

Salaried Pension Plan Report to MURA AGM 2022

This report is relevant to those retirees who were members of the Salaried Pension Plans: the Original Plan and Plan 2000.

Valuations were done on both Salaried Plans as at July, 1 2018. In Ontario, all pensions must have a valuation done at least once every three years. Consequently, both Salaried Plans had the latest valuations completed as at July 1, 2021. These valuations showed that the funding status had improved. The going concern transfer ratio of Plan 2000 has increased from 105% to 114%; the Original Plan transfer ratio has increased from 132% to 135%. The wind-up transfer ratio of Plan 2000 has increased from 91% to 99%; the Original Plan transfer ratio has increased from 106% to 107%.

The consequences of these latest valuations are good news for plan members, retirees, and McMaster University. Members can have more confidence that their defined benefit will be available on their retirement. Retirees can be assured of their monthly payments continuing in their retirement. McMaster benefits from reduced servicing costs for the Salaried Pension Plans.

The valuation reports dating back to 2002 for both Salaried Plans are available on the Human Resources website at:

<https://hr.mcmaster.ca/retirees/pension/#tab-content-salaried-pension-plans>

The Salaried Pension Plans had been doing well recently! As of July 1, 2021, the value of assets was \$2.59 billion; October 1, 2021 - \$2.60 billion; January 1, 2022 - \$2.73. Unfortunately, the Russian “military action” in Ukraine has resulted in a weakening of stock markets across the world. As of April 1, 2022, the value of Salaried Pension Plans assets was \$2.51 billion. The world economy is in uncharted territory as world governments are removing COVID-19 supports and increasing interest rates.

In 2019, the Pension Trust Committee (PTC) had set a goal that 10% of plan assets would be in real assets by 2022. This goal has NOT been achieved. As of April 1, 2022, 7.4% of the plans’ assets are in real assets. Dealing with real asset fund managers is not quite the same as dealing with mutual fund managers. One reason is that such investments are longer term, say 10 to 20 years. Another reason is that the real asset manager is purchasing a real asset like a road, hospital, seaport, airport, wind turbines, and the like; mutual fund managers are purchasing shares of companies. When we want to invest in real assets, we inform the real asset manager by committing a certain dollar amount, say \$20 million; there is no transfer of funds at that time. The real asset manager then notes the commitment and places it in a queue with other purchasers. Once the real asset manager has need of the money, they will ask or “call” for part or all of the money committed; only then will the cash be transferred to the real asset

manager. It is expected that the funds we have committed to the real asset managers will be “called” within the next 6 to 12 months.

Climate Change

Over the past year, I have been asked what PTC is doing about the plans’ investments relating to climate change, and I thought I would give the high points.

In 2017, the recommendations of the Task Force for Climate-Related Financial Disclosures (TCFD) were adopted by the G20. In 2019, the TCFD recommendations were adopted by the Canadian Federal Government. In June 2020, Dr. Farrar, McMaster University president, endorsed the TCFD recommendations. The TCFD requires the reporting of greenhouse gases in annual financial statements. There are four formulas for calculating carbon measurements. As part of the TCFD adoption, one of these formulas is selected to be used for reporting in the financial statements. The Weighted Average Carbon Intensity formula defined by TCFD will be used in financial statements for all McMaster investments.

This reporting started with the 2020 financial statements for the Salaried Pensions Plans’ investments. These 2020 statements will be used as the baseline in future reduction targets set by PTC.

For a number of years now, PTC has taken into account the evolving environmental, social, and governance standard (ESG) when selecting and monitoring our fund managers’ performance. The TCFD will be used to augment the environmental part of ESG. PTC is currently in the process of setting the target reductions for implementing TCFD. PTC will also be making changes to the Statement of Investment Policies and Procedures (SIPP) on the plan of how PTC will achieve these target reductions.

Will we get an increase in our pension?

We have yet to see the audited accounting statements of the plans for the period July 2021 to June 2022. My ‘crystal ball’ is rather foggy at this point. Based on the good performance of the plans’ investments over the previous four years as well as the poorer performance from July 2021 to March 2022, there is a possibility that we MAY get an increase in January 2023. It really depends on the current quarter’s performance since the first quarter of the year was poor; I have heard some experts in the stock markets use the term ‘correction’ and even ‘bear market’.

Brian Beckberger