

Dalhousie University Staff Pension Plan Proposed Change to Post Retirement Interest Assumption (PRIA)



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Health • Benefits • Employee Assistance • Retirement

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Outline

Background: PTF, RTF, PRIA, and Pension Indexing
Proposed Change
Impact on Various Parties if Proposal Accepted

This presentation is best understood with verbal commentary.

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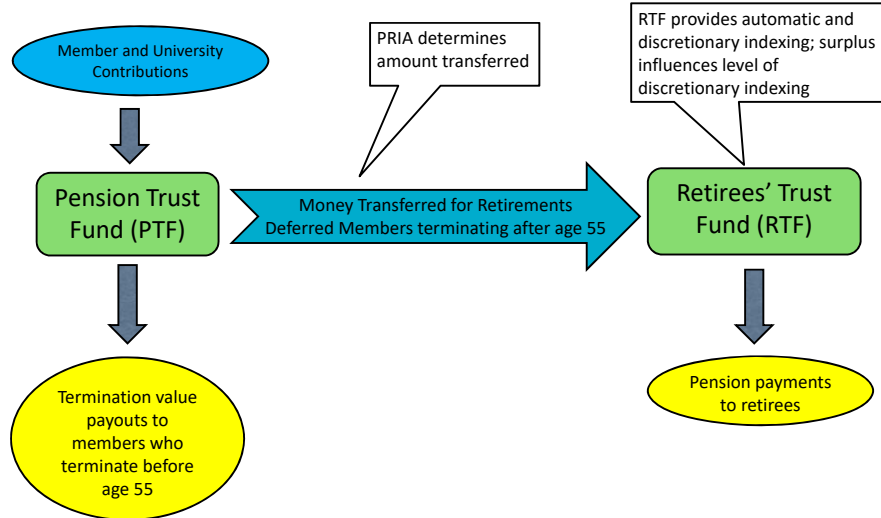
Background: PTF, RTF, PRIA, Pension Indexing

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Dalhousie Pension Plan Consists of two Trust Funds



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March 31, 2017 Going Concern Financial Position

millions \$	PTF (Non-Retired)	RTF (Retirees)	Total Combined
Market Value of Assets	697.7	545.1	1,242.8
Obligations	<u>748.6</u>	<u>519.4</u>	<u>1,268.0</u>
Surplus (Shortfall)	(50.9)	25.7	(25.2)

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Each trust fund is for the benefit of the members in the particular trust fund

- Any surplus/shortfall in one trust fund would not be used/applied for the members in the other trust fund
- However, the plan's reported financial position and statutory funding requirements have been based on the combined assets and obligations of the PTF and RTF – if PTF and RTF have equal and offsetting surplus and shortfall, no special funding required
- Funding on a combined basis is a concern only if there is possibility of plan/trust wind-up with no entity to top up any shortfall

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PRIA determines amount to be transferred from PTF to RTF

- Historical PRIA rates:
 - Retired pre June 30 1994: 4.95%
 - Retired June 30, 1994 to June 30, 1996: 4.65%
 - Retired after June 30, 1996: 4.55%
 - No change since June 30, 1996
- A lower PRIA rate results in a higher transfer amount from PTF to RTF with the following 2 key implications:

1. Overall contribution requirements to PTF may be higher
2. Higher level of funded position (surplus) in RTF

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RTF provides both Automatic Indexing and Discretionary Indexing

- Annual automatic indexing is based on RTF 3 year average fund rate of return in excess of 5.05% (subject to offset for years in which 3 year average return was less than 5.05%)
 - pension in pay not exceeding initial pension plus change in CPI
- If maximum automatic indexing has not been granted in the past, discretionary catch-up indexing can be granted by trustees:
 - Can use up to 50% of RTF going concern surplus

A higher RTF funded position (surplus) increases the likelihood of discretionary catch-up indexing for retired members

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Proposed Change

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Proposal is to change PRIA from 4.55% to 5.05%

- If the proposed change to PRIA is accepted:
 1. Immediate improvement in the Plan's reported financial position of \$40 million which would reduce University's contributions to the pension fund*
 - Immediate improvement for PTF
 - No immediate impact on RTF
 - Could lower or have minimal impact on future going-concern surplus of RTF

* University may take bargaining position that part or all of cost savings from this plan change is available for collective bargaining.

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Proposal is to change PRIA from 4.55% to 5.05%

- If the proposed change to PRIA is accepted:
 2. Expected to result in a lower level of discretionary catch-up indexing in the future
 3. Future transfer amounts from PTF to RTF in respect of retirements and deferred pensions (where eligible to transfer) will be reduced by about 5.3% (age 65) to 6.5% (age 55)

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Impact on Various Parties if Proposal Accepted

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Impact on University Contributions to Plan

- Change would move the plan (combined PTF and RTF) from a going concern shortfall of \$25 million to a going concern surplus position of about \$15 million and eliminate need for University to make “special” contributions for the upcoming year
- Reduces ongoing University current service cost contributions from 9.33% to 8.55% of payroll (reduction of 0.78%)
- Reduction in University’s total annual pension contribution for period April 1, 2018 to March 31, 2019 (full plan) estimated to be between \$5.375 and \$5.975 million (University’s contribution of 10.68% payroll would be reduced to 8.55%)

Source: Interpretation of June 20, 2017 and October 27, 2017 memos from Jeff Turnbull of Eckler Ltd.

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Impact on Active Members

- No anticipated change to current employee contribution rate
 - May increase likelihood of lower employee contributions in the future
- Improves PTF financial position as a result of lower expected future transfer amounts to RTF

PTF Financial Position	Actual March 31 2017 (Oct 27 Eckler memo)	Estimated March 31, 2017 if future RTF transfer at 5.05%
Assets	697.7	697.7
Obligations	748.6	708.6
Surplus (Shortfall)	(50.9)	(10.9)

- May result in a higher amount of money available for collective bargaining improvements

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Impact on Retirees and Deferred Vested Members

- All existing retirees and future retirees likely receive a lower level of future discretionary indexing
- Deferred members would see a very slight reduction (1%) in their re-determined pension
- If RTF financial position deteriorates in the future (e.g., due to people living longer), will result in additional University contributions and could put pressure on automatic pension indexing provision for future increases

Note: The proposed PRIA change would not impact the initial pension payable for retirements. The pension and CPP payable for long service members would be expected to continue to provide for a comfortable retirement.

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RTF Surplus Used to Grant Discretionary Indexing to Pensioners in the Past

2009: \$ 0.1 million
 2015: \$12.1 million* (catch-up 2003-2006, 2009, 2011)
 2016: \$ 4.2 million* (catch up for 2012)

*16.3 million or 50% of March 31, 2014 RTF surplus

In an environment of lower expected future investment returns (and potential short term market corrections), discretionary indexing may be more relevant for future increases for retirees.

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Historical RTF Going Concern Financial Position

RTF Going Concern Financial Position	June 2007	March 2010	March 2013	March 2014	March 2017
Market Value of Assets	253.8	289.6	361.5	412.7	545.1
Obligations	<u>202.9</u>	<u>288.9</u>	<u>335.0</u>	<u>380.2</u>	<u>519.4</u>
Surplus (Shortfall)	50.9	0.7	26.5	32.5	25.7
RTF Surplus as % of RTF Assets	20%	0%	7%	8%	5%

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Current RTF Position and Projected RTF position as if PRIA had historically been 5.05%

For illustration purposes only, current RTF assets will not change immediately if PRIA proposal accepted

RTF Financial Position	Actual March 31 2017 (Oct 27 Eckler memo)	Theoretical March 31, 2017 <u>as if</u> RTF transfer at 5.05%*
Assets	545.1	490.0
Obligations	<u>519.4</u>	<u>502.5</u>
Surplus (Shortfall)	25.7	(12.5)

As you can see, trustees can grant discretionary indexing based on actual position but would not be able to do so on theoretical position (and may not have declared the 2015 and 2016 increases).

* Assumes same level of historical discretionary indexing provided under both scenarios and that initial assets transferred from PTF to RTF would have been 5.5% lower with the 5.05% PRIA (vs 4.55% PRIA)

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Discussion / Questions

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