



# Memorial University Pension Plan

## Pension Bulletin December 2019

### Notice of Pension Plan Contribution Rate Increase

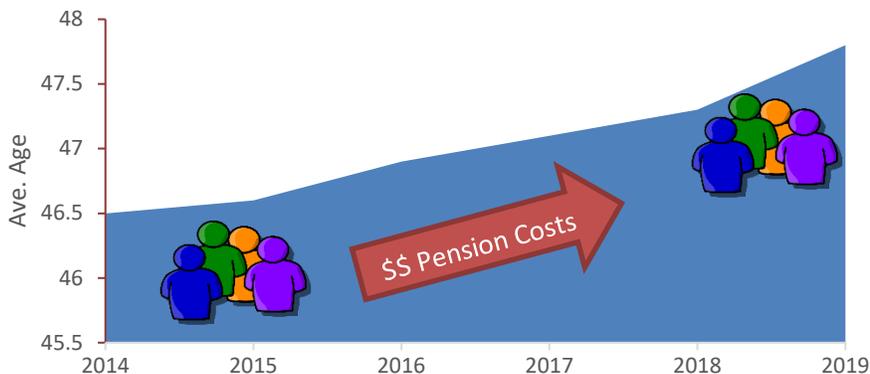
Every year an actuarial valuation of the Memorial University Pension Plan (the Plan) is performed to determine the Plan's financial position and to assess the cost of pension benefits being earned by Plan members. Pension standards legislation requires that a pension plan use such a valuation to set 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, 2018, and that valuation revealed that the Plan's current service cost had increased 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 the university and contributing employees, the Plan's contribution rate will increase by **0.4 percentage points on Jan. 1, 2020.**

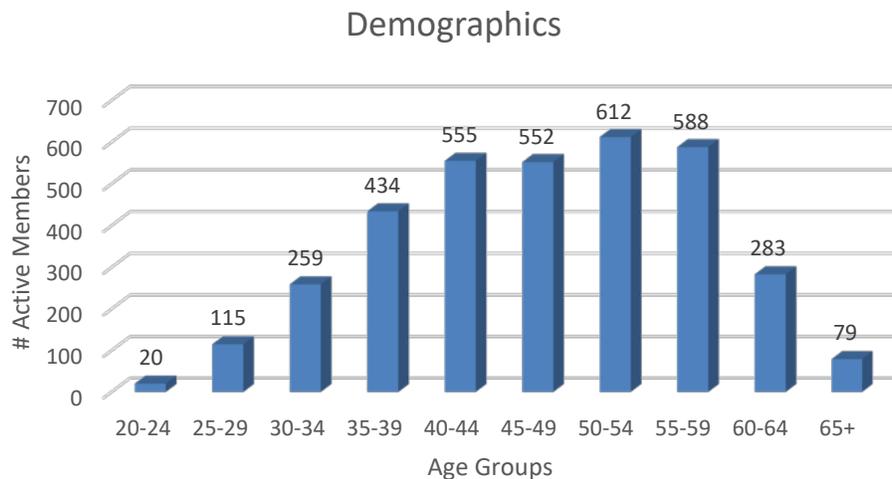
### What Caused the Rate Increase?

When pension plan funding requirements are determined, certain assumptions are made about a variety of economic and demographic factors. These assumptions include the rate at which investment income accumulates and the average age of contributing members. All things being equal, if events turn out as assumed, the cost of the pension plan should remain steady. In the Memorial plan, while the investment income expectations haven't changed, the average age of contributing members has. The average age of active pension plan members at Dec. 31, 2018, was 47.3 compared to an average age of 46.6 just three years earlier in 2015, the date of the previous funding valuation. As plan members get closer to retirement, there is less time for investment income to accumulate to fund their pensions. Investment income accounts for approximately 75 per cent of the funding necessary to pay for pensions while the remaining 25 per cent comes from member and university contributions. If there is less time available than previously assumed for investment income to accumulate to retirement, contributions must rise in order to make up the difference to maintain the same level of benefits.

**Rising Pension Costs**



As with previous rate increases, it is important to note that this particular increase is not related to the cost of benefits already accrued or the current financial position of the pension plan. With the exception of past service indexing costs, responsibility for payment of unfunded liabilities related to pension benefits already earned rests with the university and these costs are not included in the employee contribution rate. In addition, the rate adjustment is not a direct consequence of retirement activity over the past year. While the Plan did experience an increase in retirements due to Memorial’s voluntary retirement program, these retirements actually helped stem the growth in the average age as older plan members exited the active population.



## **Revised Rate Structure**

Effective Jan. 1, 2020, pension contributions will be based upon the rate structure below:

<b>Earnings Level</b>	<b>Existing Rate</b>	<b>New Rate (Jan. 1, 2020)</b>
Earnings up to the Year’s Basic Exemption (YBE) under the Canada Pension Plan (the YBE for 2020 is \$3,500)	11.4%	11.8%
Earnings between the Year’s Basic Exemption and the Year’s Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan (the YMPE for 2020 is \$58,700)	9.6%	10.0%
Earnings above the Year’s Maximum Pensionable Earnings under the Canada Pension Plan	11.4%	11.8%

As the effective date of the rate adjustment occurs midway through the first pay-period in 2020, pension deductions for the pay-period ended Jan. 3, 2020, will be based upon a blended rate. Pension deductions for subsequent pay-periods will follow the new rate schedule above.

## Illustration of Change in Pension Contributions

Salary Level	Annual Pension Contribution	
	Current Rates	New Rates
\$20,000	\$1,983.00	\$2,063.00
\$30,000	\$2,943.00	\$3,063.00
\$40,000	\$3,903.00	\$4,063.00
\$50,000	\$4,863.00	\$5,063.00
\$60,000	\$5,869.80	\$6,086.40
\$70,000	\$7,009.80	\$7,266.40
\$80,000	\$8,149.80	\$8,446.40
\$90,000	\$9,289.80	\$9,626.40
\$100,000	\$10,429.80	\$10,806.40
\$110,000	\$11,569.80	\$11,986.40

Salary Level	Annual Pension Contribution	
	Current Rates	New Rates
\$120,000	\$12,709.80	\$13,166.40
\$130,000	\$13,849.80	\$14,346.40
\$140,000	\$14,989.80	\$15,526.40
\$150,000	\$16,129.80	\$16,706.40
\$160,000	\$17,629.80	\$17,886.40
\$170,000	\$18,409.80	\$19,066.40
\$180,000	\$19,549.80	\$20,061.00
\$190,000	\$19,641.03	\$20,061.00
\$200,000	\$19,641.03	\$20,061.00
\$210,000	\$19,641.03	\$20,061.00

- Figures based upon income tax limits in effect for 2020, including the maximum allowable pension contribution of \$20,061.
- Pension contributions are tax deductible and the tax effect is recognized immediately by the payroll system.

## Looking Forward

For the pension plan, operating in an environment of rising pension costs within the university's current budgetary reality is challenging at best. However, the Plan remains on a relatively stable footing with a funded ratio of approximately 90 per cent. Memorial University is committed to maintaining its defined benefit pension plan and continues to work with employee groups toward developing a governance and funding model that will ensure the Plan's sustainability for current and future Plan members.

This fall, a joint committee comprised of university administration and employee groups reconvened to work on pension reform measures aimed at addressing the unfunded liability and a joint sharing of responsibility for the Plan and its governance. This is a continuation of work previously begun in the fall of 2017 toward reaching agreement on joint sponsorship of the Plan. The guiding principles of the protection of already accrued benefits, maintenance of a defined benefit pension plan and the preservation of current retiree pensions remain unchanged.

For further information on the pension plan, including financial statistics, please refer to the Plan's Annual Activity Report for 2018-19, located on the Department of Human Resources website at: <https://www.mun.ca/hr/services/benefits/pension.php>