

**Comments from Les Robb on the December 2011 Letter from the
Administration (Mark Haley) about McMaster's application for solvency relief
for the Salaried Pension Plan**

Let me start with a word about the context. Almost all defined benefit pension plans (of which ours is one) have found themselves in deficit circumstances, largely because of unprecedented low interest rates which have increased liabilities. Pension legislation in Ontario requires that deficits be made up in a fairly short time period to avoid pension plan defaults should an employer go into bankruptcy. Universities and similar public sector employers have argued that the legislation is inappropriate for them, as they do not face the same probabilities of bankruptcy. They collectively sought and attained legislation to give some relief in this area (in the form of longer time frames to eradicate deficits), and McMaster has now applied to take advantage of this legislation. The application can be found on the web at:

[http://www.workingatmcmaster.ca/med/document/Solvency-Relief-Application---Plan-2000---Final-Signed---RC-e-signature-\(2\)-1-40.pdf](http://www.workingatmcmaster.ca/med/document/Solvency-Relief-Application---Plan-2000---Final-Signed---RC-e-signature-(2)-1-40.pdf)

For those interested, it is worth looking at McMaster's application because it contains some actuarial calculations that have been developed as part of the upcoming Actuarial Valuation (dated July 1, 2011). These are found on page 10 of the application as Appendix II. I draw your attention to the huge increases in liabilities between the 2008 and 2011 valuations. There are two different calculations of liabilities there – for the on-going valuation, and for the solvency valuation. The calculations are done under different assumptions for different purposes but whichever you look at the result is the same: liabilities have greatly increased. The solvency liability which is used in the solvency deficit calculation increased the most, by about 26% over that short period. It is this solvency deficit which would, without the special legislation, need to be made up most rapidly by special payments and would create budgetary problems for the university.

So, how do I sum this up? Our Pension Plan, like most other defined benefit plans, is clearly not in great shape. Whether the University took the option of solvency relief or not, the pressures on the University budget are huge. Are our retiree pensions at increased risk because of this action on the part of the University? As long as the legislation remains unchanged, any increase in risk to payment of our pensions seems to me to be close to non-existent (hence the comment in Mark Haley's letter that your pension is unaffected). It may be hard on the McMaster budget, but our pensions would still be paid. However, the longer our plan stays in deficit (and it will stay longer because of this solvency relief) the more opportunity there is for legislative change or other unforeseen events that could disadvantage retirees and other plan members. There has been talk, for example, of trying to join all the defined benefit plans into a single plan. This would likely require new legislation and who knows what would happen to plan members whose plans are currently in deficit?

I want to close by pointing out that McMaster's decision to seek solvency relief was not a decision of the Pension Trust Committee. It was a decision of the University alone. Although there were occasional general references in Committee meetings to the legislative changes allowing for solvency relief and clear indications that McMaster would be seeking such relief, Pension Trust members saw the details about the application only when you did. The application was not brought to the Committee for comment or discussion, although it clearly affects the funded status of our Plan. The legislation allowed the application to be made without consultation with or support from Plan members, so I presume the bargaining representatives of active plan members were not given an

opportunity to comment either. I am disappointed in this unilateral action of the University which, in my view, undermines the collegial nature of decision making at McMaster.