Salaried Pension Plans Report to MURA – 2023

This report is relevant to those retirees who are members of the Salaried Pension Plans (The Original Plan and Plan 2000).

Before I get into the Pension report, I want to mention the biennial notices that were sent out last December, 2022. Two retirees contacted me indicating that in the section "Form of Pension" did NOT have a survivor provision. Both these retirees have spouses and, when they retired, they had opted for their spouses having a pension. I contacted Pension Group in HR regarding the issue. They went back to the respective files and found both retirees had made provisions for their spouse. HR mailed corrected statements to the retirees within a few days.

I encourage retirees of the Salaried Pension Plans to carefully review the biennial statement for accuracy. By reviewing these statements now, you, or your spouse, may avoid problems in the future.

Pension Status

The estimated transfer ratios as of March 31, 2023 for both plans were very good. For the Original Plan, the wind-up/solvency transfer ratio was 118% and the going concern transfer ratio was 132%. For Plan 2000, the wind-up/solvency transfer ratio was 112% and the going concern transfer ratio was 116%

These latest transfer ratios are good news for plan members, retirees, and McMaster University. Members 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 as well as other significant pension plan information are available on the Human Resources website at:

https://hr.mcmaster.ca/retirees/pension/salaried-pension-plans

What is an Asset/Liability Study?

The primary purpose of an asset/liability study is to assist PTC to assess the pension plans current investment portfolio to determine whether there are opportunities to implement changes to increase investment returns and/or reduce cost/volatility. At PTC, we do such a study every 3 to 5 years. I was on the working group in 2018 and am on the current working group. The working group has spent almost as much time on the study as we have at PTC meetings. This is important work and, in my opinion, time well spent.

Simulation software is used to model 5,000 scenarios over the next 10 years. Scenarios are produced by simulating asset returns for a variety of asset classes, along with varying inflation and interest rates. Our current portfolio is used as input for the first run though the simulation. The results are then analysed by the group with the assistance of our consultants. Several new model investment portfolios are suggested for further study. These model portfolios change the percentage weighting of the asset classes we have currently as well as introduce one or two new asset classes. Of course, there are limitations when coming up with these model portfolios. The Statement of Investment Policy and Procedures (SIPP), and not making too big an investment change over too short a period of time are examples of two limitations. We then run the various model portfolios through the simulation software and analyse the results. This stage may require more model portfolios. Once we have a model portfolio or two that shows significant improvement over our current model portfolio, the working group makes a recommendation to the rest of PTC for approval. Once approved at PTC, the recommendation is passed to the Resource and Planning Committee for review and then on to the Board of Governors for approval. Once approved, the working group formulates an implementation plan; how to best get from 'here', our current model portfolio, to 'there', the recommended model portfolio.

Will we get an increase in our pension?

We have yet to see the audited accounting statements of the plans for the period July 2022 to June 2023. My prognostication was ‘out to lunch’ last year when I indicated the possibility of an increase. I did say last year that any increase depended on the current quarter’s (April, 2022 to June 2022) performance. The performance for that quarter was abysmal with a loss of 11.3%. The result was a loss of 13.2% over the plans’ entire fiscal year 2021-2022.

Looking at the current situation, for the 5-year average rate of return to be in excess of 4.5%, the rate of return of the plans’ 2022/2023 fiscal year must be at least 8.44%. Various investment classes have had modest increases over the first three-quarters of the plans’ fiscal year. Based on these circumstances, I am pessimistic that we will see an increase in January, 2024.

HOWEVER, we should keep in mind that there is the supplemental pension increase provision in both Salaried Pension Plans. If not all the excess Interest has been used to compensate for the Consumer Price Index (CPI) increase of the current year, the remaining can be used to compensate for CPI increases which were not fully compensated in any of the previous three years. We saw this ‘in action’ in 2021 for the group of retirees who were in Unifor and hired on or after May 1, 2010; the increase was a modest 0.187%. Prior to 2021, there was a supplemental increase in January 2014 of 4.911%. This increase compensated for the ‘increase shortfall’ for the years 2011 to 2013. It is possible that much of the loss in buying power we, as retirees, have experienced last year and this possibly this year will be recovered over the next 2 years.