

## Pension Deficits: “Signs, Signs, Everywhere a Sign” (apologies to the 1970s Five Man Electrical Band)

It probably comes as no surprise that I often receive questions about how our pension plan is doing. Trying to be cute and clever, I respond that pension plan status reports appear in signs all around town: “5-year mortgage rate 3.95%”, “Buying your first house? Talk to us about rates as low as 2.99%” and less happily, “Break-up buyout mortgages 3.49%”. When you see roadside retail mortgage rates below 7%, you can be reasonably certain that our pension plan, and pension plans generally, are struggling greatly.

Although the current low interest rate environment is ‘the’ major factor in our pension woes, it’s not the only one. A question from YV reader Herb Gaskill reminded me that other factors are at work. Herb asked: “How did we get from modest surpluses in times past to a \$250 million deficit now?” His question sent me scabbling for a response that went a little deeper than the rambling content of roadside advertisements.

So, in addition to the negative pension impact of historically low and relatively long running interest rates, here’s some other factors that significantly contributed to the plan’s current deficit: (1) the 2008 financial crisis knocked most everything and pretty well everyone back financially thereby reducing the investment base on which financial wealth had to be re-built in the past decade, (2) 2018 financial results were dismal with estimated pension plan earnings just above a quarter of one percent at 0.27%, another knockback likely requiring years of recovery time, (3) with low interest rates expected to continue some years into the future, plan valuations will be based on discount rates in the 5% range versus past discount rates in the 6% range, a change that (as illustrated in the previous YV pension column) conspires to keep the plan in deficit territory, (4) the actuarial folks recently came up with revised longevity tables which, no surprise, sees folks living longer which is good for ‘folks’ but very bad for ‘funds’ whose valuations must now anticipate longer payout periods per pensioner, (5) the ratio of plan contributors to pensioners has been drifting lower and we now have less than two contributors paying into the plan for every pensioner taking money out, and (6) the University’s recent financial struggles have precipitated an arrears on its part of close to \$100 million in ‘special payments’ to the plan that were intended to directly address the plan’s current deficit. I should quickly note that these payments would have been over and above regular payments to the plan by the University to match employee contributions.

It seems we have something of a small army of factors attacking the plan and making financial incursions in the order of a quarter billion dollars (yes, that’s billions with a ‘B’). However, a rate of return slightly over 7%, reliably realized, could overcome the deficit-inducing effects of **all** these factors. So, keep watching the signs and all your pension status questions will be answered; better still, watch the road signs and drive, bike, run, and walk safely while enjoying our short summer.