

**THE UNIVERSITY OF ST. MICHAEL'S
COLLEGE PENSION PLAN**

**(For Members Other Than
Arts & Science Faculty)**

**Prepared by
The Bursar's Office
November, 2007**

File: BursarShared/Pension/Pension Info Booklet 2007

THE UNIVERSITY OF ST. MICHAEL'S COLLEGE PENSION PLAN

CONTENTS

YOUR RETIREMENT INCOME NEEDS	3
NATURE OF THE ST. MICHAEL'S PENSION PLAN.....	4
PENSION BENEFIT FORMULA	5
INDEXATION OF PENSION PAYMENTS.....	6
GOVERNMENT PENSION BENEFITS	7
CONTRIBUTIONS	8
ACTUARIAL VALUATIONS	10
PENSION ADJUSTMENTS AND RRSP CONTRIBUTIONS.....	11
PENSION ADJUSTMENT REVERSALS	12
DETAILED FEATURES	13
MEMBERSHIP	13
WHEN MEMBERSHIP BEGINS.....	14
WHEN YOU RETIRE	14
NORMAL AND MANDATORY FORMS OF PENSION.....	15
OPTIONAL FORMS OF PENSIONS.....	15
IF YOU DIE BEFORE RETIREMENT.....	17
IF YOU DIE AFTER RETIREMENT	18
LEAVES OF ABSENCE.....	18
IF YOU TERMINATE YOUR EMPLOYMENT.....	19
IF YOU BECOME DISABLED	20
VESTING	21
OTHER IMPORTANT FACTS.....	21
GOVERNANCE	22
ADMINISTRATION.....	22

APPENDICES

1. CALCULATING YOUR PERCENTAGE REPLACEMENT INCOME AT NORMAL RETIREMENT	25
2. ACTUARIAL TERMS AND CALCULATION METHODS	28
3. GLOSSARY OF PENSION FINANCE TERMS	31

THE UNIVERSITY OF ST. MICHAEL'S COLLEGE PENSION PLAN

(For Members Other Than Arts & Science Faculty)

The main purpose of this booklet is to describe the elements of the Pension Plan Document, *Retirement Plan for the Employees of the University of St. Michael's College*. A secondary purpose is to comment briefly on related topics. These include retirement income needs that members may have, Canada Pension Plan and Old Age Security benefits, Pension Adjustments and RRSP Contributions, Actuarial Valuations, and Governance and Administration of the pension plan.

The booklet is intended as a summary only. Full details are set out in the Pension Plan document which can be viewed by contacting the Director of Human Resources. Should any questions arise about the interpretation of the content of this booklet, the Pension Plan Document will govern at all times. The numbers in parentheses in this booklet refer to the number of the section of the Pension Plan Document, *Retirement Plan for the Employees of the University of St. Michael's College*.

Please read this booklet carefully and, if you have any questions about the material, do not hesitate to contact the Director of Human Resources.

YOUR RETIREMENT INCOME NEEDS

Most of us look forward to retiring but may wonder if we will be able to maintain our pre-retirement life style. The sources of retirement income needed to support a life style in retirement include the following:

- St. Michael's Pension Plan
- Canada Pension (CPP)
- Old Age Security (OAS)
- Income from personal savings (RRSPs, other investments)
- Pension payments from other employers

Financial experts estimate that the typical retiree needs only 70% to 80% of his/her pre-retirement salary in order to maintain his/her pre-retirement life style. The experts' estimates are based on a view that living expenses in retirement are lower than they are prior to retirement for a combination of the following reasons:

- Children have left home and/or graduated and are no longer an expense
- For homeowners, the mortgage is paid off so there are no more payments
- Work-related expenses disappear (pension contributions deductions, commuting, clothes for work)

- Income taxes are lower (due to lower income, higher credits and possibly lower marginal tax rates)
- Seniors get price discounts

However, circumstances for individuals may be quite different from the typical. For this reason they should do your own estimates of retirement income needs and/or seek the advice of a financial planner.

Your Replacement Income at Age 65

Replacement income is the total of your St. Michael’s pension benefit, your Canada Pension Plan (CPP) benefit, your Old Age Security (OAS) benefit plus pension payments from previous employers, plus income from RRSPS and other investments that you receive in the first year of your retirement. It is called replacement income because it is intended to “replaces” the salary that you had in the year before your retirement. Divide total replacement income by your salary just before retirement to get your “percentage replacement income”. For those who have been in the St. Michael’s pension plan all of their working life of say 35 years (and have no RRSP or other investment income in retirement) the percentage replacement income is over 90%. In other words the St. Michael’s pension plus CPP and OAS benefits amount to more than 90% of the annual salary in the year before retirement. Appendix 1 of this booklet provides details of this calculation and explains how you can use your pension statement to project your percentage replacement income at age 65.

NATURE OF THE ST MICHAEL’S PENSION PLAN

The St. Michael’s Plan is called a “defined benefit” type of plan because the amount of the Member’s pension at retirement is “defined” by a formula which is based on a Member’s earnings just prior to retirement and on the number of years he/she has contributed to the Plan.

The benefits are paid from assets in the pension fund. The sources of these assets are regular contributions from employees through deductions from their pay, normal contributions from the University and earnings from the investment of assets in the fund. The aim of the investment is to generate enough assets to pay for all retirement benefits. However, in the case of poor investment returns, the University makes up any shortfall in assets with extraordinary contributions so that Members are guaranteed to receive the defined benefit. In the event that investment returns are greater than expected, a surplus is generated from which the University may make its normal contributions. Defined benefit plans do not involve the risk that the Member’s retirement pension might be less than expected because there are insufficient assets to pay for the benefits due to fluctuations in stock prices and low investment returns on pension fund investments.

PENSION BENEFIT FORMULA

As mentioned earlier, the Plan is a “defined benefit” type of plan where the amount of the Member’s pension payable is defined by a formula comprising three factors:

1. **Best Average Earnings** – the annual average of their thirty-six months of highest earnings (while a member of the Pension Plan) during all their years of employment with the University prior to their Normal Retirement Date. For this purpose earnings include base salary but exclude commissions and overtime pay.
2. **Average YMPE**. YMPE stands for “Years Maximum Pensionable Earnings” – the earnings used by the federal government to calculate the maximum Canada Pension Plan benefit each year. Average YMPE is the average YMPE for the thirty-six (36) month period just prior to the normal retirement date.
3. **Credited Service** – the total number of years in which the Member contributed to the Plan at the full rate during their time of employment at St. Michael’s. Part time-employees get a fraction of a year of Credited Service based on the fraction of the full contribution that they make.

The pension benefit formula for determining the annual pension payable at Normal Retirement Date is as follows [14.02]:

- 1.6% times years of Credited Service as of the Normal Retirement Date times Best Average Earnings up to the Average YMPE.
- 2.0% times years of Credited Service as of the Normal Retirement Date times the amount of the Best Average Earnings that exceeds the Average YMPE.

The lower 1.6% percentage multiplied by the Average YMPE reflects the objective of “integrating” the St. Michael’s Plan with the Canada Pension Plan (CPP) in order to achieve a combined percentage of 2.0%. That is, the CPP benefit which works out to 0.7% per (35) years of service, when added to the original St. Michael’s accrual rate of 1.3% established more than twenty years ago resulted in a target 2.0% rate – the same rate that applies to earnings in excess of the YMPE. However, over the past four years, the St. Michael’s Plan rate has been increased from 1.3% to 1.6% with the result that the combined rate is now 2.3%.

Sample Calculation of Pension

Suppose a person started work and joined the pension plan at St. Michael's 35 years ago and retires this year at the age of 65. Assuming that his Best Average Earnings at June 30 are \$50,000 and his Average YMPE is \$41,767 his annual pension entitlement starting July 1 is calculated as follows:

▪ ...56% (= 1.6% x 35 years) x \$41,767	\$23,390
PLUS	
▪ 70% (= 2% x 35 years) x \$8,233 (= \$50,000 – \$41,767)	<u>\$ 5,763</u>
Annual St. Michael's Pension Payable	\$29,163

Sample Calculation of Pension for a Member of a Religious Order

Members of religious orders who do not participate in the Canada Pension Plan will receive a pension benefit of 2% multiplied by the number of years of Credited Service at the date of their retirement times their Best Average Earnings. For the same 35 year period, with Best Average Earnings of \$50,000, the annual pension payable to a member of a religious order would be 70% (= 35 years x 2%) x \$50,000 = \$35,000.

Minimum Pension Guarantee

The annual pension payable at retirement under this Plan that is related to the years of Credited Service up to June 30, 1987 cannot be less than the annual pension under the previous Plan that was in effect on June 30, 1987. [14.03]

INDEXATION OF PENSION PAYMENTS

Since the mid 1980s, the Collegium has approved amendments to the Plan from time to time to provide increases in pensions. Since July 1, 1992 these periodic adjustments have amounted to 75% of the rate of inflation as measured by the change in the Consumer Price Index (CPI). These adjustments are referred to as "ad hoc indexation" because they are made every once in a while rather than automatically each year. They are in contrast to the "automatic indexation" of 75% of inflation that takes place automatically each year for Arts & Science faculty retirees under section 34.01 of the Plan Document.

Since the employee contribution rates were not increased in 1992 when ad hoc indexation of 75% began, the costs of ad hoc indexation since then have been covered entirely by the University's contributions (as opposed to employee contributions). However employee contribution rates were increased from 3.75% to 5.0 % on earnings up to the YMPE and from 5.0% to 6.0% on earnings in excess of the YMPE in recognition of the long-time practice of providing periodic ad hoc indexation. The University's contributions have been financed from pension fund surpluses since 1996.

GOVERNMENT PENSION BENEFITS

In addition to pensions payable under the Plan St. Michael's retirees, the Canada Pension Plan (CPP) and Old Age Security (OAS) benefits add to a Member's retirement income.

Canada Pension Plan (CPP)

The CPP provides a pension at age 65 normally. At age 65, retirees are entitled to the maximum CPP benefit if they have fully participated in the CPP for most of their adult life. The maximum CPP benefit depends upon an employee's (3-year) average earnings just prior to retirement - up to the level of the 3-year average maximum CPP salary. The maximum CPP salary is close to the average industrial wage in Canada and is adjusted each year for inflation.

<i>Maximum Canada Pension Plan Retirement Benefit: 2007</i>
The CPP retirement benefit is about 25% of pre retirement annual earnings (up to the YMPE of \$43,700) that are in excess of \$3,500. For 2007 the maximum CPP benefit is \$10,365 (\$863.75 per month) – just over 25% of the YMPE of \$43,700 that is in excess of \$3,500.

The CPP benefit can be taken as early as age 60 but is reduced by ½% for each month that it begins before age 65. It can also be deferred until age 70 and will be increased by 1/2% for each month that it begins after 65.

If individual employees had not full participation in the CPP their CPP benefit would be proportionately lower than the maximum.

Maximum CPP Salaries in Recent Years		
Calendar Year	Maximum Annual CPP Salary	3-Year Average Maximum CPP Salary
2003	\$39,900	\$38,717
2004	\$40,500	\$39,467
2005	\$41,100	\$40,167
2006	\$42,100	\$40,867
2007	\$43,700	\$41,767
1. Represents the average maximum annual CPP salary during the 36-month period ending on June 30 of the calendar year.		

The St. Michael's employee and the University each contribute equally each year toward the cost of providing the employee's CPP benefit.

Old Age Security

Any person 65 or over is entitled to the full Old Age Security (OAS) pension after 40 years of residence in Canada. As of January 1, 2007 the monthly OAS was \$492.42 (\$5,909.00 on an annual basis). The OAS benefit is adjusted every three months to keep pace with changes in inflation as measured by changes in the Consumer Price Index. A partial OAS pension is payable after a minimum of 10 years of residence in Canada.

A non-employed spouse would also be eligible for Old Age Security if Canadian residency requirements are met. Employees do not make contributions to the OAS because the benefits are financed from revenue from federal government taxes.

The OAS is taxable income. In addition, those senior citizens whose net incomes for income tax purposes are above \$62,144 for 2006 the OAS is partly “clawed back”. The amount of the claw back is 15% of the net income in excess of the \$62,144 threshold. The threshold amount of \$62,144 is indexed to inflation each calendar year.

CONTRIBUTIONS

As stated earlier, both the Member and the University make contributions to the Plan every year to pay for the Member’s pension benefits upon retirement. Contributions are regularly deducted from a Member’s wage or salary and are fully tax deductible. During each University salary year (i.e., from July 1 to the following June 30), a Member’s contributions are determined as follows [11.01]:

- 5.0% of that part of annualized earnings up to the “YMPE”* in effect on July 1st

PLUS

- 6.0% of annualized earnings in excess of the YMPE*

* YMPE stands for “Years Maximum Pensionable Earnings” - an amount close to the average industrial wage in Canada. This amount is established by the Government of Canada for purposes of calculating the maximum Canada Pension Plan benefit each year. It is also known as the maximum CPP salary. [2.22] See also the above note on the Canada Pension Plan.

Example:

Member’s Contributions

Suppose your regular annual earnings at July 1, 2007 were \$50,000. Since the annual YMPE at July 1 2007 is \$43,700, the annual contributions to the Plan for the period from July 1, 2007 to June 30, 2008 would be calculated as: [11.01]

▪ 5.0% of \$43,700	\$2,185.00
PLUS	
▪ 6.0% of the excess of \$6,300 (= \$50,000 less \$43,700)	<u>\$388.00</u>
Total contributions for 2007	\$2,563.00
Monthly contributions during 2007	\$213.58

Interest on a Member’s required contributions is called Credited Interest and is equal to the average of the yield on five-year personal fixed-term chartered bank deposit rates over a 12-month period. [12.01]

University Contributions

The University’s contributions depend upon the results of actuarial valuations. Potentially the University has a responsibility for three different types of contributions.

1. The University pays the difference between the “total normal cost” of pension benefits earned by all Members during a year (as determined by the actuary) less the contributions from all Members. [11.09]
2. The University pays the annual amortized cost of any “on-going concern” un-funded liability that is determined by the actuary. [11.09] Un-funded liabilities can be amortized over a period up to 15 years.
3. The University pays the amortized cost of any “solvency deficiency” determined by the actuary. Solvency deficiencies can be amortized over a period up to 5 years.

<i>Current University Pension Plan Contributions</i>
The University’s estimated contributions for 2007 are \$400,600 which represents 55% of the total normal costs of the Member’s pension benefits earned this year. These contributions are paid from the pension fund surplus. There is no un-funded liability or solvency-based deficit in the pension fund.
Source: Actuarial Valuation report at December 31, 2006 p. 9.

In addition the University bears the costs of the administration of the Pension Plan and of the pension fund.

ACTUARIAL VALUATIONS

Pension regulatory authorities require an actuarial valuation to be performed not less than once every three years. Actually there are two different valuations performed at the same time: a “Going-Concern” valuation and a “Solvency-Based” valuation. These valuation exercises serve four objectives.

1. Determine the Amount of the Going-Concern Surplus or Deficit

The first objective is to estimate the amount of the surplus or deficit between the assets in the Pension Fund and the liabilities using the “going- concern” actuarial valuation method. This method assumes that the St. Michael’s pension plan will continue into the indefinite future - as opposed to being wound up. The value of the Liabilities is represented by the “expected present value” of the future benefits promised in the Pension Plan document. Appendix 2 outlines how actuaries determine “expected present values”. Going-concern deficits are called un-funded liabilities and they must be eliminated with amortization payments from the University over a period no longer than 15 years.

2. Determine the University’s Annual Contribution to the Pension Fund

The second objective is to estimate the amount of the annual contributions that the University must make to the pension fund in each of the three years following the date of the actuarial valuation. This involves the actuaries’ estimate of the “total normal cost” which represents the estimated value of pension benefits earned in the twelve-month period following the valuation date. Total normal costs are calculated as the difference between two successive going-concern actuarial valuations: one on the date of the valuation and one at a date one year later. Because the valuations use the going-concern basis, they are said to be “normal”. From the total normal cost, contributions required from all Members (i.e., 5.0% of earnings up to the YMPE and 6.0% of earnings in excess of the YMPE) are subtracted to obtain the University’s contributions.

<i>Employee and University Contributions Required to Cover the Total Normal Costs of St. Michael’s Pension Benefits Earned in 2007 *</i>			
	Amount	% of Members’ Earnings	% Share of Total Costs
Total normal cost	\$730,800	12.97%	100.0%
Employee contributions	\$330,200	5.86%	45%
University contributions	\$400,600	7.11%	55%
* Source: Actuarial Valuation as at December 31, 2006 of the “Retirement Plan of the University of St. Michael’s College”. Morneau Sobeco, May 2007, p. 9.			

3. Determine a “Solvency-Based” Surplus or Deficit

The third objective is to estimate the financial position of the Pension Plan on a “solvency basis” – that is the difference between Pension Fund assets and liabilities of the plan in the hypothetical event that the University winds up the Pension Plan. The solvency-based actuarial valuation utilizes more conservative assumptions about how the expected present value of future benefits are calculated. As a consequence the estimated liabilities are greater than the estimated liabilities from the “going concern” valuation. If there is a deficiency between assets and liabilities, the University is required to eliminate the deficit by making amortized payments over a period not longer than 5 years. Potentially the University is responsible for amortization payment of solvency deficiencies, plus the amortization payments of unfunded liabilities plus required contributions to total normal costs.

4. Provide Analysis to Pension Regulatory and Tax Authorities

The fourth objective of the actuarial valuation is to provide information and an actuarial opinion to the Financial Services Commission of Ontario (FSCO) and the Canada Revenue Agency (CRA). Among other things the actuary’s opinion states whether or not the Pension Plan is fully funded, whether or not it has a solvency deficiency, and the magnitude of the University’s share of total normal costs (expressed as a percent of members’ earnings). Also the opinion states whether or not the actuary believes the valuation is based on sufficient and reliable data, that the assumptions and methods used in the valuation are appropriate for the purposes of the valuation and that the calculations are consistent with funding and solvency standards prescribed under the Ontario *Pension Benefits Act*.

PENSION ADJUSTMENTS AND RRSP CONTRIBUTIONS

For each calendar year, the Canada Revenue Agency (CRA) allows Members to make tax-deductible contributions to their registered savings plans up to a maximum of 18% of their earnings for the year. However, for this purpose, registered savings plans include both registered pension plans like the St. Michael’s Plan and personal RRSPs. For members of the St. Michael’ Plan the maximum tax-deductible contribution to a Member’s RRSP is 18% of his/her earnings minus his/her “Pension Adjustment”.

The Pension Adjustment represents a current contribution that is deemed by CRA to be equivalent in value to the St. Michael’s Pension benefit that the member has earned during the year. Under the St. Michael’s Pension benefit formula, the member earns a benefit of 1.6% of his/her best average earnings up to the YMPE prior to normal retirement and 2.0% of his/her best average earnings in excess of the YMPE for each and every year of his/her retirement. The CRA converts these two percentage benefits into percentage contribution rates on current earnings by multiplying them by a factor of 9 and then subtracting a flat amount of \$600. In other words the CRA determines that the value of the future pension benefits that the member earned in the current year is $9 \times 1.6\% = 14.4\%$ of the member’s

current earnings up to the current YMPE plus $9 \times 2.0\% = 18\%$ of the member's current earnings in excess of the YMPE. From this result the CRA subtracts a flat amount of \$600. The following table presents a sample calculation of the maximum tax-deductible contribution to an RRSP for a St. Michael's Pension Plan member with earnings of \$40,000 in calendar year 2005.

<i>Maximum RRSP Tax-Deductible Contribution for a St. Michael's Employee</i>			
1	Maximum deductible for all registered savings plans of the St. Michael's employee [= 18% x \$40,000]		\$7,200
2	Pension Adjustment of the St. Michael's Employee 14.4% * x \$40,000 Minus flat amount of \$600	5,760 (600) 5,160	\$5,160
3	Maximum RRSP deductible contribution [Line 1 - Line 2]		\$2,040
* Since the employee's earnings are less than the YMPE, the value of his pension benefit earned is deemed by CRA to be $1.6\% \times 9 = 14.4\%$ of his earnings for the calendar year.			

The foregoing calculation of the Pension Adjustment (PA) is somewhat complex. However, it is calculated for the member each year by the USMC accounting department and reported on your T4 slip.

PENSION ADJUSTMENT REVERSALS

Sometimes pension benefit formulas will be amended to increase the percentage accrual rates applied to previous or past years of members' credited service. These retroactive changes result in an increase in the Pension Adjustment which is based on the factor nine times the percentage accrual rate and a corresponding reduction in the maximum RRSP contribution room. In these cases the CRA requires that members' Pension Adjustments be reversed.

<i>Pension Adjustment Reversals in Recent Years</i>
In 2003 the Collegium approved a Plan amendment that increased the accrual rate in the pension benefit formula from 1.0% to 1.5% (the accrual rate on YMPE income) for years of service prior to July 1, 2000. This resulted in increased Pension Adjustments for all St. Michael's Pension Plan Members in respect of past service years. In some cases, the CRA informed members who had previously made maximum contributions to their RRSP that they had over contributed to their RRSP as a result of the retroactive increases in Pension Adjustments. In November 2005 the accrual rate was increased further from 1.5% to 1.6% in respect of all past years of service with the result that Pension Adjustments for each member in respect of all of the member's previous years of service were increased.

DETAILED FEATURES

The terms and conditions of the St. Michael's Pension Plan are found in *The Retirement Plan of the University of St. Michael's College (As restated effective January 1, 1992)*. This "Plan Document" includes forty sections and runs to 89 pages. Since January 1992 there have been ten amendments, the latest amendment being approved by the Collegium at its April 18, 2005 meeting. Following union negotiations in November 2005 amendments on the increased accrual rate and temporary early retirement windows will be brought forward to the Collegium for approval. The Plan Document is divided into three parts. Part 1 describes general provisions. Part 2 pertains to Members other than the Faculty of Arts & Science and Part 3 pertains to members of the Faculty of Arts & Science.

The foregoing sections of this booklet have described the pension benefit formula for members who retire at their normal retirement date and who elect to take what is called a "normal form" pension. Members' circumstances vary frequently from this standard set of circumstances. Members may elect to choose available options that are different from the normal form of the pension, they may retire early or die prior to their normal retirement date, they may postpone starting their pension until some time after their retirement date, they may take leaves of absence without pay or take reduced work loads. Some employees (e.g. part time) are treated differently than full time. Some are not eligible to join the Plan as soon after hire as others. The sections which follow describe how these different circumstances affect pension amounts and arrangements.

Membership

Since the 1960's, USMC the University's retirement plans have classified employees other than Arts & Science faculty into four groups [9.05]

- 1) Academic – employees whose duties are primarily in the fields of teaching
- 2) Administrative – employees whose duties are primarily in the administration of the operations of the University
- 3) Non-academic – employees who are not academic or administrative employees
- 4) Employees who are members of a Religious Order [11.01, 14.02]

Part-time employees are eligible to join the Plan after 24 months of continuous service provided that they have worked at least 700 hours each calendar year and/or earned at least 35% of the YMPE. [10.02]

When Membership Begins

All full time Academic employees must join the Plan within one month of being hired. Administrative and non-academic employees must join within six months. [10.01] New employees at St. Michael's are required to complete an application form to join the Plan. This form authorizes the University to deduct their required contributions to the Plan from their pay. It also indicates their designated beneficiary who, in the event of their death, will receive their pension benefits. Members may change their beneficiary at any time as permitted by law and by the provisions of the Plan.

When You Retire

Normal Retirement

For Academic employees, the Normal Retirement Date is the 30th day of June following, or coincident with, their 65th birthday. For administrative and non-academic employees, the Normal Retirement Date is the first day of the month following or coincident with their 65th birthday. [14.01]

Postponed Retirement

With the consent of the University, employees may continue to work beyond their Normal Retirement Date. They can continue their membership in the Plan up to the 1st of December in the calendar year in which they reach the age of 69. [16.01] If they continue their membership in the Plan, they are required to make their regular employee contributions. [11.06] As a result of postponing their retirement, they will earn more years of credited service and therefore be entitled to a greater pension than they would receive if they retired on their Normal Retirement Date.

Early Retirement

Members can retire prior to their Normal Retirement Date yet receive an immediate pension. The earliest they can retire is their 55th birthday. When they retire early they will receive more monthly pension payments during their life. For this reason the monthly amount of their early retirement pension would be reduced to compensate for the fact that they would receive more payments.

There are temporary early retirement windows for 2005-2006, 2006-2007 and 2007-2008. This means that those members who retire early will not have their pensions reduced provided their age plus years of Credited Service are at least 75 at the time of their retirement and they are over the age of 60. For those who retire prior to reaching the age of 60 with at least 75 points, the actuarial reduction will be reduced from 6% to 3% for each year that they retire prior to the age of 60. Further there will be bridge benefit of 0.4% of final average earnings up to the YMPE from the date of retirement to age 65.

During early retirement, deductions for OHIP and Blue Cross coverages continue at active employee group rates and there is provision for group life insurance coverage (maximum of twice your pre-retirement salary).

Normal and Mandatory Forms of Pension

Single Members

The pension benefit formula generates annual amounts of pensions that are to be paid in the “normal form.” Normal form means that the annual pension generated by the formula is payable in equal monthly installments on the first day of the month for the Member’s lifetime – with one exception. If the Member dies before 60 monthly payments (i.e., five years) have been made, the Member’s beneficiary will receive the “commuted value” of the balance of the 60 payments. In other words the normal form has a guarantee that 60 monthly payments will be made. [4.01] For this reason the normal form pension is called a “Life Guaranteed 5 Year” pension.

Married Members: Mandatory 60 % Joint and Survivor Pension

If the Member has a spouse with whom he/she is not separated at the time of his/her retirement, the Ontario government’s Pension Benefit Act requires that the Member agrees that his/her spouse will receive 60% of his/her monthly pension upon his/her death. This is called a “joint and survivor” form of pension because the pension is implicitly intended for the joint benefit of the member and spouse while they are both living and also for the spouse who survives the death of the Member. In most cases the actuarial equivalent of the mandatory 60% joint and survivor pension will be less than the normal form monthly pension in order to render it actuarially equivalent to the normal form pension. [4.02 (1)] The actuarial cost will be based on the actuary’s estimate of the probability that the spouse will live longer than the Member and hence collect additional monthly pension payments to those that would be paid only during the live of the Member.

The spouse may waive (i.e., decline to accept) the mandatory 60% joint and survivor pension all together or agree to a lower percentage than 60% in which case the monthly pension will be higher than the mandatory 60% joint and survivor pension. [4.02 (2)]

Optional Forms of Pension

There are several optional forms of pension. Because the costs of these optional forms over the expected life of the Member may be higher or lower than the cost of the normal form pension, the monthly amounts will be reduced or increased so that they are equivalent in cost to the normal form. This cost equivalency is referred to as the “actuarial equivalent” because it is calculated using actuarial method for determining the present value of expected future payments. [4.03] That is they adjust the normal form monthly pension by the ratio of the present expected value of all future optional form monthly pension payments promised to the present expected value of the future normal form

monthly payments promised. The expected payments depend upon mortality statistics. Appendix 2 describes the method of calculating present expected values.

Married Members: 100% Joint and Survivor Pension

The Member may choose a 100% Joint and Survivor Pension in which the spouse will receive 100% of the amount of the Member's pension after he/she dies. This pension will be a lower amount than the 60% Joint and Survivor Pension to render it actuarially equivalent in cost. [4.03 (3)]

Single Members: Life Only (Life Ceasing at Death)

The monthly payments cease with the payment immediately preceding the Member's death. The amount of the pension under this option will be higher than the amount of the normal form pension to render it actuarially equivalent in cost. [4.03(1)]

Single Members: Life Guaranteed Ten Years

The monthly payments are made for the member's life except, if the Member dies before 120 monthly payments (ten years of payments) have been made, the Member's beneficiary will receive the value of the balance of the 120 payments. The amount of this pension will be lower than the normal Life Guaranteed Five Years form to render it actuarially equivalent in cost. [4.03 (2)]

Single Members: Life Guaranteed Fifteen Years

The monthly payments for the member's life except if the member dies before 180 monthly payments (fifteen years of payments) have been made, the members beneficiary will receive the value of the balance of the 180 payments. Fifteen years is the maximum period that can be guaranteed [4.03] The amount of this pension will be lower than the Life Guaranteed Ten Years form to render it actuarially equivalent in cost.

Integration with Government Pensions

A member who retires prior to becoming eligible for CPP and OAS benefits may elect to receive an increased monthly pension from St. Michael's until he/she becomes entitled to CPP and OAS at age 65 at which point the St. Michael's pension will be decreased by the amount of the CPP and OAS benefit.

Process for the Member's Choice of Form of Pension

Several months before the Member's expected retirement, the Payroll Accountant sends the Member an *Advice of Separation* form, a *Declaration of Marital Status* form (for married members) and an *Entitlement on Retirement* form. The *Entitlement on*

Retirement form shows the amounts of monthly pensions for the normal form and each possible optional form. The Member designates his/her choice of normal or optional form.

If You Die Before Retirement

If a Member dies before retiring from the University, the Member's spouse or beneficiary or estate may be entitled to a lump sum benefit. The amount of the lump sum depends partly on the benefits that the Member earned prior to January 1, 1987 and partly on the benefits earned after January 1, 1987 when the Ontario Government made major changes to the Pension Benefits Act.

For Pension Benefits Earned Prior to January 1, 1987

If a Member dies before his/her pension payments started, his/her beneficiary (or estate if the Member had indicated no beneficiary on his enrollment form) shall receive a lump sum amount equal to all his/her contributions to the Plan prior to January 1, 1987 plus credited interest on those contributions. [19.01 (1)]

If a male Member dies leaving a surviving wife who was eligible for a widows pension as of June 30, 1976 the surviving wife will receive a pension equal to 1% times the Member's years of credited service up to July 1, 1976 time his Best Average Earnings prior to July 1, 1976 – provided the Member was age 35 or more as of June 30, 1976 and had completed at least five years of service. [19.01 (2)]

For Pension Benefits Earned After December 31, 1986

If a Member dies prior to completing 24 months of continuous service, his/her spouse shall receive a lump sum equal to all his/her contributions to the Plan after December 31, 1986 plus credited service on those contributions. [19.02 (1)]

If a Member dies after having completed more than 24 months of continuous service, his/her spouse shall be entitled to a commuted value of pension benefits earned between December 31, 1986 and the date of the Member's death. [19.02 (2)]

If a Member dies without a surviving spouse at his/her death or if he/she and his/her spouse were living separate and apart at the time of his/her death, the death benefits are paid to the Member's named beneficiary or, if none, to his/her estate. The same applies if the Member and his/her spouse have waived the spouse's entitlement to the death benefit. [19.02 (3)]

Refundable Contributions to Spouse or Beneficiary

If a Member dies prior to the commencement of pension benefits, his/her spouse or beneficiary are entitled to receive a lump sum equal to the difference between the Member's contributions plus credited interest after December 31, 1986 and 50% of the

commuted value of the pension benefit earned by the Member for Credited Service after December 31, 1986. This lump sum is payable in addition to the death benefits described above for pension benefits earned after December 31, 1986. [19.03]

This section was introduced in the wake of a change in the Pension Benefits Act. It reflects an objective that the employer should bear at least 50% of the costs of pension benefits for an employee – starting January 1, 1987 when the Pension Benefits Act came into effect.

If You Die After Retirement

Single Members

Benefits earned after the Member's retirement depend on which form of pension the Member chose when he/she retired. For example, if the Member chose a life only pension there is no death benefit. However, if the Member chose a Life guaranteed 5 Year pension (i.e., a pension payable for 60 monthly payments) and the Member died prior to having received all 60 payments, the Member's beneficiary or estate would get the balance of the 60 monthly payments. See the above sections on Normal and Mandatory Forms of Pension and Optional Forms of Pensions for more detail.

Married Members

If the Member dies after retirement and has a spouse, the spouse will continue to receive a pension. However, the amount of pension that the spouse receives depends on the percentage of joint and survivor optional form of pension that the Member chose at the time of his/her retirement. See the above sections on Normal and Mandatory Forms of Pension and Optional Forms of Pensions for more details.

Leaves of Absence

Unpaid Leaves of Absence

If a Member takes an unpaid leave of absence approved by the University, he may upon his return from leave, make the full or partial required contributions so as to earn full or partial years of credited service for the period of his leave. In this case the required contributions will be based on the Member's contributions immediately prior to his leave plus additional amounts that the University would have contributed on his behalf during the period of his leave. [11.03]

Pregnancy or Parental Leaves

A Member taking pregnancy or parental leave may choose to make contributions to the Plan during their leave at the same rate they were making prior to the leave and earn credited service for the months that they are on leave – subject to minimum periods required by the legislation governing pregnancy and parental leaves. Members have the option of waiving contributions and not accumulating credited service. [11.04]

Leaves for Members Receiving Workers Compensation

A Member receiving Workers Compensation benefits may choose to make contributions to the Plan during their leave at the same rate they were making prior to the leave and earn credited service for the months that they are on leave - subject to minimum periods required under Workers Compensation legislation. Members have the option of waiving contributions and not accumulating credited service [11.04]

Members Who Become Disabled

A Member who becomes disabled and is receiving salary continuance under the University's long-term disability program is not required to make contributions. At the same time the Member will continue to accumulate Credited Service throughout the period of his/her disability.[11.06; 17.06]

If You Terminate Your Employment

If a Member leaves the employ of the University prior to retirement, his/her contributions to the Plan are protected by one of the following options depending on his circumstances which he must choose: [18.01 and 18.04]

1. The Member may leave his/her contributions in the Plan to provide a deferred pension at his/her Normal Retirement Date; [18.01 (2)]
2. The Member may transfer an amount equal to the greater of a) twice his/her contributions plus Credited Interest or b) the commuted value of the deferred pension benefits in (1) to: [18.04]
 - a) a registered retirement savings plan (RRSP) if the transferee agrees to administer the transferred amount to a non-commutable deferral life annuity which shall not commence payment earlier than the members attainment of age 55
 - b) an insurance company or other company licensed to sell annuities.
 - c) a registered pension plan of a subsequent employer to provide a pension benefit.

3. The Member may transfer both credited service and credits to his/her next employer where an existing Reciprocal Transfer Agreement with USMC is applicable; [18.04 (3)]
4. Members who terminate prior to completing 24 months of service (i.e., before their pension is vested) are entitled to receive a cash refund equal to their required contributions plus interest. Any cash refunds are subject to income tax.

Procedures on Termination

After the Member notifies the Payroll Accountant of his/her intention to terminate employment at the University, the Bursar sends an *Advice of Separation* form to the actuary. The actuary then calculates amounts for option 2 above and, where applicable, option 4 and enters the results on an *Entitlement on Termination Employment* form. This form is sent out under a covering letter from the Payroll Accountant and Accounting Supervisor to the terminating employee. This form outlines all of the above options and quantifies the values for option 2 and option 4. The terminating employee then needs to complete the form choosing his/her preferred option.

For terminating employees who decide to take a deferred pension, the Bursar signs a Statement of *Deferred Retirement Benefits: Retirement Plan of the University of St. Michael's College*.

For terminating employees who choose to make a transfer to an RRSP, RRIF or to an Insurance Company, the Bursar sends them a Canada Customs and Revenue Agency T2151 form *Direct Transfer of Single Amount Under Subsection 147 (19) or section 147.3*. The employee must indicate the RRSP, RRIF name and plan number to where the funds are being transferred and provide personal information and address as well as confirm his status as a Member of the Plan. Upon receipt of this form the Bursar sends a *Certificate to the Trustee – Lump Sum Payments* form authorizing the Trustee to pay out the lump sum to the transferee organization.

If You Become Disabled

Members who become disabled have a choice of three alternatives depending on the extent of their disability, their age and their eligibility for Long Term Disability (LTD) benefits.

Remain in the Pension Plan While on LTD

Members who become disabled and go on LTD do not have to make employee contributions but they continue to accumulate credited service as long as they remain on LTD. In fact their contributions are deemed to be made on their behalf. This arrangement ends if the member goes off LTD, retires while on LTD or reaches his/her normal retirement date while on LTD. [17.06 (1)]

Receive a Disability Pension

A member who becomes “Totally and Permanently Disabled” may retire and receive a disability pension based on the same pension formula as described above on page 5.

[17.01]

Total and Permanent Disability means a physical or mental impairment which prevents a Member from engaging in any employment for which he is reasonably suited by virtue of his education, training or experience and that can reasonably be expected to continue for the remainder of the Member’s lifetime and which is certified, in writing, by a medical doctor licensed in Canada.

Take Early Retirement

A member over the age of 50 who becomes “Totally and Permanently Disabled” can take an early retirement pension in the event that he/she subsequently becomes ineligible for LTD. [17.06(2)]

Vesting

Vesting refers to the right of an employee who terminates employment to the portion of the pension benefit provided by the employer contributions after having achieved a minimum amount of credited service. Specifically pensions are vested after the Member has had 24 months of continuous service. [18.01(2) and 18.04]

Other Important Facts

No Assignment of Pension Benefits

A Member’s pension is provided for his/her own use and benefit, and it is protected by law. It cannot be assigned or garnisheed, nor can it be surrendered, except as provided for by the Ontario Family Law Act or other government legislation.

Future of the Plan

The University regards the Plan as permanent; however, should unforeseen conditions arise in the future, the University reserves the right to alter, suspend or discontinue the Plan at any time. The pension benefits that a Member may have accumulated prior to the date of such action will not be adversely affected.

GOVERNANCE

The Collegium is the sponsor of the St. Michael's Pension Plan and is ultimately accountable to its members as well as to the pension regulatory authorities for its administration. Regulatory authorities include The Financial Services Commission of Ontario (FSCO) and the Canada Revenue Agency (CRA).

The Collegium approves the text of the Pension Plan Document and any amendments to it. The Collegium is also responsible for selecting investment counselors, determining the guidelines for investment counselors, reviewing the investment guidelines at least once a year and approving any changes in the investment guidelines. Finally the Collegium is responsible for appointing the actuary for the Pension Plan and the external auditors for the University who also perform the annual audit of the pension fund. In all these matters the Collegium is advised by the Finance Committee.

ADMINISTRATION

The administration of the Pension Plan is carried out by a variety of parties including the Investment Counsellor, the Pension Plan Trustee, the Actuary, the Accounting Department, the Bursar, the Director of Human Resources and the Auditors.

Investment Counselors

Assets in the pension fund are invested by professional investment counsel, Jarislowsky Fraser Ltd. with the aim of earning a long-term rate of return greater than the rate of inflation plus 3.5%. In the shorter term, Jarislowsky Fraser is expected to earn rates of return in excess of specified capital market indexes such as the S&P TSX index of Canadian stocks, the S&P 500 index of U.S. stocks, the MS-EAFE (SC) index of international stocks outside the U.S. and the SC Index of Canadian bonds.

Jarislowsky Fraser Ltd. makes investment decisions within investment guidelines prescribed by the Collegium. These guidelines related to "asset mix"- that is the range of percentages of total pension fund assets that can be invested in different capital markets: Canadian stocks, U.S. stocks, other international stocks, bonds, mortgages and short term investments such as treasury bills and cash accounts. The guidelines also specify the maximum percentages of investments in all stocks that can be invested in any one stock and also the types of securities that are to be avoided. Examples of exclusions are venture capital securities, derivatives (unless used for hedging), bonds rated below "A" quality as determined by the Dominion or Canadian bond rating service, foreign currency pay bonds, real estate, mortgages that are not in pooled or segregated funds etc.

The investment counsellor reports on his investment returns to the Finance Committee twice a year and files reports on compliance with the Collegium's investment guidelines annually. The Finance Committee, in turn, advises the Collegium. The investment counsellor files monthly reports on the portfolio of assets in the pension fund assets with the Bursar.

Trustees

All contributions are deposited in a trust fund which is administered by a Trustee, currently CIBC Mellon. The Trustee also makes the pension payments and executes the investment transactions indicated by the investment counselors. The Trustee reports monthly to the Bursar on pension payments made, contributions received, investment transactions and asset balances in the pension fund.

Actuaries

The Pension Plan actuary is the Morneau Sobeco company. The actuary performs calculations of pension payments to retirees as well as periodic actuarial valuations and annual pension expense reports for accounting purposes. In addition the actuary prepares reports to regulatory authorities FSCO and CRA that are signed off by the Bursar and Annual Statements of Pension Benefits for each member which are mailed out from the Bursar's Office.

Auditors

Each year the external auditors for the University (currently Ernst & Young) perform an audit of the net assets in the pension fund available for the payment of benefits.

Accounting Department

- Remits employee contributions deducted from payroll to the Trustee
- Remits employer contributions to the Trustee on a monthly basis
- Coordinates the completion of required forms from individuals who join the Pension Plan and members who decide to terminate or retire from the pension Plan. These forms are signed off by the Bursar and sent to the actuary and trustees to implement.
- Compiles and submits information through the Bursar's Office to actuaries as required for the preparation of members' annual pension benefit statements
- Prepares reports for the actuary and trustee as part of the annual audit of the pension fund

- Performs reconciliations of statements of pension fund assets from the trustee and the investment counsellor
- Performs all accounting for pension plan assets, investment income, contributions, pension payments
- Prepares notes in the University's financial statements pertaining to the pension fund and Pension Plan
- Answers enquiries from members about pension contributions, benefits and other matters.

Bursar

- Monitors investment performance and compliance with investment guidelines
- Prepares reports on investment performance for the Finance Committee
- Answers enquires about interpretation of the Pension Plan Document
- Advises the President and Finance Committee on the financial implications of changes in Pension Plan benefits and actuarial assumptions
- Advises the actuary on assumptions underlying the actuary's report on annual pension expenses
- Signs off on reports to regulatory authorities
- Distributes annual pension benefit statements to members
- Directs the Trustee to adjust pension payments resulting from Collegium approvals of Plan amendments providing for ad hoc indexing
- Prepares information booklets and communications on Pension Plan matters

Director of Human Resources

- Answers enquiries from individual members about Pension Plan provisions
- Acts as the University's liaison with the Employee Pension Advisory Committee

Appendix 1

Calculating Your Percentage Replacement Income at Normal Retirement

This Appendix describes how to use the information on your *Statement of Pension Benefits* (hereafter called your Pension Statement) to project the percentage of your annual salary/wage just prior to your normal retirement date that will be “replaced” by your St. Michael’s pension plus the CPP and OAS benefits. Your normal retirement date is the first day of the month after you reach the age of 65. Financial planning experts estimate that this percentage should be somewhere between 70% to 80%. If it falls below this range you should be planning to generate additional income from RRSPs or other private savings (unless you have pension income from other employers or income from other sources) or plan to change your life style during retirement. The Appendix concludes with a calculation which estimates this percentage for a long-time member of the St. Michael’s Pension Plan.

Projected Earnings at Normal Retirement

Step 1: Before starting members should determine their annualized salary as of June 30 because this item of information is not on the Pension Statement.

The item on the Pension Statement, “Average earnings used for calculations” represents the member’s average earnings for the 36-month period ending at the date at the top of the Pension Statement. It is projected to be unchanged between now and the member’s normal retirement date. Although the member’s salary will likely increase every year between his/her Normal Retirement Date, so also will his/her St. Michael’s pension which is based on his/her earnings.

Projected St. Michael’s Pension at Normal Retirement

Step 2: The item on the member’s Pension Statement “Projected pension payable at your Normal Retirement Date” is based on the member’s current average earnings for the 36-month period ending at the date at the top of the Pension Statement rather than on his/her projected earnings for the 36-month period prior to his/her Normal Retirement Date. Divide this number by the member’s annualized salary in Step 1 above to estimate of the percentage of salary just prior to retirement that will be “replaced” by the member’s St. Michael’s pension in the first year of retirement starting at the Normal Retirement Date. Although, the St. Michael’s pension will be higher at retirement due to increases in salaries between the date at the top of the Pension Statement and retirement so will his/her salary. Therefore the two will cancel out roughly and the replacement percentage based on current earnings will be roughly the same as it will at retirement. .

Projected Canada Pension Plan at Normal Retirement Date

Step 3: The maximum Canada Pension Plan shown near the bottom of the member's Pension Statement. Multiply this number by 12 to get the annual CPP benefit. Then divide the result by the annualized earnings in *Step 1* to calculate the percentage replacement income. However, if the member's "Average earnings used for calculations" on the pension statement is below the "Average YMPE used for calculations" the member will have to recalculate the particular CPP benefit by multiplying it by 23.72% times his/her "Average earnings used for calculation" number. Although the CPP benefit will likely increase every year between now and the member's Normal Retirement Date in step with inflation so also will the member's salary increase and the two will tend to cancel out. Thus the replacement percentage calculated using current salary and the current CPP benefit will be roughly the same as it will be at the member's Normal Retirement Date.

Warning About a Possible Adjustment to the Maximum CPP Benefit

If, when a member retires, he/she has contributed to the CPP for significantly less than 40 years and/or has a salary below the YMPE, the member may be entitled only to a lower –than maximum CPP benefit. If the member's current salary is below the YMPE, the CPP benefit can be calculated as roughly 23.72% of his/her 3-year average earnings figure on the Pension Statement. If the member has not contributed to the CPP for most of his/her adult life by the time of retirement he/she should ask the CPP authorities for an explanation of entitlement – at the toll free number 1-877-454-4051 or at the following website www.hrdc-drhc.ca/isp.

Projected Old Age Security Pension at Normal Retirement Date

Step 4: The maximum monthly OAS benefit is shown near the bottom of the member's Pension Statement. Multiply this amount by 12 to get the annual OAS benefit and then divide the result by the annualized salary in Step 1 to calculate the percentage of replacement income from OAS in the first year of retirement. Although the OAS will likely increase (by the rate of inflation) every year between now and the member's Normal Retirement Date, the member's salary will also increase so that the two will roughly cancel out. As a result, the replacement percentage using current data will be roughly the same at the member's Normal Retirement Date.

Warning About a Possible Adjustment to the Maximum OAS Benefit

If, when the member retires, he/she has lived in Canada less than 40 years after he/she reached the age of 18, they may be entitled to a lesser OAS benefit than the above maximum. The OAS may be reduced to 1/40 times the number of years that the member lived in Canada after he/she reached the age of 18. In this case the member should consult with the OAS authorities to determine his/her likely OAS benefit at retirement. The OAS authorities can be reached at the toll free number 1-877-454-4051 or at the following website www.hrdc-drhc.ca/isp.

Example

The following table shows the components of "replacement income" (i.e. income from the St. Michael's pension, the CPP and the OAS) at the normal retirement date for a St. Michael's employee with 35 years of credited service at that date. Most of the information in this table can be obtained from the employee's Pension Statement.

Replacement Income For a Hypothetical St. Michael's Employee [Based on Information From the Statement of Pension Benefits]

Information on Statement of Pension Benefits at	Date	Annual Amount	Percent of Annual Earnings
Normal Retirement Date	June 30, 2007		
Annual earnings ¹	June 30, 2007	\$42,217	
Average earnings for 36 months preceding Credited service at	July 1, 2007	\$41,000	
Average YMPE for 36 months preceding	July 1, 2007	35	
	July 1, 2007	\$41,767	
Replacement Income Source			
USMC Pension	July 1, 2007	\$22,960	54.39%
Canada Pension Plan (CPP) Benefit ²	2007	\$9,725	23.03%
Old Age Security Benefit	July 1, 2007	<u>\$5,968</u>	<u>14.14%</u>
Total replacement income		\$38,653	91.56%

1. Annual earnings are not shown on the Statement of Pension Benefits

2. The maximum annual CPP Benefit is calculated as 23.72% of average earnings for 36 months preceding the Normal Retirement Date

Appendix 2

ACTUARIAL TERMS AND CALCULATION METHODS

This Appendix defines some of the terms used by the actuary in calculating the value of liabilities and describes the nature of actuarial calculations of liabilities.

Present Value

The “Present Value” of a future pension payment is the amount of money which, if invested today at a specified interest rate compounded, would produce the amount of the future pension payment.

Calculation of Present Value

The Present Value of a future pension payment is the amount of the future payment divided by a “discount factor”. The discount factor represents the result of investing one dollar now at a specified interest rate compounded over the period from now until the date of the future payment.

Present Value of a \$1,000 Payment Three Years From Now

- 1. Interest rate per annum = 5%
- 2. Discount factor = Investment of \$1 at 5% compounded for 3 years = 1.1576
- 3. Present Value = $\frac{\$1,000}{1.1576}$ = \$863

How to Calculate The Discount Factor

<u>Year</u>	<u>Beginning Balance</u>	<u>Annual Interest Interest Rate</u> <u>5%</u>	<u>Discount Factors = Ending Balance</u>
1	1.0000	0.0500	1.0500
2	1.0500	0.0525	1.1025
3	1.1025	0.0551	1.1576

A short-cut method for calculating the discount factor is to multiply the discount factor at the end of the first year (1.05) times itself for the number of years remaining to the year of the future payment. For example, the discount factor at the end of the third year is equal to $1.05 \times 1.05 \times 1.05 = 1.1576$. For those with calculators having an exponential function capability, the discount factor in the above example is calculated simply as $(1.05)^3$.

Expected Present Value the present value of a future (pension) payment multiplied by the probability (i.e., the percentage chance) that the retiree will be alive to receive the payment

Example Calculation of Calculation of Expected Present Value

Joe Smith retires at age 65 on an annual life only pension of \$1,000 a year. The actuary determines, on the basis of mortality tables, that Joe has a 50% chance of living to the tenth year and collecting his \$1,000 payment.

The discount factor for calculating the Present Value is 1.05 multiplied by itself ten times = 1.6288.

The present value (i.e., the value today) of the \$1,000 payment in year 10

$$\frac{\$1,000}{\text{Discount Factor of 1.6288}} = \$613.95$$

The Expected Present Value = \$613.95 x 50% = \$306.97

Commuted Value - a lump sum amount that is equivalent in value to a series of future payments. For example, the initial amount of a mortgage on a house represents a lump sum amount (i.e., a commuted value) that is equal in value to all monthly mortgage payments to be made over the term of the mortgage.

The commuted value of a series of future pension payments is the sum of the Expected Present Values of all possible future pension payments. [See also the term Expected Present Value] The commuted value is determined by the Actuary in accordance with the *Pension Benefits Act*, the *Income Tax Act* and Regulations thereunder, and any other applicable legislation.

Actuarial Equivalent - the amount of an initial monthly pension under an alternative form of pension that has the same Commuted Value as the initial form of pension. Forms of pension vary depending on the period over which pensions are made and on the percentage of the retiree's pension that goes to his/her spouse. [See the section of Forms of Pension, and "Commuted Value"]

Example Calculation of an Actuarial Equivalent Pension

Upon retirement Mary Jones is entitled to a monthly pension of \$2,000 in the Normal Form. The Normal Form pension is guaranteed for the rest of her life with a further guarantee of at least 60 monthly payments (i.e., for five years) from the date of her retirement. If she dies before receiving all 60 payments, her beneficiary (or estate) will receive the balance of the 60 payments that are unpaid at her death. The actuary determines that the Commuted Value of Mary's Normal Form pension is \$300,000.

Mary, however, chooses an optional Life Only pension which guarantees her a pension for the rest of her life but without a guarantee of 60 payments. The actuary determines that the Commuted Value of the Life Only monthly pension of \$2,000 is \$270,000 which is \$30,000 below the \$300,000 Commuted Value of the Normal Form monthly pension of \$2,000. Therefore the actuary raises her amount of the Life Only pension to \$2,222 which has a Commuted Value of \$300,000. For this reason the \$2,222 Life Only monthly pension is said to be “actuarially equivalent” to the \$2,000 Normal Form pension.

Appendix 3

GLOSSARY OF PENSION FINANCE TERMS

Actuarial Equivalent - the amount of the commuted value of a different stream of future pension payments promised that is identical to the commuted value of a first stream of future pension payments promised. See the definition of commuted value below.

Annuity – an investment of money entitling the investor to a series of equal annual sums over a period of years. For example a life only annuity pays equal annual sums during the life of the recipient (annuitant). A fixed term annuity for 10 years of course would guarantee payment of the annual sums for each year in the ten-year period.

Best Average Earnings - the annual average of thirty-six months of highest earnings (while a member of the Pension Plan) during all their years of employment with the University prior to their Normal Retirement Date.

Commuted Value - a lump sum amount that has the equivalent value to a series of future payments. For example, the initial mortgage on a house represents a lump sum amount (i.e. commuted value) that is equivalent in value to all future monthly mortgage payments to be made over the term of the mortgage. The commuted value of a series of future pension payments is the sum of the expected present value of all possible future pension payments. The commuted value is determined by the Actuary in accordance with the *Pension Benefits Act*, the *Income Tax Act* and Regulations thereunder, and any other applicable legislation. [See also the term Expected Present Value]

Credited Service – the total number of years in which the Member contributed to the Pension fund at the full rate during their span of employment at St. Michael’s. Part time-employees get a fraction of a year of Credited Service based on the fraction of the full contribution that they make. See section 13 for more details.

Deferred Pension - a delay in the payment to a future date of a pension to which a Member is entitled.

Earnings - includes base salary but excludes commissions and overtime pay.

Form of Pension - refers to the period over which monthly pensions are paid and/or the percentage of the retiree's pension to be paid to his/her surviving spouse upon his/her death. Members may choose from several optional periods (1) for the life of the retiree (life only), (2) for the life of the retiree but with a guarantee of five years of monthly payments (this is called the "**normal form**"), (3) for the life of the retiree but with a guarantee of ten years of monthly payments. Married members must choose from the mandatory 60% or a higher percentage than 60%. If the spouse consents, lower percentages than 60% may be chosen.

Total Normal Cost - The estimated value of pension benefits earned during a year as determined by the actuary. Sometimes referred to as normal actuarial cost.

Normal Form Pension

A pension payable in monthly installments guaranteed for the rest of the life of the retiree but with an additional guarantee that at least 60 monthly payments will be paid should the retiree die with less than five years of retirement.

Present Value - of a future pension payment is the amount of money which, if invested today at a specified interest rate compounded, would produce the amount of the future pension payment. See the Appendix for more details on how Present Values are calculated.

Total and Permanent Disability - a physical or mental impairment which prevents a Member from engaging in any employment for which he is reasonably suited by virtue of his education, training or experience and that can reasonably be expected to continue for the remainder of the Member's lifetime and which is certified, in writing, by a medical doctor licensed in Canada.

Un-funded Liability – the shortfall of assets relative to liabilities calculated by the actuary on a going concern basis.

YMPE – stands for the *Years Maximum Pensionable Earnings*. YMPE is an amount close to the average industrial wage in Canada that is used as the base to calculate the maximum Canada Pension Plan benefit for a given year. Specifically the maximum CPP benefit is about 25% of the YMPE in excess of \$3,500.00. Consequently YMPE is also referred to as the maximum CPP salary. The YMPE and the maximum CPP benefit are adjusted each calendar year to keep more or less pace with the rate of inflation. See the earlier note on the CPP on page 7 for trends in the maximum CPP salary (i.e., YMPE).