

## Pension Plan Update

*The following are the main points from the presentation made by Mercer Human Resource Consulting to the leaderships of the Queen's employee groups at a meeting held on January 31, 2006 (see President's Report).*

- Pension plan actuarial valuation reports must be filed with the Financial Services Commission of Ontario at least every three years. When an unfunded liability exists the employer is required to put extra funds into the plan (such increased contributions are not to be confused with the employer's monthly contributions to employees' individual money purchase accounts). The employer is allowed to amortize the required extra funds over a 15 year period (at present, Queen's is contributing an extra approximately \$1 million annually to pay down the unfunded liability identified in the most recently filed valuation report).
- The **most recent filed report** (February 29, 2004), which was summarized in the March 2005 Discussion Paper circulated by the University Pension Committee, showed an unfunded liability of \$10.7 million and the University's total contribution rate at 8.24% of pensionable payroll.
- In 2004 Mercer estimated that by August 31, 2006 (the date of the next scheduled valuation which will probably be filed sometime early in 2007) the unfunded liability would increase to \$24.0 million and the overall employer contribution rate would rise to 9.05% of payroll. The estimated increase in the unfunded liability from \$10.7 million to \$24.0 million was almost entirely due to the phasing in of new mortality tables.
- In the Fall of 2004 and at the request of the University Pension Committee, Mercer prepared updated estimates for the August 31, 2006 valuation. Based on the **same actuarial assumptions** as those used in 2004, the unfunded liability is estimated to reach \$28.5 million by August 31, 2006 if the provisions of the pension plan remain unchanged.
- Mercer, however, is recommending that the University Pension Committee change two of the actuarial assumptions; namely, reducing the assumed long-term interest rate from 6.5% to 6.0%, and increasing the non-reduction reserve from 2.5% to 3.5% of basic pension liabilities. If these changes are accepted the August 31, 2006 estimated unfunded liability rises to \$54.3 million (median estimate) and the University's overall contribution rate rises to 11.11% of payroll.
- The underlying factors contributing to the increased unfunded liability include:
  - the increasing longevity of Queen's retirees
  - anticipated lower market returns on money purchase accounts leading to an increase the number of people going out on the minimum guarantee pension
  - rising liability related to the non-reduction of pension guarantee for retirees
  - expected continuation of low long-term interest rates