University of Windsor

MEMO

To: All Active Members – Employees' Retirement Plan

Date: April 17, 2018

Subject: **Employees' Retirement Plan Update: New Contribution Rates effective June 1, 2018**

As a member of the University of Windsor Employees' Retirement Plan Reg. #0310573 (or "the Plan"), we are writing to provide you with information on the financial status of the Plan.

A formal financial evaluation of the Plan – called an *actuarial valuation* – has been conducted as of July 1, 2017 by the Plan actuary from Mercer Canada. Meetings have been held with the Retirement Committee and the Unifor Pension Advisory Committee to review the results of this actuarial valuation and to develop an action plan that will ensure the ongoing future financial stability of the Plan, in the best interests of all Plan members. As the cost of the Plan is shared equally between members and the University, the results of the July 1, 2017 actuarial valuation impact both the member and University contribution rates.

Results of the July 1, 2017 Actuarial Valuation

The actuarial valuation compares the Plan's assets to its liabilities in two different ways – *going concern* and *solvency*. On a going concern basis, where the Plan is assumed to continue indefinitely, the assets of the Plan as at July 1, 2017 are sufficient to cover the liabilities for benefits accrued to-date. In addition, the actuarial valuation indicates that under the current economic conditions, the cost of future pension benefits is rising. Although there is a surplus on a going concern basis, pension legislation requires that the surplus remain in the Plan and cannot be used to cover the cost of benefits that accrue next year and each year thereafter.

Pension legislation also requires that a solvency valuation be performed on the Plan – this is a hypothetical scenario where the Plan is assumed to be fully wound up on the valuation date. On a solvency basis, the Plan's solvency liabilities exceed its assets which means there is a deficit. Pension legislation requires that this deficit be funded by additional contributions beginning July 1, 2018.

As a result of the increase in pension costs and the solvency deficit that arose as at July 1, 2017, there is a requirement to increase the contribution rates for both the members and the University. The new contribution rates are required to provide the existing level of benefits - there is no change to the benefit formula or any other Plan provision. The new contribution rates will remain in place until the next actuarial valuation which is no later than June 30, 2020. At that time contribution rates will be re-established.

As outlined in the letter of March 26, 2013 to Plan members, given the escalating costs of defined benefit pension plans, the Ontario Ministry of Finance offered certain public sector pension plans relief for their solvency funding contributions. The Plan was recently approved by the Ontario Ministry of Finance as eligible for this funding relief. This approval extends the period of time required to fund the solvency deficit. Without this relief approval, contribution rates would have increased by an additional 4.4% at July 1, 2018. Instead, the majority of the increase is deferred to July 1, 2021 and will be reassessed at that time.

When do the changes take effect?

The changes to the new contribution rates will be staggered:

- **Phase 1:** The first phase, which reflects the fact that pension costs have increased in light of current economic conditions, is retroactive to July 1, 2017. As such, retroactive contributions will be caught-up over 3 months, which is the longest period permitted under pension legislation, starting with the pay period that begins June 4th, 2018 and ending with the pay period that ends September 9, 2018.

- **Phase 2:** The new contributions to fund the solvency deficit take effect one year after the valuation date, so those contributions will begin with the pay period that begins July 2, 2018. These contributions reflect the funding relief that was recently granted.

- **Phase 3:** The University and member contribution rates decrease at the end of the 3 month catch-up period starting with the pay period that begins September 10th, 2018.

The following table outlines the member and University current and new contribution rates:

Pensionable Earnings	Current Contribution Rates	New Contribution Rates		
		Phase 1 June 4, 2018 to July 1, 2018	Phase 2 July 2, 2018 to Sept 9, 2018	Phase 3 Sept 10, 2018 to June 30, 2020
Earnings up to the YBE* of $3,500	9.2%	**11.0%**	**11.8%**	**10.4%**
Earnings above YBE and up to the YMPE of $55,900	6.4%	**7.7%**	**8.2%**	**7.2%**
Earnings above YMPE of $55,900	9.2%	**11.0%**	**11.8%**	**10.4%**

*YBE = Year's Basic Exemption under the Canada Pension Plan
YMPE = Year's Maximum Pensionable Earnings under the Canada Pension Plan

Sample member and University monthly contribution rates:

Annual Pensionable Earnings	Current Monthly Contribution Rates	New Monthly Contribution Rates					
		Phase 1 : June 4, 2018 to July 1, 2018		Phase 2: July 2, 2018 to Sept 9, 2018		Phase 3: Sept 10, 2018 to June 30, 2020	
		New Monthly Contribution	Increase	New Monthly Contribution	Increase	New Monthly Contribution	Increase
$30,000	$168	$202	$34	$216	$48	$189	$21
$40,000	$222	$266	$44	$284	$62	$249	$27
$50,000	$275	$330	$55	$352	$77	$309	$34
$60,000	$338	$406	$68	$433	$95	$380	$42
$70,000	$414	$498	$84	$531	$117	$467	$53
$80,000	$491	$589	$98	$629	$138	$554	$63
$90,000	$568	$681	$113	$728	$160	$640	$72

**Contribution Rates per schedule above based on 2018 YBE ($3,500) and 2018 YMPE ($55,900)

Next Steps

These steps are being undertaken to ensure the long term financial stability of the Plan. Based on the review, higher contributions will be deducted from members' pay cheques starting with the pay period that begins June 4, 2018. At the same time, University contributions will also increase to these levels. Note that increased employee contributions to a defined benefit plan do not reduce the amount of RRSP room an individual accrues in a given year, and are tax deductible.

Should you have any questions on this information, please contact your pension representative listed below or the Department of Human Resources at ext. 2014, or by email cherylp@uwindsor.ca.

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