster Students Union

Kostalena Michelaki
Faculty of Social Sciences

Sam Minniti
McMaster Association of Part-time Students

Fiona McNeill
Faculty of Science

Ayesha Rashid
Graduate Students Association

Matt Root
CAW Local 555

Heather Sheardown
Faculty of Engineering

Dave Tucker
The Management Group

RESOURCES

Ilene Busch-Vishniac
Provost & Vice-President,
Academic

Roger Couldrey
Interim Vice-President,
Administration

Mark Haley
Assistant Vice-President,
Human Resources Services

Karen Menard
Associate Vice-President,
Institutional Research & Analysis

Lilian Scime
Assistant Vice-President,
Administration

Nancy Gray
Director of Finance

PACICES

President's Advisory Committee
on the Impact of the
Current Economic Situation

FINANCIAL PROJECTIONS 2010-2013

The financial projections below have been prepared in a format that is consistent with Generally Accepted Accounting Principles (GAAP) and include the full accrual of all costs.

The purpose of these high-level projections was to provide the Committee with directional information on the degree of variance that would occur if no other mitigating actions were taken and to focus attention on strategies that would be required to address the projected deficits. The unaudited projections were generated in January 2010, using the final audited 2008-09 results and the 2009-10 six-month actual results as a starting point.

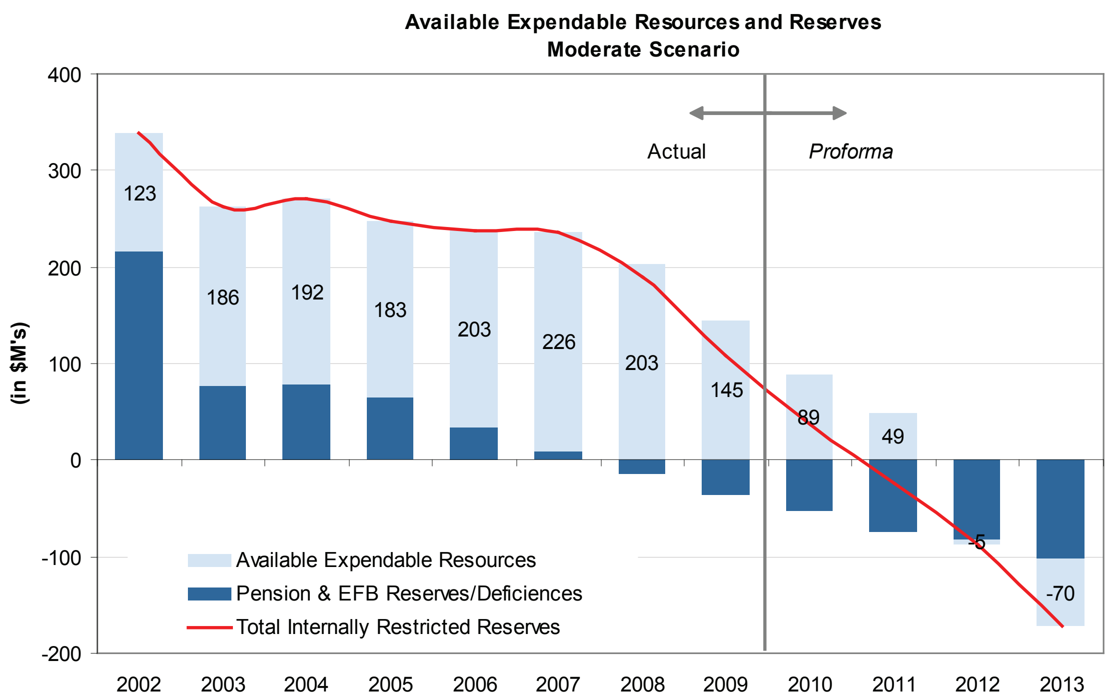
The projections reflect moderate (not best or worse case) set of assumptions which can be summarized as follows:

Assumption	2010-11	Each of 2011-12 and 2012-13
Enrolment	No change	No change
Operating grant[1]	Decrease of $3 million	2% increase
Tuition revenues	5% increase	5% increase
Other revenues	Increase to normal level	3% increase
Rate of return on long-term investments	7.5%	7.5%
Rate of return on short-term investments	2%	2%
Supplies and Expenses	3%, includes $13 million of one-time costs	3% increase
Employee benefits	Based on valuations	Based on valuations
Capital projects	Approved projects plus Primary Care Centre (uses $5 million FHS reserves) and Pan Am Pool (short $15.4 million)	

[1]Assumes that growth funding related to graduate growth and medical program expansion will be offset by additional costs. Neither is included in the projections.

McMaster University Financial Pro Forma
(In $000's)

	2010	2011	2012	2013
BALANCE SHEET				
ASSETS				
Cash Equivalents & ST Investments	144,790	134,693	89,725	48,419
Other Current Assets	157,276	173,496	192,026	213,238
Investment in McMaster Innovation Park	13,318	13,318	13,318	13,318
Deferred Pension Asset	220,811	215,993	224,747	224,967
Capital Assets	718,105	719,540	709,833	693,292
Investments	511,992	554,070	588,467	634,090
TOTAL ASSETS	**1,766,292**	**1,811,110**	**1,818,117**	**1,827,324**
LIABILITIES & DEFERRED CONTRIBUTIONS				
Other Liabilities and Deferred Contributions	950,650	1,013,159	1,041,035	1,092,210
Accrued Employee Future Benefits	240,633	257,478	275,501	294,786
Decommissioning Obligation	5,994	5,994	5,994	5,994
TOTAL LIABILITIES	**1,197,278**	**1,276,630**	**1,322,530**	**1,392,990**
NET ASSETS				
Pension & EFB Reserve (Deficiency)	-51,930	-73,593	-82,862	-101,927
Available Expendable Resources	88,610	49,237	-5,285	-69,721
Externally Restricted Endowments	283,246	307,071	328,614	350,703
Net Investment in Plant, Adjusted	249,088	251,765	255,119	255,278
TOTAL NET ASSETS	**569,014**	**534,480**	**495,586**	**434,333**
TOTAL LIABILITIES AND NET ASSETS	**1,766,292**	**1,811,110**	**1,818,117**	**1,827,324**
INCOME STATEMENT	2009/10	2010/11	2011/12	2012/13
REVENUE				
Operating Grants	212,560	209,812	214,008	218,288
Research Grants & Contracts	153,601	166,281	174,595	183,325
Tuition Fees	147,683	155,067	162,820	170,961
Ancillary Sales & Services	65,602	67,570	69,597	71,685
Other Revenues	180,151	197,806	203,747	210,172
Investment Income (Net)	42,066	29,471	31,132	33,069
TOTAL REVENUES	**801,663**	**826,006**	**855,900**	**887,500**
EXPENSES				
Salaries & Wages	391,292	413,856	434,549	456,277
Employee Benefits	112,923	127,968	143,920	167,189
Supplies & Services	263,176	263,861	258,387	266,139
Interest on Long-Term Debt	11,034	10,972	9,773	9,696
Amortization of Capital Assets	65,403	67,707	69,707	71,541
TOTAL EXPENSES	**843,828**	**884,365**	**916,337**	**970,842**
EXCESS OF REVENUES OVER EXPENSES	**-42,164**	**-58,359**	**-60,437**	**-83,342**


Available Expendable Resources and Reserves
Moderate Scenario
(in $M's)
400
300
200
100
0
-100
-200
Actual
Proforma
123
186
192
183
203
226
203
145
89
49
-5
-70
Available Expendable Resources
Pension & EFB Reserves/Deficiences
Total Internally Restricted Reserves
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

PACICES

President's Advisory Committee
on the Impact of the
Current Economic Situation

Final Report

February 2010

Results of Actuarial Valuation For Funding Purposes Salaried Pension Plan 2000 (1)									
$ millions	July 2000	July 2003 (2)	July 2006	July 2008	McMaster April 2009 Estimate		Mercer July 1 2009 Estimate	
Market Value of Assets	**966.1**	**719.5**	**912.0**	**1,003.8**	**840.0**	**3**	**890.0**	**4**
Total Actuarial Liability (Going Concern)	**647.9**	**780.5**	**971.0**	**1,119.9**	**1,180.0**	**5**	**1,188.0**	**6**
Funding excess (unfunded liability)	**318.2**	**(61.0)**	**(59.0)**	**(116.1)**	**(340.0)**		**(298.0)**	

Notes:

(1) The Salaried Pension Plan 2000 represents 97% of the Assets held for the University's three Registered Pension Plans. The Salaried Pension Plan (Original Plan) and the Hourly Pension Plan are 3% of the assets.

(2) $152m of assets were distributed to employees and the University under the Surplus Sharing Plan in spring 2003.

(3) Actual market value of assets at April 30, 2009

(4) Actual market value of assets at June 30, 2009.

(5) Estimate of the actuarial liability is calculated by increasing the July 2008 actuary calculation of $1,120m by 5.3% where 5.3% represents 9 months of the expected annual increase of 7%. The annualized growth rate of the liability from July 2000 to July 2008 is 8.1%.

(6) Estimate prepared by Mercer (Actuaries) of the July 2009 going concern liability using the assumptions of the July 2008 valuation. The going concern calculation takes a long-term perspective and assumes that the plan will be in place indefinitely.

PACICES

President's Advisory Committee on the Impact of the Current Economic Situation

Change Analysis - Growth in the Accrued Benefit Obligation (ABO)
Non Pension Employee Future Benefit Liability
Prepared for PACICES - November 26, 2009
Taken from Annual Financial Reports

	2003/04 Valuation	2004/05 Proj'n	2005/06 Proj'n	2006/07 Valuation	2007/08 Proj'n	2008/09 Proj'n	Cumulative
ABO at beginning of year (1)	**(72.0)**	**(145.9)**	**(164.0)**	**(184.2)**	**(223.3)**	**(203.1)**	**(72.0)**
Current service & interest cost (2)	(7.9)	(14.8)	(16.2)	(18.3)	(22.0)	(21.7)	(100.9)
Less: Benefit payments - cash (3)	3.3	3.5	3.9	4.2	4.5	4.6	24.0
	(4.6)	(11.3)	(12.3)	(14.1)	(17.5)	(17.1)	(76.9)
Change in liability due to discount rate (4)	(17.2)	(6.6)	(7.6)	(22.1)	37.2	41.9	25.6
Change due to updated utilization data (5)	(32.3)	-	-	-			(32.3)
Change in trend assumption for health costs (6)						(12.8)	(12.8)
Other experience changes (7)	(19.8)	(0.2)	(0.3)	(2.9)	0.5	(3.9)	(26.6)
ABO at end of year	**(145.9)**	**(164.0)**	**(184.2)**	**(223.3)**	**(203.1)**	**(195.0)**	**(195.0)**
Discount rate at the beginning of the year	7.00%	6.25%	6.00%	5.75%	5.25%	6.25%	7.00%
Discount rate at the end of the year	6.25%	6.00%	5.75%	5.25%	6.25%	7.50%	7.50%
Number of active employees in plan	4,298	4,298	4,298	4,507	4,507	4,507	
Current service & interest ($) per active employee	1,838	3,443	3,769	4,060	4,881	4,815	

Notes

This report shows the factors that have contributed to the increase in the Accrued Benefit Obligation (ABO) from 2003 to 2009.

(1) The Accrued Benefit Obligation is the present value of the benefits projected to be paid during retirement for current retirees and active members of the plan. For active members under the age of 55 and those who are not fully vested, the ABO is prorated.

(2) The current service cost is the cost of benefits (in present value terms) of an additional year of service for active members who have not reached age 55 or are not fully vested. The current service cost plus one year of interest on the outstanding balance has been the most significant factor in the change in the obligation over the past 5 years.

(3) The ABO is reduced by the amount of cash payments made to cover retiree benefits in the year.

(4) The CICA 3461 requires the ABO to be valued at the high quality corporate bond rate in effect at the measurement date (year end). Changes in this discount rate can cause sizable in-year changes in the ABO. Over the past 5 years, the discount rate has had a positive effect on the ABO amount.

(5) In 2003/04, the utilization data that forms a fundamental input in the projection of the cost of retiree benefits was significantly improved from that used in the very first valuation done in 1999/2000.

(6) In 2008/09, the University Actuaries recommended a change in the assumption of future price increases in health care costs to reflect market experience and expectations.

(7) The difference resulting from experience being different from assumptions or a change in assumptions is measured each year. The large difference in 2003/04 was mainly due to demographic changes regarding the retirees and active employees in the plan and the adoption of a more conservative mortality table.