Memorial University Pension Plan

Pension Bulletin December 2022

Notice of Pension Plan Contribution Rate Reduction

Every year an actuarial valuation of the Memorial University Pension Plan (the Plan) is performed to determine the Plan's financial position and to assess the cost of pension benefits being earned by Plan members. Pension standards legislation requires that a pension plan use such a valuation to set its funding requirements, including the contribution rate, at least once every three years. At Memorial, the most recent funding valuation was performed at Dec. 31, 2021, and that valuation revealed that the Plan's current service cost had decreased by 0.8 per cent. Current service cost is the basis upon which the contribution rate is set.

As current service cost is shared equally between Memorial and contributing employees, the Plan's contribution rate will decrease by **0.4 percentage points on Jan. 1, 2023.**

What Caused the Rate Reduction?

When pension plan funding requirements are determined, certain assumptions are made about a variety of economic and demographic factors. Among the things that can influence a plan's costs are the average age of the plan member population, life expectancy and the rate at which investment income accumulates. Pension plan members may recall that contribution rates were raised just three years ago due to higher Plan costs brought on by an increase in the average age of Plan members. This hasn't changed. The average age of contributing members has continued to climb. Why then, are contribution rates being lowered?

The Plan receives its funding primarily from two sources: i) contributions from employees and the university and ii) investment income. While employee and university contributions are very important to the financial health of the Plan, it is the Plan's investment income that generates the majority of its funding, often accounting for approximately 75 per cent of the value of a pension over the long term. Investment performance is directly related to the Plan's investment policy that governs where and how the pension fund is invested.

In March 2021, the Board of Regents approved a recommendation of the University Pension Committee that the Plan's investment policy be amended and a new asset mix be adopted. This new investment structure is intended to improve upon the long-term investment performance characteristics of the pension fund. New areas of investment include such alternatives as infrastructure and private lending while reallocations have been made to existing equity and fixed income mandates. More information on this may be found in the Plan's Annual Report for 2021-22, located via a link on the following page of the Department of Human Resources website: https://www.mun.ca/hr/myhr/pension-and-employment-benefits/pension/.

Improved investment income expectations means that less money needs to be contributed by employees and the university to fund the same level of pension benefits. As a result, contribution rates can be lowered by 0.4 per cent.

Will a Lower Contribution Rate Put the Plan at Risk?

Funding the Plan's current service cost in accordance with a recommendation developed by the Plan's actuary for benefits being earned in subsequent years should not jeopardize its financial stability. It is important to note that the current level of contributions that employees pay is intended to fund benefits being earned on a go forward basis only. With the exception of a very small part of the contribution rate (0.6 per cent) which is being maintained for past service indexing costs, employees are not responsible for past service funding deficiencies that may arise in any particular year. Responsibility for payment of unfunded liabilities related to pension benefits already earned rests with Memorial and these costs are not included in the employee contribution rate.

The Plan's Current Financial Position

The Dec. 31, 2021, actuarial valuation revealed a modest surplus in the pension fund. This was not, however, cause for reducing the contribution rate. The contribution rate is set at a level sufficient to fund pension benefits to be earned by Plan members in the years following an actuarial valuation. To assure stability in the contribution rate and Plan funding, valuations for purposes of setting contribution rates are done once every three years.

By March 31, 2022, the Plan's financial position had changed and a new unfunded liability had emerged. This was mostly due to a correction in global investment markets that began during the first quarter of 2022. As noted above, unfunded liabilities are currently the sole responsibility of the university and they do not impact the contribution rate. Another actuarial valuation of the Plan will be performed at Dec. 31, 2022.

Revised Rate Structure

Effective Jan. 1, 2023, pension contributions will be based upon the rate structure below:

Earnings Level	Existing Rate	New Rate (Jan. 1, 2023)
Earnings up to the Year's Basic Exemption (YBE) under the Canada Pension Plan (the YBE for 2023 is $3,500)	11.8%	11.4%
Earnings between the Year's Basic Exemption and the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan (the YMPE for 2023 is $66,600)	10.0%	9.6%
Earnings above the Year's Maximum Pensionable Earnings under the Canada Pension Plan	11.8%	11.4%

Illustration of Change in Pension Contributions

	Annual Pension Contribution	
Salary Level	Current Rates	New Rates Jan. 1, 2023
$20,000	$2,063.00	$1,983.00
$30,000	$3,063.00	$2,943.00
$40,000	$4,063.00	$3,903.00
$50,000	$5,063.00	$4,863.00
$60,000	$6,063.00	$5,823.00
$70,000	$7,124.20	$6,844.20
$80,000	$8,304.20	$7,984.20
$90,000	$9,484.20	$9,124.20
$100,000	$10,664.20	$10,264.20
$110,000	$11,844.20	$11,404.20

	Annual Pension Contribution	
Salary Level	Current Rates	New Rates Jan. 1, 2023
$120,000	$13,024.20	$12,544.20
$130,000	$14,204.20	$13,684.20
$140,000	$15,384.20	$14,824.20
$150,000	$16,564.20	$15,964.20
$160,000	$17,744.20	$17,104.20
$170,000	$18,924.20	$18,244.20
$180,000	$20,104.20	$19,384.20
$190,000	$21,284.20	$20,524.20
$200,000	$22,464.20	$21,664.20
$210,000	$22,672.00	$22,672.00

- Figures based upon income tax limits in effect for 2023, including the maximum allowable pension contribution of $22,672.
- Pension contributions are tax deductible and the tax effect is recognized immediately by the payroll system.

For further information on the pension plan, including financial statistics, please refer to the Plan's Annual Report for 2021/22, located via a link on the following page of the Department of Human Resources website: https://www.mun.ca/hr/services/benefits/pension.php.