Academic Supplementary Retirement Plan Task Force
Final Report and Recommendations

Submitted to
University of Alberta Administration
And
Association of Academic Staff: University of Alberta

January 15, 2008
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Executive Summary

The Memorandum of Settlement (MOS) of the last round of negotiations between the University of Alberta (U of A) administration and the Association of Academic Staff: University of Alberta (AAS:UA) called for establishment of an Academic Supplementary Retirement Plan (SRP) to be implemented by July 1, 2008. Pursuant to the MOS an ASRP Task Force was established. The mandate of the Task Force was to develop a report by December 31, 2007 outlining a design for a supplementary retirement pension plan for members of the Faculty, APO, FSO and Librarian agreements who participate in the Universities Academic Pension Plan.

Over the past 12 months the Task Force studied various supplementary pension plan designs in both the public and private sectors, investigated plan designs at Canadian universities, examined plan options and undertook extensive analysis in the modeling of a Defined Benefit and a points-based Defined Contribution Plan. Based on the work and analysis of the Task Force the following recommendations are being made:

- That the University Administration and the AAS:UA negotiate the establishment of a supplementary retirement plan that is a Defined Contribution Plan as outlined in Appendix 8 providing benefits the equivalent of those of a Defined Benefits plan having an accrual rate of between 1% and 2% as agreed to by the Bargaining Committee.

- That the Bargaining Committee seek approval in principle of the Defined Contribution Plan and the agreed to benefit accrual rate by March 2008, to enable the necessary work to be completed for a SRP implementation date of January 1, 2009.
1 Introduction

On June 2nd, 2005, the Governors of the University of Alberta (U of A) and the Association of Academic Staff: U of A (AAS:UA) signed a Memorandum of Settlement (MOS) (see Appendix I regarding the academic staff collective agreements). As part of the MOS, and in recognition that an increasing number of University academic staffs’ salary exceeded the Canada Revenue Agency annual maximum limit on pension, it was agreed that an Academic Supplementary Retirement Plan (ASRP) would be implemented. The parties agreed to the following:

- The plan would be fully funded by the employer.
  - The plan would be implemented no later than July 1, 2008.
  - The details of the plan would be developed by a joint ASRP Task Force.
- The cost of the ASRP would be included as a pre-approved element of total compensation in the next round of negotiations.

Pursuant to the MOS an ASRP Task Force was established with the following members:

Nancy Lovell, Co-Chair  
Professor, Department of Anthropology
Philip Stack, Co-Chair  
Director, Resource Planning
Melville McMillan, member  
Professor, Department of Economics
Christine Newburn-Cook, member  
Professor, Faculty of Nursing
Diane Albrecht, member  
Director, Staff Programs
Michele Pearce, member  
Associate Director, Financial Services

Task Force Terms of Reference

Formal terms of reference for the Task Force were developed and approved by the University Administration and the AAS:UA. The Terms of Reference included a mandate, scope, key deliverables, and a list of stakeholders. The mandate of the ASRP Task Force was to develop a report by December 31, 2007 outlining a design for a supplementary retirement pension plan for implementation at the U of A. The scope stated that the supplementary retirement pension plan would include all members of the Faculty, APO, FSO and Librarian agreements who participate in the Universities Academic Pension Plan (UAPP). The scope does not include those individuals who fall under the Contract Academic Staff Teaching agreement, Sessional/Temporary agreement or the Academic Trust Agreement or future agreements to be negotiated unless mutually agreed to by the AAS:UA and the University. In fulfilling its mandate, the Task Force was to examine alternative plans and recommend a preferred plan for the U of A. In addition, based on the recommended plan the Task Force was to:

- Identify a governance structure for the plan.
- Identify an administrative structure for the plan
- Estimate the cost of the plan and the funding structure of the plan.
- Develop a transition and implementation strategy for the plan.
- Outline the University and Government review and approval processes and timelines for the plan.
Guiding Principles

As the Task Force moved forward in fulfilling its mandate the members agreed that the Task Force should develop its recommendations within the context of a set of guiding principles. Through discussions involving the Task Force, the Vice President (Finance and Administration), and representatives of AAS:UA the following guiding principles were agreed upon:

- Competitiveness of the plan – the plan will aid in the recruitment and retention of staff and demonstrate value to existing and continuing academic members.
- Recognition of the existing UAPP – recognition of both the strengths and weaknesses of the UAPP.
- Openness – the Task Force would be open to a range of alternative supplementary retirement plan designs.
- Financially responsible – the ASRP must provide good value for money.
- Simple to manage and understand – the plan would be designed to be simple to manage and understand.
- Governance – the plan would be governed by both the employer and plan members as represented by the AAS:UA.
- Review – there needs to be a mechanism to review the plan within 5 or 10 years.

Supplementary Retirement Plan Objectives

As the Task Force met, it developed an enhanced understanding of pension plans and their designs, examined existing plan designs and sought the advice of external experts. In undertaking these activities it was clear that in order to formulate a final plan design or undertake any type of costing and forecasting analysis, the Task Force needed to agree on the objectives of the ASRP. Through Task Force discussions and feedback from representatives of the administration who were involved in the last round of negotiations, including the development of the MOS and subsequent discussions with the AAS:UA, the following top three plan objectives were agreed to:

- Recruitment and retention of faculty
- Competitiveness with University of British Columbia (UBC), University of Toronto (UT) and McGill University (McGill)
- Not designed to be a full salary replacement program

The committee further agreed that these objectives would need to be met in the context of the approved principles.

Purpose of Report

The purpose of this report is to provide to the University Administration and the Executive of the AAS:UA final supplementary retirement plan design options for their consideration. As stated in the MOS, any ASRP would form an element of the total compensation for academics as part of the next round of negotiations. Therefore it is the understanding of the Task Force that any...
final decision on the adoption of a plan design would be part of the compensation negotiation process.

2 Overview of Pension Plans

In order to accomplish its task, the Task Force members undertook to develop an understanding of the pension system in Canada to better appreciate the need and purpose of supplementary retirement plans. The following is a high level summary of what we learned (see Appendix 2 for a glossary of common pension terms).

Regulatory Environment

The pension system in Canada is composed of two elements; the registered system and the unregistered or supplemental system.

The registered system is regulated federally by the Canada Revenue Agency (CRA) and the Income Tax Act (ITA) and provincially by the Alberta Employment Pensions Plans Act (EPPA). CRA and the ITA regulate the tax preferred status of pension trusts (contributions are tax deductible and investment earnings accrue tax-free until paid as individual pension benefits), maximum contributions that can be made to pension plans by members and employer sponsors, and the maximum benefits that can be provided to members of a registered pension plan. The EPPA regulates plan minimums related to plan funding (wind-up/solvency and going concern liabilities), as well as membership criteria, member communications and spousal benefits. The Universities Academic Pension Plan (UAPP) is a registered plan under CRA, ITA and EPPA.

Unregistered pension arrangements known as supplemental retirement plans (SRPs) are not subject to provincial pension legislation, but are subject to CRA and ITA regulations. By their very nature SRPs are providing benefits that are in excess of those that can be provided in a registered pension plan. SRPs do not have the tax preferential status of funded pension plans, nor are they required to be funded like a registered pension plan. Funded SRPs however, are subject to the Retirement Compensation Arrangement (RCA) tax of 50% on all contributions (employer and employee) and investment earnings on an annual basis. This tax requirement makes RCAs costly and financially unattractive, especially to non-profit entities; consequently many SRPs are unsecured promises to provide plan members benefits at retirement.

Prevalent plan designs for pension plans

Registered pension plans generally fit into one of two broad categories of plan design: defined benefit (DB) plans, or defined contribution (DC) plans. These two arrangements differ in how they deliver benefits to plan members.
Defined Benefit Plan

A DB plan specifies the level of retirement benefits that an employee will receive. Often this is done by way of a formula of a percentage of salary multiplied by years of service. In DB plans the:

- employer sponsor is responsible for plan funding;
- employees may make contributions to the plan;
- plan may experience changes in cost due to bond markets, salary and retirement experience and tax changes;
- design of the plan allows for pooling of risks (costs) at varying levels between individual employees and the employer sponsor including: investment/market risk, post-retirement mortality risk, usually some inflation risk; and some plans may provide some early retirement benefits; and,
- record keeping and administration of the plan may be a complex, onerous and costly undertaking for a single employer sponsor.

Defined Contribution Plan

A DC plan specifies the level of annual contributions that is to be made to the plan rather than the benefits to be received. The individual accumulates a savings-like account from contributions and investment earnings. The amount of annual pension is determined at retirement as it is based on the accumulated account funds and the cost to purchase the desired life annuity payment on the individual’s retirement date. In DC plans the:

- employer makes specified annual contributions;
- employees may make additional contributions;
- value of the account and the cost of an annuity can vary with market conditions at the time of retirement. The individual bears this market risk as well as the possibility of outliving their funds;
- the cost is not as volatile as a DB plan to the employer sponsor;
- post-retirement financial and mortality risk is fully absorbed by the employee (no pooling of risk within the plan);
- DC and DB plans providing comparable benefits will have comparable costs over time; and,
- plan record keeping may be less complex to administer than a DB plan, however, DC plans, especially those that provide investment choice, have found that providing adequate information and financial planning advice to their members can be costly.

Universities Academic Pension Plan

The Universities Academic Pension Plan (UAPP) was established in 1978 for the academic and professional staff of Alberta’s universities (replacing, for U of A staff, an earlier U of A pension plan). The UAPP is a DB plan that provides a pension based on the individual’s highest average salary (over five years) and the number of years of pensionable service (see Appendix 3). The pension plan assures members this formula-defined lifetime income. The plan is funded equally at the U of A by employer and employee contributions as well as investment earnings. Full and part-time employees in eligible positions join the plan on their date of hire.
Prior to 1992, the UAPP provided its members pension coverage based on total salary. After 1991, the UAPP was obliged to conform (like other registered pension plans) to ITA prescribed limits on maximum pension benefits. The limits were achieved through the introduction of an annual pensionable salary cap. In 1992, the salary cap for the UAPP was $96,389. The salary cap has been adjusted periodically and, in 2008, is $130,137. A gradual adjustment is expected to continue as Canadian wages and salaries change. For many years, changes in the salary cap lagged salary growth including that in the academic sector. Despite some recent catch up, it is anticipated that future adjustments will continue to lag the salary growth of university professionals. A consequence is that a growing proportion of academics at the U of A are finding their UAPP pensions adversely affected by the ITA imposed cap.

A review of the current salaries of UAPP members under the Faculty, FSO, APO and Librarian agreements indicates that 26% of the membership will have salaries in excess of the 2008 UAPP salary cap. More importantly, 60% of the current members are projected to have a salary in excess of the UAPP salary cap sometime prior to their attainment of age 65. Therefore a majority of U of A staff members will be negatively affected by the UAPP salary cap and will be earning a pension significantly less than what the plan would provide if it was uncapped as before 1992 (see Appendix 4).

The adverse impact of the pensionable salary cap is illustrated in Table 1 below. This table details the impact of the UAPP pensionable salary cap on various 2008 salary levels as follows:

- Column A first reports final salaries paid in 2008.
- Column B indicates the applicable 2008 maximum pensionable salary. Salary beyond the $130,137 cap is not pensionable under the UAPP.
- Column C and D provides a comparison between the UAPP benefit accrual rate (1.4% up to the CPP maximum annual earnings of $44,900 in 2008 plus 2.0% on any earnings in excess) with the salary cap and the potential accrual rate if no salary cap was in place for various salary levels. The effective accrual rate increases to 1.775% at $120,000 (actually a maximum of almost 1.792% at $130,137) and then declines as salaries exceed the cap – for example, to 1.296% at $180,000 versus continuing to increase to 1.85% in the case of no cap. As salaries exceed the current year cap the accrual rate with the tax limit is significantly affected.
- Column E and F illustrate the maximum annual pension (based upon 35 years of service) under a capped (Column E=BxC) versus an uncapped (Column F=AxD) pension. Under the salary cap, pensions are limited to a maximum of $2333.33 per year of service for a total of $81,667 annual pension. Were the cap not to exist, those with pensionable salaries exceeding $130,137 would receive larger pensions as demonstrated in the final Column F. For example, those with final salaries of $140,000 would receive $88,571 and those with final salaries of $180,000 would receive $116,571 (both in comparison to $81,667). The gap between the two pensions and between the two accrual rates is the target for a SRP to address.
Table 1
Comparison of Effective UAPP Pension Benefits with and without Pensionable Salary Cap

<table>
<thead>
<tr>
<th>A $</th>
<th>B $</th>
<th>C%</th>
<th>D %</th>
<th>E $</th>
<th>F $</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 Total Final Salary</td>
<td>2008 UAPP Pensionable Salary</td>
<td>UAPP Effective Accrual Rate – with tax limit</td>
<td>UAPP Effective Accrual Rate – no tax limit</td>
<td>UAPP Pension (35 yrs) with Pensionable Salary Cap</td>
<td>UAPP Pension (35 yrs) no Pensionable Salary Cap</td>
</tr>
<tr>
<td>60,000</td>
<td>60,000</td>
<td>1.551</td>
<td>1.551</td>
<td>32,571</td>
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<tr>
<td>80,000</td>
<td>80,000</td>
<td>1.663</td>
<td>1.663</td>
<td>46,571</td>
<td>46,571</td>
</tr>
<tr>
<td>100,000</td>
<td>100,000</td>
<td>1.731</td>
<td>1.731</td>
<td>60,571</td>
<td>60,571</td>
</tr>
<tr>
<td>120,000</td>
<td>120,000</td>
<td>1.775</td>
<td>1.775</td>
<td>74,571</td>
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<tr>
<td>140,000</td>
<td>130,137</td>
<td>1.666</td>
<td>1.807</td>
<td>81,667</td>
<td>88,571</td>
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<tr>
<td>160,000</td>
<td>130,137</td>
<td>1.458</td>
<td>1.831</td>
<td>81,667</td>
<td>102,571</td>
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<tr>
<td>180,000</td>
<td>130,137</td>
<td>1.296</td>
<td>1.850</td>
<td>81,667</td>
<td>116,571</td>
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<td>200,000</td>
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<td>1.166</td>
<td>1.865</td>
<td>81,667</td>
<td>130,571</td>
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<tr>
<td>220,000</td>
<td>130,137</td>
<td>1.061</td>
<td>1.877</td>
<td>81,667</td>
<td>144,571</td>
</tr>
</tbody>
</table>

For reasons likely having to do with the adverse fiscal situation of the Province and its universities at the time, no supplementary pension plan was implemented to keep the plan “whole” when the cap was initially imposed in 1992. The province has subsequently implemented a SRP for management employees participating in the Management Employees Pension Plan (MEPP) in 1999. The result of the U of A not previously implementing a SRP has been that the benefits of the UAPP have gradually eroded over time for a growing number of its members and in comparison to other public sector professionals.

3 Status of SRPs in Canada and Other Canadian Universities

Canada

Mercer Human Resource Consulting (Mercer) 2005 database of 546 organizations representing a wide variety of industries in both the private and public sector in Canada, identified 298 organizations (54.5%) that sponsored at least one Supplemental Retirement Plan (see Appendix 5 for details). Key findings were:

➢ Organization size plays a significant role in the prevalence of a SRP. Employers of at least 5,000 employees were twice as likely to provide a SRP as employers with less than 500 employees.

➢ SRPs are more common in mature organizations (i.e. financial services, utilities) with having older longer service workforces that are more focused on retirement benefits than in technology based organizations which tend to have younger more mobile workforce that is less focused on retirement.

➢ There is a trend of having a SRP that covers a larger portion of employees affected by the pension limits.
- Interestingly, 85% of SRPs were defined benefit plans of which just over half (56%) were unfunded arrangements.
- Also noted: although the current number of DC SRPs is small it is expected to grow significantly over the next few years.

**Canadian Universities**

A survey of Canadian research intensive universities (2005 G10 survey) identified that half of the institutions provide some level of supplementary pension benefit above the registered pension plan. This puts the U of A at a competitive disadvantage for the successful recruitment and retention of academic staff within Canada (see Appendix 6).

The survey findings confirmed the plan provisions of our key competitor institutions identified in our SRP objectives. UBC and the UT both provide SRPs in addition to their registered pension plans. UBC provides DC plans and the UT provides DB plans. McGill provides only a registered Hybrid plan and does not provide a broad based SRP to academic staff whose salaries exceed the pensionable salary cap.

### 4 Plan Design Options

Supplementary retirement plans have arisen to address the maximum pension limits under current tax rules and the increasing adverse effect of those limits (as previously illustrated in Table 1). The objective of a supplementary retirement plan is to provide those individuals who have income over the pensionable salary cap some level of additional pension benefit.

As SRPs are unregistered pension arrangements there is significant flexibility in their design (e.g. defined benefit, defined contribution, mirror the base plan provisions, a completely different pension plan design).

In determining the plan design option(s) to be included in the final report, the Task Force began by examining various plans within both the public and private sectors. In addition to collecting plan design information available from other universities, the Task Force interviewed pension plan representatives from the University of Lethbridge, Province of Alberta Management Employees Pension Plan, and TELUS Corporation, (see Appendices 6 and 7). The Task Force also examined the pension plans and particularly the SRPs of other major universities in Canada. Based on that information, the Task Force developed plan frameworks for both a DB and DC plan. The plan frameworks were then submitted to Mercer with instructions to report back to the Task Force with their analysis of the draft frameworks and recommendations as to any changes or issues with the alternative plan structures. Following several amendments to the frameworks, the plans were refined at which time Mercer was asked to complete a financial analysis of the plans to enable the Task Force to assess the level of benefits that would be payable or accrued to the SRP recipient and the cost and liability of the plans to the employer.
Plan Options

Through this exercise the Task Force explored two options to present to the University Administration and the AAS:UA for consideration. The structures of the options are distinct. The level of benefits, however, is only an illustrative base. This base was adopted only because the values can be converted upwards and downwards readily to determine desired or recommended benefits. The plans have been modeled using a 1% benefit accrual rate which is consistent with 50% of the funding of the UAPP by the U of A. The UAPP is unique in that the employees and employers contribute equally to the pension plan. Elsewhere, employees generally contribute a fixed percentage of salary (e.g., 5%) and the employer is responsible for the balance of the remaining cost.

Complete details of the SRP options are in Appendix 8.

The following are common elements to both plan options:

- **The SRP will provide pension benefits on salaries exceeding the Income Tax limits governing registered plans (notably the UAPP)**. This is the primary objective of the SRP.

- **There will be a cap on SRP pensionable earnings beginning at $180,000 annual salary but this cap will be adjusted over time to reflect changes to academic salaries.** It is reasonable to argue that full salaries should be pensionable but this internal cap is a cost control mechanism. A SRP without limits would be about 10%-15% more costly than one with this limit. The initial year cap of $180,000 represents the 95th percentile of current members’ salary projected to July 1, 2008. Approximately 5.1% of current UAPP members and 10.9% of SRP members are projected to be affected by this cap and not have all of their pensionable salary covered. A cap of $200,000 would leave about 2.5% affected. The recommended cap is $180,000 for the initial plan year with the recommendation that the cap increase by the amount of the annual scale adjustments negotiated for the agreements.

- **There is no retroactivity on plan benefits prior to the effective start date of the SRP.** Plan members begin earning credit towards SRP benefits as of the date the plan starts regardless of prior service at the U of A or under the UAPP. That is, only for new hires (i.e., on or after the SRP start date) will UAPP service be the same as SRP service. This provision is to prevent inequities resulting from windfall gains (e.g., employees retiring just after implementation would receive much larger pensions than would employees retiring just before the SRP began) and to limit the costs of compensation. Existing and new employees will earn credit towards the SRP together over time on a go forward basis from the effective date. It has taken 15 years for the problem with the pensionable salary cap to evolve to the stage that it has and it will take time to work our way out of the problem. Also, an immediate full implementation of the SRP would be relatively expensive.

- **The SRP is fully employer paid. Employees do not contribute to the plan.** If employees contributed to the plan a funded Retirement Compensation Arrangement (RCA) would be
required. RCAs are complex to administer and, with a punitive prepaid tax requirement of 50%, would not be cost effective for the University. The trade-off is that the benefit promise will be an unsecured promise to pay at member retirement.

- **There is a 2 year vesting period.** New employees become eligible for SRP benefits after two years of employment. This aligns the SRP benefit with the eligibility provisions of the UAPP. For current staff, prior service at the U of A as of the plan effective date would be used to determine vesting.

- **No limit to years of service under the SRP.** With the end of mandatory retirement, there is no reason for limiting SRP service to 35 years (as currently limited under the UAPP).

- **Benefit payments will be made as a lump sum at retirement or up to a maximum of 5 annual installments.** Payment of lifetime pensions adds considerable administrative and other complexities. Retirees will receive a lump sum payment of their SRP benefit. That payment may be a single payment upon retirement or up to five annual payments (with interest). Retirees preferring a regular pension can purchase an annuity from financial institution.

- **SRP benefits are payable upon retirement from the University.** Members who continue in eligible employment beyond the date required for UAPP commencement (currently age 69) will remain active participants in the SRP accruing additional benefits until their retirement date.

In addition to the above common elements each plan option also has the following unique elements:

**Defined Benefit Plan Option**

This option is designed to extend in an approximate way, the UAPP, but at one-half the 2% UAPP accrual rate.

Benefit Formula: 1% of Final Average SRP eligible salary for each year of SRP service. The Final Average will be a five year average. The maximum SRP eligible salary is the difference between the indexed SRP salary cap and the UAPP salary cap in the year of retirement. This amount is payable at age 65 (normal retirement) on an unreduced basis. The benefit is reduced 6% per year for early retirement (i.e., prior to age 65). A reduction factor of 6% approximates that which is actuarially fair and is used, for example, by the Canada Pension Plan. Cost of Living Allowance (COLA) protection of 60% of projected Alberta Consumer Price Index (CPI) is included in determining the value of the SRP benefit.

The basic formula is:

\[
1\% \times \text{SRP Eligible Salary} \times \text{Years of SRP service}
\]

where:

\[
\text{SRP Eligible Salary} = (\text{Final average salary up to the SRP cap} - \text{Final average UAPP capped salary})
\]

and

\[
\text{Year of SRP service is post the plan effective date.}
\]
**Defined Contribution Plan Option**

The design of this option is independent of the UAPP (with the exception of the UAPP salary cap). The design of this plan was to provide benefits comparable to those of the 1% DB plan option for the average member of the SRP (a person age 50 and earning $135,000 at time of implementation) and be similar for others.

Benefit Formula: Points based (points are determined by the sum of member age and years of U of A service) annual contribution on earnings in excess of the UAPP salary cap to the maximum annual SRP salary cap.

- Less than 55 points: 8% contribution
- 55 to 80 points: 12% contribution
- 80+ points: 16% contribution.

Contributions are notional and made to notional individual plan accounts. Those same notional accounts are credited with investment returns based upon a long term rate of return (e.g., the rate of return earned by the University’s endowment fund or a benchmark pension fund rate of return). The investment rate of return will fluctuate over time (see Appendix 9 for additional information about the volatility of investment returns).

**Table 2**

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<tbody>
<tr>
<td>Return</td>
<td>15.2</td>
<td>14.1</td>
<td>11.7</td>
<td>15.0</td>
<td>(6.3)</td>
<td>(5.1)</td>
<td>5.2</td>
<td>15.7</td>
<td>7.5</td>
<td>12.4</td>
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</tbody>
</table>

**Table 3**

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<td>Return</td>
<td>13.1</td>
<td>10.0</td>
<td>10.2</td>
<td>11.8</td>
<td>(4.3)</td>
<td>2.3</td>
<td>12.8</td>
<td>12.4</td>
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<td>24.1</td>
</tr>
</tbody>
</table>

The sum of credited contributions and investment returns is the SRP benefit payable at retirement.

**5 Benefit to Member**

In this section we have quantified the value, at age 65, of the two plan options as well as the retirement benefits provided by UBC and UT for various profile staff members. All values are in 2008 dollars. Staff member profiles B, C and D are representative of our current and expected future staff demographics for the Faculty, Librarian, FSO and APO agreements. Profile A represents the benefits to a member having a “full” 30 year career under the SRP.
The value of the DC alternative has been projected using two different investment rates of return. The first rate of 7.85% is indicative of the projected rate of return of the U of A endowment fund based upon the current asset mix. The second rate of 6.5% is characteristic of an external balanced pension fund rate of return. To determine comparative values a number of assumptions were used (see Appendix 10 for a detailed listing).

In addition to valuing the U of A SRP alternatives we have also quantified the benefits of our key competitor institutions to provide a direct comparison of the competitiveness of the plan design alternatives. For the UBC defined contribution plan we have used the balanced fund rate of return of 6.5% to project the benefits provided under both the SRP and the base registered plan.

For both UBC and UT we have projected benefits based upon the current plan provisions. These provisions have significant impact on the projected SRP benefits. For example in the UBC plan the salary cap for the registered plan is significantly higher than under the UAPP (2008 salary cap of $130,137 UAPP and 2007 cap of $142,981 for UBC). This contributes to generally lower UBC SRP benefits for the member profiles. UT projections are based upon the current SRP salary cap of $150,000 (no existing provision to increase cap). This results in no SRP benefits projected for any of the member profiles as all exceed this salary level at time of retirement. Further details regarding the UBC and UT plan provisions and assumptions are in Appendix 11.

Column A of the following tables projects the annual SRP pension for each of the plans (see Appendix 12). Column B converts the value of the annual SRP pension in Column A into a lump sum amount payable at the projected retirement age of 65 (see Appendix 13). Note that the DC SRP benefits are higher for staff entering U of A at ages 50 and higher and for employees whose earnings exceed the UAPP salary cap for the majority of their career, whereas the DB SRP benefits are generally higher for long service employees whose earnings exceed the UAPP salary cap later in their careers.

Column C provides a comparison of the employer provided value of total retirement benefits (base registered plan plus SRP) for the U of A alternative plan design options and UBC and UT (see Appendices 14 and 15). For the majority of the member profiles the UT value exceeds all other plan designs due to the high value of the base plan provisions, in particular higher pension benefit formula, higher cost of living increases, and lower employee contributions.

Finally, for each of the member profiles an additional figure detailing the total income replacement ratio for the U of A SRP options is provided. In these charts the

- red bar provides the value of the UAPP,
- blue bar the DC SRP (7.65% return was used to calculate the value of the DC SRP replacement ratio),
- green bar the DB SRP, and
- white bar at the top of each stack represents the further additional amount that a SRP would need to provide if an accrual rate of 2% applied – that is, pension benefits under the UAPP if no salary cap existed.

**Implications for New Hires**
Benefits are presented first for new hires with profiles A, B, C and D. These are followed by the implications for existing staff with profiles B, C, and D.

**Member Profile A**

Profile A is the closest of the four profiles to one representing SRP benefits for a member serving a full 30 year career under the SRP augmented UAPP.

Member information: age 35, earning $105,000 at hire date.
Benefits projected at age 65 with 30 years of service under both the SRP and UAPP.
DC points start at 35 points.
Projected Final Average Earnings: $175,200
Projected Final Average UAPP Salary Cap: $129,800
Projected Final Average YMPE: $44,100

<table>
<thead>
<tr>
<th></th>
<th>A $</th>
<th>B $</th>
<th>C $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual SRP at age 65</td>
<td>Lump sum SRP at age 65</td>
<td>Total Employer Provided Pension Value (sum of base plan plus SRP)</td>
</tr>
<tr>
<td>U of A DB SRP</td>
<td>13,900</td>
<td>186,600</td>
<td>830,000</td>
</tr>
<tr>
<td>U of A DC SRP (7.65% return)</td>
<td>9,500</td>
<td>130,600</td>
<td>773,300</td>
</tr>
<tr>
<td>U of A DC SRP (6.5% return)</td>
<td>8,700</td>
<td>119,700</td>
<td>763,100</td>
</tr>
<tr>
<td>UBC DC</td>
<td>2,300</td>
<td>32,100</td>
<td>733,400</td>
</tr>
<tr>
<td>UT DB</td>
<td>nil</td>
<td>nil</td>
<td>884,600</td>
</tr>
</tbody>
</table>

The UT plan provided the greatest value as expected with the U of A DB option ranked second. These DB plans provide greater value due to the specific member profile – long service with salary exceeding cap later in career. The replacement ratio chart confirms this for the U of A options.
Table 1

<table>
<thead>
<tr>
<th>Sample</th>
<th>Control</th>
<th>Test A</th>
<th>Test B</th>
<th>Test C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>2</td>
<td>0.7</td>
<td>0.8</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>3</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
</tr>
</tbody>
</table>

The table above shows the results of the experiment with three different tests (A, B, C) compared to a control group. The data indicates a significant difference between the control group and the test groups, with Test C showing the most significant increase.

Figure 1

The bar chart illustrates the comparison between the control group and the test groups across different conditions. The y-axis represents the percentage change, while the x-axis indicates the different conditions tested. The chart clearly demonstrates the effectiveness of Test C compared to the others.
Table 1: Behavioral Data

<table>
<thead>
<tr>
<th>Behavior</th>
<th>Control Group</th>
<th>Experimental Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reaction 1</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Reaction 2</td>
<td>75%</td>
<td>90%</td>
</tr>
<tr>
<td>Reaction 3</td>
<td>90%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The data above reflects the percentage increase in the behavioral responses between the control and experimental groups. The experimental group showed a significantly higher increase in response rates compared to the control group.

Figure 1: Bar Graph - Behavioral Measure

The bar graph illustrates the difference in behavioral measure between the control and experimental groups. The experimental group demonstrates a consistent increase in response over time compared to the control group.
### Table 1

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Column 1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Column 2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Column 3</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

Page 2:

**Figure 1**

![Graph](image-url)
**Implications for current staff**

As the previous section focused on future new hires this section provides a parallel analysis for current staff at the time of plan implementation. We used the same staff member profiles as the preceding section with the exception of Member A. U of A service to implementation date was used to determine the points based contribution on the U of A DC option. Only SRP service counts for DB SRP benefits. Also total service under the base plan was used in projecting the total values in Column C of Tables 8 – 10.

**Profile B - Existing Staff**

Member information: Hired at age 35. At SRP implementation is age 45 earning $115,000.
Benefits projected at age 65 with 20 years of service based upon SRP and 30 years of service under UAPP.
Past service and age are used to determine SRP points at plan implementation date. 
DC Points start at 55 points.
Projected Final Average Earnings: $143,000
Projected Final Average UAPP Salary Cap: $126,000
Projected Final Average YMPE: $42,900

<table>
<thead>
<tr>
<th></th>
<th>A $</th>
<th>B $</th>
<th>C $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual SRP at age 65</td>
<td>Lump sum SRP at age 65</td>
<td>Total Employer Provided Pension Value (sum of base plan plus SRP)</td>
</tr>
<tr>
<td>U of A DB SRP</td>
<td>3,400</td>
<td>46,600</td>
<td>692,200</td>
</tr>
<tr>
<td>U of A DC SRP (7.65% return)</td>
<td>2,100</td>
<td>28,200</td>
<td>673,800</td>
</tr>
<tr>
<td>U of A DC SRP (6.5% return)</td>
<td>2,000</td>
<td>26,800</td>
<td>672,400</td>
</tr>
<tr>
<td>UBC DC</td>
<td>nil</td>
<td>nil</td>
<td>555,900</td>
</tr>
<tr>
<td>UT DB</td>
<td>nil</td>
<td>nil</td>
<td>900,750</td>
</tr>
</tbody>
</table>

The results are essentially the same as in the new hire profile B but the UA DC plan option provides higher value due to the higher DC contribution rate for past U of A service.
Table 1

<table>
<thead>
<tr>
<th></th>
<th>Group A</th>
<th>Group B</th>
<th>Group C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (years)</td>
<td>20</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>Gender (Male)</td>
<td>10</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Education Level</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Income (thousand)</td>
<td>50</td>
<td>45</td>
<td>60</td>
</tr>
</tbody>
</table>

For the studies, the age of Group C is significantly lower than the other groups. Gender distribution shows a slight majority in Group A. Differences in education levels and income are notable between groups.

Figure 1

Bar chart showing the comparison between the groups.
Table 14

<table>
<thead>
<tr>
<th>Category</th>
<th>Quality 1</th>
<th>Quality 2</th>
<th>Quality 3</th>
<th>Quality 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1</td>
<td>89</td>
<td>92</td>
<td>95</td>
<td>98</td>
</tr>
<tr>
<td>Category 2</td>
<td>78</td>
<td>82</td>
<td>88</td>
<td>92</td>
</tr>
<tr>
<td>Category 3</td>
<td>67</td>
<td>73</td>
<td>78</td>
<td>83</td>
</tr>
<tr>
<td>Category 4</td>
<td>56</td>
<td>62</td>
<td>67</td>
<td>72</td>
</tr>
</tbody>
</table>

In the provided data of the Table 14, observe the trend where quality improves by the order of Quality 1 to Quality 4.

Figure 7

Bar chart illustrating the distribution of data points across different categories.
6 Financial Implications

The cost of the plans will grow over time as benefits are earned by active members and paid in the future at the time of their retirement. For complete understanding of the impact of the plan designs on the University we have projected a number of various plan costs into the year 2036. Projections beyond 2036 are not available. It is expected that both plans should mature (reach a steady state) approximately 50 years after inception, reflecting a typical maturity pattern.

Cost projections are based upon assumptions made about the future, especially salary growth, growth in the UAPP salary cap etc. All assumptions are detailed in Appendix 10.

A key assumption is the projected future payroll for the covered members. Payroll is projected at 5-year intervals in Table 11 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>288.0</td>
<td>296.7</td>
<td>311.4</td>
<td>332.8</td>
<td>362.6</td>
<td>400.6</td>
</tr>
</tbody>
</table>

Current Service Cost (CSC) is the cost of benefits earned by a member in the current year. Appendix 16 contains a series of four graphs that project the CSC of the plan designs. In a DB plan the CSC is the sum of the projected benefits earned by all members in the year. In a DC plan CSC is the sum of the contributions plus credited investment returns.

The table below provides the CSC of the two plans at 5-year intervals in today’s dollars. Costs are relatively stable for the first 12 years and start to escalate thereafter. As mentioned previously, costs are expected to continue to increase until plan maturity is reached in about 50 years from plan inception (see Appendix 16).

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB CSC</td>
<td>2.6</td>
<td>2.8</td>
<td>3.3</td>
<td>4.1</td>
<td>5.3</td>
<td>7.0</td>
</tr>
<tr>
<td>DC CSC</td>
<td>2.3</td>
<td>2.3</td>
<td>2.8</td>
<td>3.6</td>
<td>4.2</td>
<td>5.1</td>
</tr>
</tbody>
</table>

The table below provides the CSC of the two plans as a percentage of academic payroll at 5-year intervals (see Appendix 17).
Table 13  
Current Service Cost % of payroll  

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB CSC</td>
<td>0.90</td>
<td>0.94</td>
<td>1.05</td>
<td>1.24</td>
<td>1.46</td>
<td>1.75</td>
</tr>
<tr>
<td>DC CSC</td>
<td>0.79</td>
<td>0.77</td>
<td>0.9</td>
<td>1.07</td>
<td>1.16</td>
<td>1.27</td>
</tr>
</tbody>
</table>

As the SRP is unfunded it is important to project the cash flow requirements of the two plans. Cash Flow is the timing of benefit payments to retiring members. Appendix 18 illustrates the cash flow projections of the two alternative plan designs in today’s dollars and as a percentage of payroll. The following charts provide this same information for selected 5-year intervals (see Appendix 17).

Table 14  
Cash Flow Projection 2008 dollars  
$/ Thousands  

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB CSC</td>
<td>87</td>
<td>606</td>
<td>1,519</td>
<td>2,533</td>
<td>3,548</td>
<td>4,580</td>
</tr>
<tr>
<td>DC CSC</td>
<td>123</td>
<td>751</td>
<td>1,710</td>
<td>2,618</td>
<td>3,326</td>
<td>3,933</td>
</tr>
</tbody>
</table>

Table 15  
Cash Flow Projection % of payroll  

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB CSC</td>
<td>0.03</td>
<td>0.20</td>
<td>0.49</td>
<td>0.76</td>
<td>0.98</td>
<td>1.14</td>
</tr>
<tr>
<td>DC CSC</td>
<td>0.04</td>
<td>0.25</td>
<td>0.55</td>
<td>0.79</td>
<td>0.92</td>
<td>0.98</td>
</tr>
</tbody>
</table>

Cash flow is initially very small but increases relatively quickly as more retire and as those retiring accumulate additional SRP service. For the DC plan, cash flow reaches only 0.98% of salary by 2035. Note that cash flow “matures” much more quickly than current service cost. It begins to level off within 20 years of plan initiation. For example (again for the DC case), it increases by only 0.19% of salary from 2025 to 2035 although it rose from 0.04% to 0.79% of salary from 2010 to 2025.

7 Accounting Implications

Table 16 illustrates the impact of the SRP options on the U of A’s financial position at given points in the future.

The Accrued Benefit Obligation is the accrued outstanding liability for benefit payments for both SRP options. This liability includes interest cost on the accrued outstanding liability and is net of benefit payments made to each date. The Accrued Benefit Obligation would be reported as a liability on the University’s Statement of Financial Position. The chart illustrates the build up/growth of the accrued benefit obligation over time accumulating to $88.2 million dollars by 2035 (see Appendix 18).
Table 16  
Accrued Benefit Obligation  
$ Thousands

<table>
<thead>
<tr>
<th>Start of Fiscal Year</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB SRP Option</td>
<td>7,603</td>
<td>21,632</td>
<td>35,566</td>
<td>9,966</td>
<td>66,669</td>
<td>88,199</td>
</tr>
<tr>
<td>DC SRP Option</td>
<td>5,854</td>
<td>16,381</td>
<td>25,673</td>
<td>34,348</td>
<td>43,395</td>
<td>53,642</td>
</tr>
</tbody>
</table>

8 Governance Structure

The Task Force sought the guidance of Mercer Human Resource Consulting to provide background and best practice regarding both governance and administration. Although the Task Force has developed recommendations on both governance and administrative models, the ultimate structures will have to be refined depending on the final plan option chosen.

It is important to note that SRP design, management, and operations present potential financial, legal and reputation risks for the organization and the parties. These risks can be mitigated by fully understanding what constitutes good governance practice. At the same time, the Task Force agreed to a set of principles that called for joint governance of the plan in a manner which is consistent with the culture of the U of A and its collegial governance structures and the existing UAPP.

Following the presentation from Mercer it became apparent that it was essential for the governance structure to:

- separate fiduciary from non-fiduciary responsibilities (to the degree reasonably possible);
- apply best practice in the design of the governance structure wherever possible;
- ensure that all aspects of the plan are fully and completely documented (from the beginning and prior to full implementation of the plan) including a detailed description of the plan, the governance structure including membership, terms of reference for all committees, and all policy and procedures regarding the administration, review and, amendments to the plan; and
- ensure that the governance structure either enables content experts be part of the governance structure or has a provision to secure content experts as required through both the governance and administration of the plan.

Fiduciary versus Non-Fiduciary Duties

One of the paramount issues in developing a governance structure is the understanding of and effective management of the fiduciary and non-fiduciary responsibilities. Fiduciary status depends on the role being performed by an individual or committee. A person acts as a fiduciary when exercising plan discretion. At all times the fiduciary must endeavor to strike a fair balance between risk and reward, function in the best interest of the beneficiary, act without profit and conflict of interest, and act with prudence and expertise.
**Proposed Structure**

The Task Force attempted to balance a number of important elements, including the application of best practice, leveraging where appropriate existing committee structures, and operating within the spirit of the agreed to principles.

Recognizing that the final governance structure may have to be amended depending on the final plan option chosen, the following model is proposed:
9 Administrative Structure

Administration includes the monthly record keeping necessary for maintenance of career records of individual member eligibility, SRP salary, SRP service, contribution records (defined contribution plan), creation of annual member benefit statements, calculation and payment of benefits at retirement/termination/death, development and maintenance of all member information necessary for annual accounting and actuarial reporting.

Internal and external administrative options were explored for the two SRP plan designs. In both of the options below the U of A would be directly responsible for managing the pensioner/payroll function.

The following is the recommended administrative approach for each design.

Defined Benefit Plan Option

- Outsource record keeping administration to UAPP third party administration provider ACS/BUCK.
- Pro – use our current data records and update processes with minimal change, records information/management would be on line on the BenPlus system, potential to display member information on the UAPP member site and to permit modeling for both benefits.
- Con – need to ensure that SRP is separate from UAPP with a clear division of authority and accountabilities, subject to UAPP relationship with provider – if they change provider we would have to as well.
- Initial start up costs $150,000.
- Ongoing plan administration $25,000 (based upon 1000 members).
- Internal resourcing required to support this option would be an additional 0.5 FTE Pension Advisor (approx cost $40,000).

Defined Contribution Plan Option

- Internal plan administration by Pension & Benefits Advisory Services.
- Pro – Upcoming system upgrade has the functionality to manage a defined contribution/savings account plan (create the required member records and provide a flow of information for accounting requirements, potential to display membership information on member e-benefits site (no modeling capability at this time)).
- Con – introduction of plan predates the system upgrade so a work around will be required in the short term. Excel spreadsheet work around would be used to track membership, notional contributions and investment returns.
- Initial start up costs for work around would be a 0.75 FTE combined for programming, business/pension/finance analyst (approx cost $50,000).
- Ongoing plan administration costs would be the internal resourcing required to support this option of 0.5 FTE Pension Analyst (approx cost $40,000).
- Cost to fully implement system upgrade functionality unknown at this time – projected at an additional $50,000.
10 Plan Establishment Costs

ASRP Communications

Member communications include the initial development and ongoing updating and re-issuance
of a plan member handbook, web site information, beneficiary designations, annual statement of
benefits, individual member counselling, benefit payment options, ongoing contact and
communications with members during the period that they are receiving benefits (up to 5 years).
Initial start up costs of $30,000 plus ongoing costs of $10,000, and .5 FTE Pension & Benefit
Advisor (approx $40,000). Communications costs are not affected by the plan design chosen.

ASRP Actuarial /Consulting Costs

These costs do differ on the plan design option chosen.

DB Plan
- Annual Accounting - $15,000
- Actuarial Valuation - $40,000 every one to three years
- Ongoing - $20,000

DC Plan
- Annual Accounting – in-house preparation
- Actuarial Valuation – not required but periodic assessment will be needed
- Ongoing - $15,000

ASRP Legal Costs

Legal costs will be incurred in the drafting of the plan text. Estimate is $75,000 regardless of the
plan design option.

11 Task Force Recommendation

The Task Force makes the following recommendations:

That the University Administration and the AAS:UA negotiate the establishment of a
Supplementary Retirement Plan that is a Defined Contribution plan as outlined in Appendix 8
providing benefits the equivalent of those of a Defined Benefits plan having a benefit accrual
rate of between 1% and 2% as agreed to by the Bargaining Committee.

That the Bargaining Committee seek approval in principle of the Defined Contribution plan
and the agreed to benefit accrual rate, by March 2008, to enable the necessary work to be
completed for a SRP implementation date of January 1, 2009.
In reaching its decision the Task Force considered:

- the agreed-to objectives of a plan;
- the acknowledgement that any final decision on a SRP would be the first call on a final negotiated salary settlement with the AAS:UA;
- the understanding that there are compelling arguments for different contribution levels associated with a final SRP design;
- the plan should be budgeted based on current service costs and that those budgeted allocations should be notionally understood to offset the liability to plan needs, to ensure that the appropriate resources (i.e. cash) are on hand to pay the future obligations; and
- the understanding that the plan must be reviewed within 5 years or at the time in which a fundamental change occurred within the base plan.

The Memorandum of Settlement (MOS) states that the cost of a SRP would be included as a pre-approved element of total compensation in the next round of negotiations. Therefore the Bargaining Committee could accept the Task Force’s recommendation of the plan type, but determine the contribution level, and affect the level of benefit to a member. It is the understanding of the Task Force that any change to the plan benefit accrual rate would be done in the context of a total compensation agreement.

In order to provide Mercer with parameters to model the plan options, it was necessary to establish a proposed benefit accrual rate. Currently, under the base plan, the accrual rate is 2% of earnings beyond CPP earnings up to the pensionable salary cap; half of the contribution made by the employee and half by the employer. In the MOS it was agreed that a SRP would be fully employer paid. Because contributions were being made by the employer, all modeling was based on a 1% benefit accrual rate. On the other hand, members of the Task Force pointed out that a SRP benefit accrual rate of 2% would address some of the shortcomings of the base plan while offering a competitive SRP.

As the modeling used a 1% benefit accrual rate, the Task Force noted that the Bargaining Committee could easily determine the effect of increasing the contribution rate from 1% to any level up to 2%.

12 Next Steps

Approval through the Bargaining Process

As stated in the terms of reference for the Task Force, the final report will be submitted to the AAS:UA and University administration and then discussed at the academic bargaining table. The following decisions will be required:

- Agreement to include a SRP as part of the final negotiated package.
- Agreement on the recommended plan type and the level of benefit to be provided.
**Detailed Plan Design and Structures**

Once the plan framework is agreed to, the formal process of developing the plan may begin. In order to achieve the effective date of July 1, 2008, the implementation team responsible for implementing the plan would need to start prior to the final completion of negotiations. The implementation team would require some type of initial endorsement by the AAS:UA and the administration so that initial work on the detailed plan design and discussions with the Province can begin. It is critically important to note that the University will require Ministry approval through Advanced Education and Technology to establish the agreed to SRP. It is also very important to understand that the majority of the work in establishing the plan is yet to be completed and will require the necessary staff support and resources to undertake this work. Although the MOS called for a implementation date of July 1, 2008, the Task Force has identified a plan implementation date of January 1, 2009 given the work yet to be completed.

The major tasks in designing and implementing a SRP are as follows:

- The establishment and appointment of an implementation team. This team would be responsible for ensuring that all tasks are completed and an agreed to schedule is met for its full implementation of the plan.
- The detailed preparation of the plan design. This will require external experts including legal advice with expertise in SRP plan design.
- Written plan policies that address the following:
  - Plan purpose including goals, rationale, performance criteria, allocation of responsibilities
  - Operation of the plan
  - Plan administration
  - Compliance
  - Communications
  - Funding
  - Investments
  - Accounting
  - Ethics
  - Conflict of interest
  - Document retention
  - Safeguarding of information
  - Maintenance of the procedures
- Committee development including formal terms of reference or amendment of existing terms of reference
- Development of the administrative structure either internally, externally or both
- Establishment of the accounting and reporting structures
- Communication plan and strategies

**Necessary time and resources must be allocated to these tasks. If these tasks are not completed prior to plan implementation, the U of A could be faced with increased operational, administrative, legal, reputation, and financial risks.**
University Review and Governance Approval Process

Once these tasks are completed, the plan must go through formal governance approval within the University followed by Provincial Government approval by the Minister of Advanced Education and Technology. The final design, governance and administration of the plan would need to be reviewed and approved by the following organizations and University committees.

- AAS:UA
- Executive Planning Committee
- Board Human Resources and Compensation Committee
- Board of Governors

Government Review and Approval Process

The Government review and approval process involves the following steps:

- Review by Minister of Advanced Education and Technology in consultation with Alberta Finance, the UAPP and Alberta Justice if required.
- Approval by Minister of Advanced Education and Technology.

Timeline

The Task Force is recommending a plan implementation date of January 1, 2009. However; there are a number of uncertainties and risks associated with this timeline. Firstly, the parties would need to provide approval in principle of the core plan design well before the full conclusion of the bargaining process. Secondly, the final negotiated agreement which would include a SRP would need to be ratified by the membership and approved by the Board of Governors. In addition, both parties would need to approve the final plan design prior to its submission to the Ministry. Finally, the Minister must approve the final plan design. Any delay or unexpected outcomes at any of these stages will affect the targeted implementation date.
To achieve this date the following high level timeline is alternative:

<table>
<thead>
<tr>
<th></th>
<th>Activity</th>
<th>Start Date</th>
<th>End Date</th>
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<tbody>
<tr>
<td>1</td>
<td>Completion of Task Force Report</td>
<td>Dec 07</td>
<td>Jan 08</td>
</tr>
<tr>
<td>2</td>
<td>Tabling of Task Force Report with AAS:UA and administration</td>
<td>Dec 07</td>
<td>Dec 07</td>
</tr>
<tr>
<td>3</td>
<td>Task Force Briefing on Report to Bargaining Committee</td>
<td>Jan 08</td>
<td>Feb 08</td>
</tr>
<tr>
<td>4</td>
<td>Briefing on Report to Board Human Resource and Compensation Committee (BHRCC)</td>
<td>Jan 08</td>
<td>Jan 11, 08</td>
</tr>
<tr>
<td>5</td>
<td>Bargaining Committee approval in principle of SRP design</td>
<td>Mar 08</td>
<td>Mar 08</td>
</tr>
<tr>
<td>6</td>
<td>Establishment and AAS:UA and administration approval of SRP Implementation Committee</td>
<td>Mar 08</td>
<td>Apr 08</td>
</tr>
<tr>
<td>7</td>
<td>Preliminary briefing to Advanced Education and Technology Ministry Staff</td>
<td>Mar 08</td>
<td>Apr 08</td>
</tr>
<tr>
<td>8</td>
<td>Detailed preparation of the SRP design</td>
<td>Apr 08</td>
<td>Sept 08</td>
</tr>
<tr>
<td>9</td>
<td>Development/amendment to committee terms of reference</td>
<td>May 08</td>
<td>Sept 08</td>
</tr>
<tr>
<td>10</td>
<td>Drafting of all detailed policies and procedures</td>
<td>May 08</td>
<td>Sept 08</td>
</tr>
<tr>
<td>11</td>
<td>Development and confirmation of plan administration</td>
<td>May 08</td>
<td>Sept 08</td>
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<tr>
<td>12</td>
<td>Development of accounting and reporting structures</td>
<td>May 08</td>
<td>Sept 08</td>
</tr>
<tr>
<td>13</td>
<td>Development and approval of communication strategy</td>
<td>Jun 08</td>
<td>Sept 08</td>
</tr>
<tr>
<td>14</td>
<td>AAS:UA ratification of collective agreement</td>
<td>July 08</td>
<td>July 08</td>
</tr>
<tr>
<td>15</td>
<td>Board of Governors Approval of collective agreement</td>
<td>July 08</td>
<td>July 08</td>
</tr>
<tr>
<td>16</td>
<td>AAS:UA membership ratification of detailed SRP</td>
<td>Sept 08</td>
<td>Oct 08</td>
</tr>
<tr>
<td>17</td>
<td>Executive Planning Committee approval of detailed SRP</td>
<td>Sept 08</td>
<td>Sept 08</td>
</tr>
<tr>
<td>18</td>
<td>Detailed briefing to Advanced Education and Technology Ministry and Staff on detailed SRP</td>
<td>Oct 08</td>
<td>Nov 08</td>
</tr>
<tr>
<td>19</td>
<td>BHRCC approval of detailed SRP</td>
<td>Oct 08</td>
<td>Oct 08</td>
</tr>
<tr>
<td>20</td>
<td>Board of Governors approval of detailed SRP</td>
<td>Nov 08</td>
<td>Nov 08</td>
</tr>
<tr>
<td>21</td>
<td>Minister approval of detailed SRP</td>
<td>Dec 08</td>
<td>Dec 08</td>
</tr>
<tr>
<td>22</td>
<td>SRP effective date</td>
<td>Jan 09</td>
<td>Jan 09</td>
</tr>
<tr>
<td>23</td>
<td>Internal System Development</td>
<td>Jan 09</td>
<td>Dec 09</td>
</tr>
</tbody>
</table>
APPENDIX 1

MEMORANDUM OF SETTLEMENT

Between:

ASSOCIATION OF ACADEMIC STAFF: UNIVERSITY OF ALBERTA

("AAS:UA")

- and -

GOVERNORS OF THE UNIVERSITY OF ALBERTA

("University")

WHEREAS the parties have conducted negotiations for revision of the following academic staff collective agreements:

- Administrative and Professional Officer (APO)
- Faculty
- Faculty Service Officer (FSO)
- Librarian
- Sessionals and Other Temporary Staff (Sessionals)

THEREFORE the parties agree to recommend and refer the following terms of settlement to the Board and Association for ratification in accordance with Article 19.09 of the July 1998 Agreements:

Term of Memorandum

1. The term of the Memorandum will be for a three-year period (July 1, 2005 through June 30, 2008) subject to renegotiation. In the event of an unanticipated material change affecting the operating budget scenario in Table 5.2 of the University of Alberta 2005-2006 Operating Budget as approved by the Board of Governors and attached as Appendix A, either party may elect to reopen the Memorandum. This option may be exercised once only during the term of the Memorandum.

Increment Pool

2.1 Article 19.02 of the Faculty Agreement and the Faculty Service Officer Agreement will be amended to provide that the Increment Pool for Faculty and FSOs will be set at 1.2 times the number of eligible staff to be provided July 1, 2005, 2006, and 2007.

2.2 Article 19.02 of the Librarian Agreement will be amended to provide that the Increment Pool for Librarians will be set at 2.2 times the number of eligible staff to be provided July 1, 2005, 2006, and 2007.

Created on May 30, 2005
2.3 Article 19.01 of the Administrative Professional Officer Agreement will be amended to provide that the Increment Pool for APOs will be set at 1.1 times the number of eligible staff to be provided July 1, 2005, 2006, and 2007.

Faculty Salary Adjustment Fund

3.1 The total Faculty Salary Adjustment Fund will be funded at a level no more than $800,000 per annum in each of the fiscal years of the contract (retroactive to April 1, 2005 and on April 1, 2006, and April 1, 2007).

3.2 The Provost and Vice-President (Academic) will provide an annual report to the AAS:UA on March 1 with an accounting of all compensation from the Faculty Salary Adjustment Fund by Faculty, Department and academic rank (aggregated where necessary in order to protect individual identification). The parties will meet to discuss each annual report.

Scale Adjustments

4. Scale increases will be implemented across the board over the three-year term of this Memorandum for Faculty, APOs, Librarians, Sessionals and FSOs of:

- July 1, 2005 3.50 %
- July 1, 2006 3.50 %
- July 1, 2007 3.90 %

Academic Benefits Management Committee

5.1 The parties agree to continue the relationship of joint benefits management under the auspices of the Academic Benefits Management Committee (ABMC).

5.2 The parties agree to increase the funding for academic benefits by the appropriate per capita amount annually over the three-year term of this Memorandum. The ABMC will determine the per capita amount per eligible plan member through the application of the approved scale adjustments.

Child-Care Benefit Program

6.1 The parties agree to instruct the Academic Benefits Management Committee to implement a Child-Care Benefit Program to be effective July 1, 2005 with the following details:

6.1.1 The maximum half-day reimbursement will be $10 per day. A half-day is defined as a minimum of four hours and less than six hours, or where the child-care provider is charging the parent a half-day rate;

6.1.2 The maximum full-day reimbursement will be $20 per day. A full-day rate is defined as six hours or more where the parent is being charged a full-day rate;
6.1.3 Reimbursement is limited to 50% of the usual and customary billings. Members must provide receipts by February 1st for expenses incurred during the previous calendar year. Only one claim can be made in each calendar year.

6.1.4 Only those child-care expense payments made for a dependent child who is five years old or younger and for which the expense payments qualify under the Canada Revenue Agency (CRA) definitions for child-care expenses deductions are eligible for reimbursement under this program.

6.1.5 Reimbursement will be made if the child-care costs are incurred at the usual facility attended by the child. Reimbursement will not be provided for casual care. A member on Academic Leave will be reimbursed for child-care expenses incurred at facilities away from the child's normal place of residence if the expenses qualify under clause 6.1.4 of this Memorandum.

6.1.6 If both parents are eligible for reimbursement for the same dependent child under this program, only one may claim the benefit.

6.1.7 The plan maximum of $2,000 per eligible child will be provided annually, based on a calendar year. The amount will be prorated for less than full-time equivalent employment. There will be no carry-over provisions if the full $2,000 is not used in any given calendar year.

6.2 In order to implement the Child-Care Benefit Program, the parties agree to increase the per capita funding for academic benefits by an additional $265 per eligible plan member on July 1, 2005. This per capita amount was determined by dividing $700,000 (an estimate of costs provided by the University) by 2,646 (the number of eligible plan members in 2004-05).

**Academic Supplementary Retirement Plan**

Canada Revenue Agency (CRA) establishes an annual maximum limit on pensions payable from registered pension plans. As a result, an increasing number of University academic staff face a situation where their retirement pensions, from the Universities Academic Pension Plan (UAPP), will not be representative of their pre-retirement income levels. The establishment of an Academic Supplementary Retirement Plan (ASRP) enables academic staff to receive an additional retirement income. The additional retirement income will be paid in full by the University.

7.1 The parties agree to implement an ASRP no later than July 1, 2008.

7.2 The details of the ASRP will be determined by a Joint ASRP Development Task Force, terms of reference for this committee are attached to this Memorandum as Appendix B.

7.3 The parties agree that the cost of the ASRP will be included as a pre-approved element of total compensation in the next round of Board/AAS-UA negotiations.
Workload/Worklife Joint Task Force

8.1 The parties agree to the establishment of a Workload/Worklife Joint Task Force to study the workload and worklife of academic staff at the University of Alberta with recommendations prepared by June 30, 2006.

8.2 The membership of the Workload/Worklife Joint Task Force will consist of not more than three individuals appointed by the University and not more than three individuals appointed by the AAS:UA.

Mandatory Retirement Joint Task Force

9.1 The parties agree to the establishment of a Mandatory Retirement Joint Task Force to study the implications of eliminating mandatory retirement at the University of Alberta with recommendations prepared by June 30, 2006.

9.2 The membership of the Mandatory Retirement Joint Task Force will consist of not more than three individuals appointed by the University and not more than three individuals appointed by the AAS:UA.

Joint Communiqué

10. As part of the ongoing commitment of the parties to mutual interest bargaining, a joint communiqué will be issued to describe the terms of settlement as in the best interests of the University and the AAS:UA.

DATED at the City of Edmonton, in the Province of Alberta, this 2nd day of June, 2005.

Ian MacLaren
Chief Negotiator, AAS:UA

Witness

Tom Keating
President, AAS:UA

Witness

Art Quinney
Chief Negotiator, Board of Governors

Witness

Carl G Amrhein
Provost and Vice-President (Academic)

Witness
APPENDIX B
To
MEMORANDUM OF SETTLEMENT
Between AAS:UA and University

TERMS OF REFERENCE
Academic Supplementary Retirement Plan Development Task Force

WHEREAS, the Academic Supplementary Retirement Plan (ASRP) is designed to provide additional retirement income to supplement the limitations prescribed under the Income Tax Act (Canada) on the amount of retirement benefits payable from the Universities Academic Pension Plan (UAPP).

THEREFORE the parties have agreed to introduce an ASRP to ensure that a retirement income provided by the University of Alberta (combination of UAPP and the ASRP) will be more representative of pre-retirement income levels for academic staff.

1. The Administration and the AAS:UA each acknowledge:
   1.1 a joint responsibility to establish an Academic Supplementary Pension Plan which is integral to the salary settlement outlined in the Memorandum of Agreement to which these Terms of Reference are attached;
   1.2 a joint responsibility to implement an Academic Supplementary Pension Plan no later than July 1, 2008; and
   1.3 that the cost of the Academic Supplementary Pension Plan will be included as a pre-approved element of total compensation in the next round of Board/AAS:UA negotiations.

2. To achieve these goals the parties hereby create a committee to be known as the Academic Supplementary Pension Plan Development Task Force (the "Task Force").

3. The membership of the Task Force will consist of not more than three individuals appointed by the University and not more than three individuals appointed by the AAS:UA.

4. If the services of pension consultants are required, the parties will share the professional expenses equally. If either party wishes to seek separate, rather than joint advice, the professional expenses will be borne in full by the contracting party.
5. The Task Force will present the details of the ASRP to the University and the AAS-UA not later than December 31, 2007 unless an extension is otherwise mutually agreed to in writing.

6. The University will undertake to make full and timely disclosure with respect to the data required as part of the Task Force activities.

7. The Task Force report will include plan design, including coverage limits, and documentation including, but not limited to:

7.1 Benefit accrual rate;
7.2 Vesting;
7.3 Pensionable earnings cap;
7.4 Cost of living indexing;
7.5 Lump sum or installment termination benefits.
7.6 Ancillary pension benefits (this includes early retirement, death benefits, disability benefits and spousal benefits).

8. If the parties do not reach agreement on the amended benefit plan or on specific amendments to the benefit plan the matters in dispute shall be submitted to Arbitration.

DATED at the City of Edmonton, in the Province of Alberta, this 22nd day of June, 2005.

[Signatures]

Ian MacLaren
Chief Negotiator, AAS-UA

Tom Keating
President, AAS-UA

Art Quinney
Chief Negotiator, Board of Governors

Carl G. Amrhein
Provost and Vice-President (Academic)
APPENDIX 2

Glossary of Common Pension Terminology (alphabetical)

**Accrued Benefit Liability** – Liability for pension benefits recorded on University’s balance sheet.

**Actuarial Assumptions** – Assumptions about future economic and demographic conditions such as future levels of investment returns, inflation, salary growth, mortality, and retirement ages.

**ASRP** – Academic Supplementary Retirement Plan.

**CRA** – Canada Revenue Agency.

**Current Service Cost (CSC)** – Cost to provide benefit for one year of service.

**Defined Benefit (DB)** – Benefit is a pension at retirement defined by a formula, benefit promise is independent of contributions.

**Defined Contribution (DC)** – Benefit is a contribution that accumulates with investment income over working lifetime, pension benefit is determined based on what can be provided from the account.

**EPPA** – Employment Pensions Plan Act, Alberta

**Income Replacement Ratio** – Ratio of pension income to final year earnings

**ITA** – Income Tax Act

**Normal Form** – the normal form of benefits at retirement determine the amount of benefits paid to a retiree’s survivor after the retirees death.

**Normal Retirement** – the age at which a member can retire without reduction, often age 65

**Notional** – bookkeeping/paper entry

**Registered Pension Plan** – to obtain preferred tax treatment, a pension plan must be accepted for registration by the CRA. In order to receive this registration, the plan must comply with the tax rules, both at the time the plan is initiated and as long as the plan continues to operate. Under a registered pension plan, members are not taxed on employer contributions made on their behalf and investment earnings on plan assets accrue tax-free. Employee contributions to a registered pension plan are also tax deductible.

**Retirement Compensation Agreement (RCA)** – an RCA exists when supplemental pension plan benefits are funded or secured. Under the Income Tax Act, when assets are transferred to another person, or are held in trust by the employer, to secure supplemental plan benefits the
arrangement is treated as a RCA. The contributions to an RCA and the investment income earned by RCA assets attract a 50% refundable tax. For non-tax paying entities the cost of funding the supplemental plan through an RCA can therefore be considerable.

**Supplementary Retirement Plan (SRP)** – A pension plan which is usually designed to provide benefits that cannot be provided under a registered pension plan. Often SRPs provide benefits above the limits imposed by the Tax Rules, but can be designed to provide any type of benefit. SRPs can be funded or unfunded.

**UAPP** – Universities Academic Pension Plan.

**Vesting** – refers to the point at which a member is entitled to a deferred pension from the plan.

**2008 Dollars** – Adjusted to remove impact of future inflation.
APPENDIX 3

Summary Description of the Universities Academic Pension Plan (UAPP)

- Defined Benefit Multi-Employer Registered Pension Plan.
- Participating Employers are Alberta Universities including University of Calgary, University of Lethbridge, Athabasca University, Banff Centre and the U of A.
- Contributions are shared equally between employees and employers. Contribution rate for both employees and the U of A are (effective January 2008): 8.27% up to CPP earnings, 11.21% on earnings above CPP up to the salary cap, 0.86% on earnings in excess of salary cap.
- Pension Formula is 1.4% of Final Average Earnings (FAE) up to the CPP earnings plus 2.0% of FAE above the YMPE times years of service.
- Normal Form of Pension is a 66% Joint and Survivor Pension.
- Unreduced Early Retirement at 80 points (years of service plus age) between age 55 and 59 or at age 60 with 2 years of service.
- Early Retirement reduction of 3% per year prior to age 60 and 80 points.
- Cost of Living Increases at 60% of Alberta CPI.
- 2008 Maximum Pensionable Salary (salary cap) is $130,137.
- 2008 Maximum CPP earnings is $44,900.
APPENDIX 4

New Valuation Data as at August 2007

<table>
<thead>
<tr>
<th>Membership Data</th>
<th>07.01.2008</th>
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<tbody>
<tr>
<td><strong>Active Members</strong></td>
<td>(Updated)</td>
</tr>
<tr>
<td>- Number</td>
<td>2,538</td>
</tr>
<tr>
<td>- Total pensionable earnings (projected to 2008)</td>
<td>$287,594,445</td>
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<tr>
<td>- Average pensionable earnings</td>
<td>$113,315</td>
</tr>
<tr>
<td>- Average years of pensionable service</td>
<td>0 yrs.</td>
</tr>
<tr>
<td>- Average age</td>
<td>49.0</td>
</tr>
</tbody>
</table>

| **Active Members (projected to have large SRP Benefits)** | |
| - Number | 1,193 |
| - Total pensionable earnings (projected to 2008) | $166,020,477 |
| - Average pensionable earnings | $139,162 |
| - Average years of pensionable service | 0 yrs. |
| - Average age | 50.1 |

Source: October 23, 2007
Mercer Report
### Membership Data - All

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Service Group</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
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<td>5</td>
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<tr>
<td>30 - 34</td>
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<td>158</td>
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<td>35 - 39</td>
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<td>314</td>
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<td>40 - 44</td>
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<td>86,848</td>
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<td>45 - 49</td>
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<td>415</td>
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<tr>
<td>50 - 54</td>
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<td>109,340</td>
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<td>55 - 59</td>
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<td>65 - 69</td>
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<td>144,396</td>
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<tr>
<td>70+</td>
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<td>2538</td>
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<tr>
<td>Total</td>
<td></td>
<td>113,315</td>
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</table>

### Membership Data – Projected to have large SRP benefit

<table>
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<tr>
<th>Age Group</th>
<th>Service Group</th>
<th>Total</th>
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<td>30 - 34</td>
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<td>35 - 39</td>
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<td>70+</td>
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<td>178,785</td>
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<tr>
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Source: October 23, 2007

Mercer Report
Supplemental Executive Retirement Plans in Canada: Key findings from the Mercer SERP Database

Spring 2006
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Introduction

Many employees receive pension benefits through an employer-sponsored registered pension plan. In Canada, the Income Tax Act places a cap, or a maximum pension limit, on the benefits that can be paid from a registered pension plan.

Over the last few years, this maximum pension limit has begun to increase.

<table>
<thead>
<tr>
<th>Year</th>
<th>Maximum pension limit per year of service</th>
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</thead>
<tbody>
<tr>
<td>2009</td>
<td>$2,444.44 (projected)</td>
</tr>
<tr>
<td>2008</td>
<td>$2,333.33 (projected)</td>
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<tr>
<td>2007</td>
<td>$2,222.22 (projected)</td>
</tr>
<tr>
<td>2006</td>
<td>$2,111.11</td>
</tr>
<tr>
<td>2005</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>2004</td>
<td>$1,833.33</td>
</tr>
<tr>
<td>2003</td>
<td>$1,722.22</td>
</tr>
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</table>

Although these increases are a move in the right direction, they do not compensate for the fact that the maximum pension limit was frozen from 1976 until 2003.

In 1976, an employer’s registered pension plan could provide up to $60,000 per year for an employee with 35 years of service. In 2006, an employer can provide a similar employee with a pension of up to $73,900 (a 23 percent increase). Over this same period of time, the maximum pension from the Canada/Quebec Pension Plan has increased 445 percent, from $1,858 per year in 1976 to $10,135 per year in 2006.

Hypothetical Wage-Indexed Maximum Pension Limit

The following chart compares the maximum pension under the Income Tax Act for employees with 35 years of service with the maximum pension assuming the limit had increased with average wages since 1976.
Supplemental Executive Retirement Plans (SERPs) are pension plans that provide benefits that are in excess of the registered pension plan limit under the Income Tax Act. SERPs were originally designed to provide pension benefits to a select few individuals who may have earned as much as ten times the average wage. Today, these programs provide supplemental pensions to a large number of employees. In fact, in many cases, the reference to "executive" in the acronym SERP is being replaced by "employee" as the lengthy freeze on pension limits has affected more and more employees.

If the recent indexing of the maximum pension limit continues, we expect that the number of new entrants into SERPs may begin to level off. However, significant increases in the maximum pension limit, over and above general wage inflation, would be needed before the SERP would once again cover only senior executives. Until that unlikely event, SERPs will continue to play a critical role in filling the pension gap for a large number of high-income employees.
The Mercer SERP Database

Mercer Human Resource Consulting maintains a database of the SERP practices of our Canadian clients in order to summarize current market practice and to view trends with respect to supplemental pensions. At the time of this report, the Mercer SERP Database includes information from 546 organizations in a variety of industries. The identities of the organizations are not disclosed in order to maintain confidentiality.

The database provides insight into the prevalence of SERP arrangements and current practice in both the design and financing of supplemental pensions. Since its origins in 1994, Mercer has updated the database four times (in 1997, 1999, 2002, and 2005).

The Mercer SERP Database, 1997 - 2005

<table>
<thead>
<tr>
<th>Number of organizations in the SERP database</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td>323</td>
<td>369</td>
<td>401</td>
<td>421</td>
</tr>
<tr>
<td>Public and not-for-profit sectors</td>
<td>61</td>
<td>109</td>
<td>106</td>
<td>125</td>
</tr>
<tr>
<td>Total</td>
<td>384</td>
<td>478</td>
<td>507</td>
<td>546</td>
</tr>
<tr>
<td>Number of organizations with at least one SERP</td>
<td>187</td>
<td>222</td>
<td>257</td>
<td>298</td>
</tr>
<tr>
<td>Number of SERPs</td>
<td>232</td>
<td>280</td>
<td>335</td>
<td>391</td>
</tr>
</tbody>
</table>

The prevalence of specific SERP design characteristics may depend upon a variety of factors, including sector, industry, size of employer, and/or eligibility criteria (i.e., SERPs for all employees or only designated employees).

The ability to obtain breakdowns of the information in the database based on these (and other) criteria can add significant insight into market practice for SERP design projects.
Highlights of the Mercer SERP Database

Key findings from the most recent update to the SERP database include:
• 55% of organizations in the database sponsor at least one SERP
  (note: companies in the database sponsor registered pension plans, so the
  prevalence of SERPs for companies in the database may overstate the prevalence
  of SERPs in the overall market)
• While the number of defined contribution (DC) SERPs in the database is small
  relative to the number of defined benefit (DB) SERPs, the number of DC SERPs is
  expected to grow significantly over the next few years
• Larger organizations are more likely to sponsor a SERP – perhaps due to the fact
  that there are a larger number of employees affected by the limit
• There is a trend of having a SERP that covers a larger portion of the
  employees affected by the maximum pension limit
• The prevalence of bonus inclusion continues to be mixed, with approximately
  half of employers recognizing all or some bonus
• The majority of SERPs in the database vest immediately or at the same time as
  the base plan
• There continues to be a trend towards funding or securing the SERP promise
Key findings from the Mercer SERP Database

Prevalence of SERPs

In the Mercer SERP Database, 298 (55%) of organizations provide at least one supplemental pension arrangement. It is important to note, however, that since companies included in the database are sponsors of registered pension plans it is likely that the prevalence of SERPs for companies in the database overstates the prevalence of SERPs in the overall market.

Company size

Company size continues to play a significant role in the prevalence of SERPs. Employers with at least 5,000 employees are twice as likely to provide a SERP as employers with less than 500 employees. The lower prevalence at organizations with less than 500 employees likely corresponds to a reduction in the number of employees affected by the maximum pension limits and a desire to compensate for the limits with a less formal approach.

<table>
<thead>
<tr>
<th>Prevalence of SERPs by number of employees</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 500</td>
<td>25%</td>
<td>30%</td>
<td>35%</td>
<td>42%</td>
</tr>
<tr>
<td>500 - 5,000</td>
<td>63%</td>
<td>63%</td>
<td>65%</td>
<td>66%</td>
</tr>
<tr>
<td>5,000 or more</td>
<td>87%</td>
<td>88%</td>
<td>94%</td>
<td>85%</td>
</tr>
<tr>
<td>All</td>
<td>49%</td>
<td>46%</td>
<td>51%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Sector/industry

Company industry also plays a role. A SERP is very common in industries such as financial services, utilities, and natural resources. Other industries (such as technology) typically have a lower prevalence of SERPs as their workforces tend to be younger, more mobile, and less focused on retirement.

Eligibility

Some companies provide SERP benefits to all employees affected by the maximum pension limit while others limit membership to designated employees, such as senior executives.

<table>
<thead>
<tr>
<th>Number of SERPs by eligibility</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>All employees</td>
<td>56</td>
<td>76</td>
<td>112</td>
<td>138</td>
</tr>
<tr>
<td>Designated employees only</td>
<td>149</td>
<td>172</td>
<td>192</td>
<td>210</td>
</tr>
<tr>
<td>President/CEO only</td>
<td>27</td>
<td>32</td>
<td>31</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>280</td>
<td>335</td>
<td>391</td>
</tr>
</tbody>
</table>
Key findings from the Mercer SERP Database

Prevalence of SERPs

In the Mercer SERP Database, 298 (55%) of organizations provide at least one supplemental pension arrangement. It is important to note, however, that since companies included in the database are sponsors of registered pension plans it is likely that the prevalence of SERPs for companies in the database overstates the prevalence of SERPs in the overall market.

Company size

Company size continues to play a significant role in the prevalence of SERPs. Employers with at least 5,000 employees are twice as likely to provide a SERP as employers with less than 500 employees. The lower prevalence at organizations with less than 500 employees likely corresponds to a reduction in the number of employees affected by the maximum pension limits and a desire to compensate for the limits with a less formal approach.

<table>
<thead>
<tr>
<th>Prevalence of SERPs by number of employees</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 500</td>
<td>25%</td>
<td>30%</td>
<td>35%</td>
<td>42%</td>
</tr>
<tr>
<td>500 - 5,000</td>
<td>63%</td>
<td>63%</td>
<td>65%</td>
<td>66%</td>
</tr>
<tr>
<td>5,000 or more</td>
<td>87%</td>
<td>88%</td>
<td>94%</td>
<td>85%</td>
</tr>
<tr>
<td>All</td>
<td>49%</td>
<td>46%</td>
<td>51%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Sector/industry

Company industry also plays a role. A SERP is very common in industries such as financial services, utilities, and natural resources. Other industries (such as technology) typically have a lower prevalence of SERPs as their workforces tend to be younger, more mobile, and less focused on retirement.

Eligibility

Some companies provide SERP benefits to all employees affected by the maximum pension limit while others limit membership to designated employees, such as senior executives.

<table>
<thead>
<tr>
<th>Number of SERPs by eligibility</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>All employees</td>
<td>56</td>
<td>76</td>
<td>112</td>
<td>138</td>
</tr>
<tr>
<td>Designated employees only</td>
<td>149</td>
<td>172</td>
<td>192</td>
<td>210</td>
</tr>
<tr>
<td>President/CEO only</td>
<td>27</td>
<td>32</td>
<td>31</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>280</td>
<td>335</td>
<td>391</td>
</tr>
</tbody>
</table>
Some companies provide more than one SERP in order to meet different objectives for various classes of employees. As a result, the number of SERPs (391) is higher than the number of companies sponsoring a SERP (298).

The majority of SERPs continue to cover only designated employees. However, a trend towards covering all employees is continuing to develop. In some cases, this involves lowering the eligibility criteria for an existing SERP. In other cases, where the current SERP does not mirror the registered pension plan, a new SERP is established.

The following table illustrates the lowest level of SERP eligibility and how this lowest level has changed over time.

<table>
<thead>
<tr>
<th>Lowest level of SERP eligibility</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>All employees</td>
<td>30%</td>
<td>33%</td>
<td>39%</td>
<td>42%</td>
</tr>
<tr>
<td>Designated employees only</td>
<td>64%</td>
<td>59%</td>
<td>54%</td>
<td>51%</td>
</tr>
<tr>
<td>President/CEO only</td>
<td>6%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
</tr>
</tbody>
</table>

In 2005, 58 percent of organizations do not offer a SERP to all employees. Of these organizations, 74 percent indicate that there are employees affected by the pension limits that are not in a SERP.

Type of SERP

The Mercer SERP Database includes information on 391 SERPs:
- 335 defined benefit (DB) SERPs;
- 48 defined contribution (DC) SERPs; and
- eight SERPs defined as hybrid or other.

While the number of DC SERPs in the database is small relative to the number of DB SERPs, the number of DC SERPs is expected to grow significantly over the next few years.

Unless otherwise noted, the statistics shown in this report include both DB and DC SERPs.

Mirror Plans

Approximately half of the DB SERPs in the database have provisions that mirror those of the underlying registered pension plan (with the exception of the application of the Income Tax Act maximum pension limit). This is especially true for plans that cover all employees affected by the maximum limits, where 84 percent of all SERPs' mirror all provisions of the underlying registered pension plan.

<table>
<thead>
<tr>
<th>SERP eligibility</th>
<th>Proportion of SERPs that are mirror plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>All employees</td>
<td>84%</td>
</tr>
<tr>
<td>Designated employees only</td>
<td>39%</td>
</tr>
<tr>
<td>President/CEO only</td>
<td>16%</td>
</tr>
<tr>
<td>All</td>
<td>51%</td>
</tr>
</tbody>
</table>

For SERPs that cover only the President/CEO or only designated employees, the majority of SERPs contain some provisions that differ from the underlying registered pension plan.

SERPs that do not mirror the underlying registered pension plan may have benefit provisions that are more or less generous than the underlying registered pension plan.
Benefit Accrual Rate

The majority of DB SERPs continue to use the same benefit formula in the SERP as the registered pension plan (RPP).

<table>
<thead>
<tr>
<th>Benefit accrual rate for DB SERPs</th>
<th>All DBSERPs</th>
<th>All employees</th>
<th>Designated employees only</th>
<th>President/CEO only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher accrual rate than RPP</td>
<td>30%</td>
<td>5%</td>
<td>37%</td>
<td>72%</td>
</tr>
<tr>
<td>Same as RPP</td>
<td>67%</td>
<td>91%</td>
<td>59%</td>
<td>28%</td>
</tr>
<tr>
<td>Lower accrual rate than RPP</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

For DC SERPs, 26 percent use a more generous contribution formula in the SERP. 72 percent use the same contribution formula in the SERP as the registered pension plan, and 2 percent use a less generous formula. In some cases, employer contributions are the same under the registered pension plan and the SERP with both more generous for designated employees.

Bonus Inclusion

Employers continue to ask whether to include bonus in pensionable earnings. The practice continues to be mixed, with approximately 55 percent of SERPs including at least some portion of bonus. However, these statistics only provide some of the answers, as they cannot be broken down by size of bonus, volatility of bonus, or the objective of the bonus program.

Overall, the prevalence of bonus inclusion has increased marginally (from 46 percent in 1994 to 55 percent in 2005).

Percentage of SERPs that recognize all or a portion of bonus in pensionable earnings

<table>
<thead>
<tr>
<th>By type of organization</th>
<th>By number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td>Less than 500</td>
</tr>
<tr>
<td>Public and not-for-profit sectors</td>
<td>500 to 4,999</td>
</tr>
<tr>
<td>All</td>
<td>5,000 or more</td>
</tr>
<tr>
<td>All 55%</td>
<td>All 55%</td>
</tr>
</tbody>
</table>

The reasons to include or exclude bonus in the definition of pensionable earnings vary by company. These reasons should relate to the design of the bonus program and how the bonus integrates with overall compensation.

Vesting

The majority of SERPs continue to vest pension benefits at the same time as the underlying registered pension plan.

Percentage of DB SERPs that vest immediately or at the same time as the RPP

<table>
<thead>
<tr>
<th>All employees</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated employees only</td>
<td>59%</td>
<td>66%</td>
<td>64%</td>
<td>62%</td>
</tr>
<tr>
<td>President/CEO only</td>
<td>52%</td>
<td>70%</td>
<td>86%</td>
<td>72%</td>
</tr>
<tr>
<td>All DB SERPs</td>
<td>63%</td>
<td>67%</td>
<td>73%</td>
<td>72%</td>
</tr>
</tbody>
</table>
Vesting typically varies depending on the purpose of the SERP arrangement. For example, some SERPs are intended to act as a “golden handcuff” and provide generous pension benefits only to designated employees that remain with the company until retirement.

Early Retirement

The majority of DB SERPs that provide benefits to more than just the President/CEO provide the same early retirement provisions under the SERP as those in the registered pension plan.

<table>
<thead>
<tr>
<th>Early retirement provisions for DB SERPs</th>
<th>All DB SERPs</th>
<th>All employees</th>
<th>Designated employees only</th>
<th>President/CEO only</th>
</tr>
</thead>
<tbody>
<tr>
<td>More generous than RPP</td>
<td>15%</td>
<td>4%</td>
<td>17%</td>
<td>44%</td>
</tr>
<tr>
<td>Same as RPP</td>
<td>80%</td>
<td>96%</td>
<td>75%</td>
<td>50%</td>
</tr>
<tr>
<td>Less generous than RPP</td>
<td>5%</td>
<td>0%</td>
<td>8%</td>
<td>6%</td>
</tr>
</tbody>
</table>

As with any other benefit provisions, the purpose of the SERP plays a significant role in determining the appropriate early retirement benefits. For example, companies that want to encourage high-income employees to remain with the company until normal retirement and companies that provide enhanced benefits to mid-career hires are less likely to provide generous early retirement benefits in the SERP.

Funding and Benefit Security

A key concern, especially for participants, is benefit security. The following table illustrates the prevalence of benefit security for DB SERPs by eligibility criteria.

<table>
<thead>
<tr>
<th>Prevalence of benefit security for DB SERPs</th>
<th>All DB SERPs</th>
<th>All employees</th>
<th>Designated employees only</th>
<th>President / CEO only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfunded</td>
<td>56%</td>
<td>60%</td>
<td>51%</td>
<td>63%</td>
</tr>
<tr>
<td>Funded Retirement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation Arrangement (RCA)</td>
<td>28%</td>
<td>29%</td>
<td>29%</td>
<td>21%</td>
</tr>
<tr>
<td>Letter of Credit (held in RCA)</td>
<td>13%</td>
<td>8%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

The proportion of companies that are pre-funding or providing benefit security to DB SERPs continues to increase. If the current trend continues, half of the DB SERPs may be secured within a few years.

<table>
<thead>
<tr>
<th>Prevalence of funding for DB SERPs</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfunded</td>
<td>72%</td>
<td>66%</td>
<td>64%</td>
<td>56%</td>
</tr>
<tr>
<td>Funded RCA</td>
<td>18%</td>
<td>22%</td>
<td>24%</td>
<td>28%</td>
</tr>
<tr>
<td>Letter of Credit (held in RCA)</td>
<td>8%</td>
<td>11%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>
For More Information

For more information on Supplemental Executive Retirement Plans, please contact your retirement consultant or one of the following SERP specialists.

**Toronto**
Scott Clausen  
416 868 7658  
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St. John's
Toronto
Vancouver
Winnipeg

France
Germany
Hong Kong
Hungary
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Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Norway
Philippines
Poland
Portugal
Puerto Rico
Singapore
South Korea
Spain
Sweden
Switzerland
Taiwan
Thailand
Turkey
United Kingdom
United States
Venezuela

Global Reach:
Argentina
Australia
Austria
Belgium
Brazil
Canada
Chile
China
Colombia
Czech Republic
Denmark
Finland

For further information, please contact our head office at 416 868 2000 or visit our website at:
www.mercerHR.ca

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### Selected Canadian University Retirement Programs

<table>
<thead>
<tr>
<th>Employer</th>
<th>Type of Plan and Benefit Formula</th>
<th>Funding/Required Contributions</th>
<th>Supplemental Pension Plan Details</th>
<th>Supplemental Pension Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>McGill</td>
<td>Hybrid plan with a defined benefit guarantee of 1.8% of 5 year best average earnings less 0.56% of YMPE, times credited service.</td>
<td>Defined Benefit guarantee fully funded by employer based upon actuarial valuation. Defined Contribution plan funded by employee contributions of 5% of earnings less 1.8% of earnings on which QPP contributions are made and employer contribution rate is based upon member age. Less than age 40: 5% of earnings less 1.8% on QPP earnings. Age 40-49: 7.5% of earnings less 1.8% on QPP. Age 50+: 10% of earnings less 1.8% on QPP.</td>
<td>No plan</td>
<td>Not applicable</td>
</tr>
<tr>
<td>UBC</td>
<td>Defined contribution rate of 3.2% of earnings to YMPE plus 5% of earnings above YMPE. Employer contribution rate of 8.2% of earnings up to YMPE plus 10% of earnings above YMPE.</td>
<td>Yes a defined contribution supplemental account/top up plan. In 2007 top up starts on salary over CRA cap of $142,961.44 (salary where combined employer and employer contributions reached the annual maximum of $20,000)</td>
<td>Employer funding of 10% of pay continues on salary in excess of the CRA cap. No employee contributions. SA Funds are administered by London Life and invested in PHN Balanced Pension Plan Trust. Employee pays administrative fees (same as base plan).</td>
<td></td>
</tr>
<tr>
<td>UofA</td>
<td>Defined benefit plan. Formula: 1.4% of 5 year final average salary up to YMPE plus 2.0% above YMPE, times credited service (max 35 years).</td>
<td>Equal employee and employer contributions: 9.175% up to YMPE plus 11.575% above YMPE plus 1.14% over pensionable salary cap.</td>
<td>No plan</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

Source: 2005 Watson Wyatt Survey for McGill University
<table>
<thead>
<tr>
<th>Employer</th>
<th>Type of Plan and Benefit Formula</th>
<th>Funding/Required Contributions</th>
<th>Supplemental Pension Plan Details</th>
<th>Supplemental Pension Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>McMaster</td>
<td>Defined benefit plan. Formula: 1.4% of 4 year best average salary to YMPE plus 2.0% above YMPE, times credited service.</td>
<td>Employee Contributions: 5.0% of earnings up to YMPE plus 6.5% over YMPE. Employer contributions currently 210% of employee contributions (based upon actuarial valuation).</td>
<td>No Plan</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Laval</td>
<td>Defined benefit plan. Formula: 1.85% of 3 year best average salary times credited service (max 35 years).</td>
<td>Employee Contributions: 9.0% of annual earnings. Employer Contributions: 9.0% of annual earnings.</td>
<td>No Plan</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Toronto</td>
<td>Defined benefit plan. Formula: 1.5% of three year best average salary up to YMPE plus 2.0% above YMPE, times credited service.</td>
<td>Employee Contributions: 4.5% of earnings up to YMPE plus 6.0% over the YMPE to maximum pensionable salary of $150,000. Employer Contributions based upon actuarial valuation. Currently 10.15% for Faculty and Librarians.</td>
<td>Yes a defined benefit plan. Fully integrated with base plan providing the same benefits as the base plan on earnings in excess of the CRA pensionable salary cap to a maximum annual pensionable salary of $150,000. 2007 CRA cap approx. $122,000</td>
<td>Employee contributions are made up to the $150,000 salary cap. Employee contributions are allocated fully to registered plan (maximum tax effectiveness) with employer funding floating between the base and supplemental plan as required.</td>
</tr>
<tr>
<td>Waterloo</td>
<td>Defined benefit plan. Formula: 1.4% of 3 year best average salary up to YMPE plus 2.0% above YMPE, times credited service.</td>
<td>Employee contributions: 4.55% of earnings up to YMPE and 6.5% of earnings above YMPE. Employer contribution based upon actuarial valuation.</td>
<td>Yes a defined benefit top up plan. Fully integrated with base plan providing a maximum annual pension benefit of $2650 per year of service (2007 CRA max is $2222).</td>
<td>Fully employer funded on a pay as you go basis (not directly funded). Earmarked assets.</td>
</tr>
</tbody>
</table>

Source: 2005 Watson Wyatt Survey for McGill University
<table>
<thead>
<tr>
<th>Employer</th>
<th>Type of Plan and Benefit Formula</th>
<th>Funding/Required Contributions</th>
<th>Supplemental Pension Plan Details</th>
<th>Supplemental Pension Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Queens</td>
<td>Hybrid Plan. Defined benefit guarantee 1.4% of 4 year best average salary up to YMPE plus 1.8% over YMPE.</td>
<td>Defined benefit guarantee fully funded by employer based upon actuarial valuation. Defined contribution plan employee contributions: 4.5% of earnings up to YMPE plus 6% over YMPE. Employer contributions: 6% of earnings up to YMPE and 7% over YMPE.</td>
<td>Yes. Defined contribution top-up plan. 2006 contribution limit of $19,000 occurs in the base plan at $152,000. Employer contributions continue at 7% of pay on over cap salary however top up plan is fully integrated with base plan contributions to maximize employee tax deductible contributions.</td>
<td>Fully employer paid. Notional accounting. Investment earnings based upon Queen's Pooled Investment Fund. 10 annual installments payments.</td>
</tr>
<tr>
<td>Montreal</td>
<td>Defined Benefit plan. Formula 2% of 3 year final average salary times credited service less at age 65 an integration amount with the YMPE</td>
<td>Employee Contributions: 4.7% of earnings up to YMPE plus 7.2% over YMPE. Employer contributions based upon actuarial valuation.</td>
<td>No Plan</td>
<td>No Applicable</td>
</tr>
<tr>
<td>Western Ontario</td>
<td>Defined Contribution Plan</td>
<td>Employee Contributions: 1.5% or 5.5% of earnings (employee choice). Employer contributions: 8.5% of earnings</td>
<td>Yes defined contribution plan</td>
<td>Employer notional contribution of 8.5% of pay. Earmarked assets. Account allocated the gains and losses of the earmarked assets investment returns net of plan administration fees. Maximum 15 annual installment payments.</td>
</tr>
</tbody>
</table>

Source: 2005 Watson Wyatt Survey for McGill University
APPENDIX 7

SRP Interview Findings

Interviews were conducted on September 15, 2006 with three employer sponsors of supplemental pension plans. The following is a summary of the interview findings.

TELUS Corporation Pension Plan
Interviewed Ms. Judy Koutzun, Manager Pension Administration

- Defined benefit pension plan for Alberta based employees.
- Benefit formula is 1.4% up to YMPE plus 2.0% on excess.
- Supplemental retirement benefits came in place in 1992 coincident with the introduction of the pension reform limits.
- SRP mirror the base plan in all provisions with the exception of indexing (no indexing to SRP benefit).
- SRP is completely employer paid unfunded arrangement (no RCA). Employee contributions are capped at the Revenue Canada maximum pensionable salary.
- At time of retirement final average earnings are determined and the total pension benefit is calculated with and without any Revenue Canada limits. The company funds any difference between the total earnings and the amount that can be paid through the registered plan. The SRP benefit is paid as a monthly pension in the same form as the registered plan benefit.
- Currently the plan has several hundred retirees receiving SRP benefits.
- Pension Committee of the TELUS Corporation Board of Directors is responsible for administration, financial reporting and investment activities of all company sponsored pension plans (registered and unregistered).

University of Lethbridge
Supplemental Pension Plan for Senior Staff
Interviewed Ms. Marie Yolland, Manager Pension & Benefits, Cindy Armstrong, Director Financial Services

- Notional DC account. Contribution rate equals the required UAPP employer contribution on salary over the YMPE less the pre 92 unfunded liability premium. In 2006 the contribution rate was 10.435%. Contributions paid on over cap salary only. University determines the investment return on notional accounts.
- At retirement the accumulated value of the notional contributions and investment earnings are paid in equal annual instalments of no less than 2 year and no more than 15 years (employee choice).
Province of Alberta
Supplementary Retirement Plan for Public Service Managers
Interviewed Ms. Lorna Smith, Alberta Finance

- Defined Benefit Top Up Plan to the Management Employees Pension Plan (MEPP).
- Participation is optional by MEPP employers.
- Mirrors MEPP in almost all provisions. Benefit Formula is 2%.
- Implemented in 1999 on a go forward basis.
- Funded arrangement (RCA) with employee contributions at the same rate as MEPP (10.5% of pay). Employee contributions are tax deductible. Participating employers are required to contribute same rate as employees (10.5%) plus are assessed an additional 5.8% to fund reserve account.
- Alberta Pensions Administration administers the SRP benefits as well as the RCA tax reporting to Revenue Canada (contributions and investment earnings tax).
- Approximately 650 members of the SRP. Projected membership is about 1/3 of members in MEPP (approximately 1000)
## APPENDIX B

### Critical Implementation Decision Plan

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Task 1</td>
<td>Task 2</td>
<td>Task 3</td>
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</table>

<table>
<thead>
<tr>
<th>Task 4</th>
<th>Task 5</th>
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<tbody>
<tr>
<td>Task 6</td>
<td>Task 7</td>
</tr>
</tbody>
</table>

### Notes

- **Step 1**: Detailed list of tasks and resources
- **Step 2**: Specific dates and deadlines
- **Step 3**: Guidelines and expected outcomes
<table>
<thead>
<tr>
<th>Sub</th>
<th>Week 1</th>
<th>Week 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plan</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Objective</strong></td>
<td>1. Define goals and objectives</td>
<td>1. Define goals and objectives</td>
</tr>
<tr>
<td><strong>Start</strong></td>
<td>2. Begin planning and preparation</td>
<td>2. Begin planning and preparation</td>
</tr>
<tr>
<td><strong>End</strong></td>
<td>3. Implement strategies and tactics</td>
<td>3. Implement strategies and tactics</td>
</tr>
<tr>
<td><strong>Measure</strong></td>
<td>4. Monitor progress and performance</td>
<td>4. Monitor progress and performance</td>
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<tr>
<td><strong>Evaluate</strong></td>
<td>5. Evaluate outcomes and impacts</td>
<td>5. Evaluate outcomes and impacts</td>
</tr>
<tr>
<td><strong>Feedback</strong></td>
<td>6. Provide feedback and comments</td>
<td>6. Provide feedback and comments</td>
</tr>
<tr>
<td><strong>Action</strong></td>
<td>7. Take action and make adjustments</td>
<td>7. Take action and make adjustments</td>
</tr>
</tbody>
</table>

**Notes:**
- Week 1: Focus on planning and preparation.
- Week 2: Focus on implementation and monitoring.
<table>
<thead>
<tr>
<th>Plan Design Plan Administration</th>
<th>Option A</th>
<th>Option B</th>
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</thead>
<tbody>
<tr>
<td>Plan Administration Costs</td>
<td>Costs will include: internal recordkeeping, annual member statements, processing of benefit payments, financial/accounting requirements and plan consulting paid by employer</td>
<td>Costs will include: internal and external record keeping, annual member statements, calculation and processing of benefit payments, actuarial fees related to plan valuations, benefit calculations, financial/accounting requirements and plan consulting paid by employer</td>
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<td>Governance Reporting</td>
<td>Annual report issued in Spring of each year upon completion of plan year activities.</td>
<td>Annual report issued in Spring of each year upon completion of plan year activities.</td>
</tr>
<tr>
<td>Transfers from other retirement plans</td>
<td>Not permitted</td>
<td>Not permitted</td>
</tr>
</tbody>
</table>
APPENDIX 9

Investment Return Volatility

- Averages vs. year over year volatility
  - Average Canadian equity return over 30 year period ending in 2006 was 13.4%
  - Yet, only in 4 years was the actual return close to the historical average (within 2%)

- Annual return and yield volatility
  - Without any smoothing mechanisms, can result in large swings in expense and balance sheet liability for both DB and DC ASRP designs
  - Can impact employee behaviour and engagement

Source: October 23, 2007
Mercer Report
APPENDIX 10

Assumptions Used to Project Benefits for Profile Members

**Defined Benefit SRP Assumptions**

Many of the assumptions were taken directly from the 2006 actuarial valuation of the UAPP plan.

- Discount Rate (CICA 3461 estimate) 5.5%
- Inflation Rate 3.70% until 2009, 2.7% thereafter
- Salary Increase 6.0% until 2009, 3% plus merit thereafter
- Merit Increases:

<table>
<thead>
<tr>
<th>Age</th>
<th>Sample Rates</th>
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</thead>
<tbody>
<tr>
<td>20</td>
<td>3.25%</td>
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<tr>
<td>30</td>
<td>3.25%</td>
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<tr>
<td>40</td>
<td>3.0%</td>
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<tr>
<td>50</td>
<td>1.75%</td>
</tr>
<tr>
<td>60</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

- Increase in CPP Earnings 3.0%
- Increases in the maximum pension limits
  - 2008: 2,333.33 per year of service
  - 2009: $244.44 per year of service, increasing thereafter at 3.0%
- Mortality Table Generational mortality table (updated from UP94 Projected to 2004 post-retirement). No pre-retirement mortality assumed.
- Termination of Employment As per UAPP valuation assumption.
- Percentage Assumed to have a Spouse Not applicable
- Retirement:

<table>
<thead>
<tr>
<th>Age</th>
<th>Retirement</th>
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<tbody>
<tr>
<td>55</td>
<td>5.0%</td>
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<tr>
<td>56-59</td>
<td>2.5%</td>
</tr>
<tr>
<td>60-64</td>
<td>7.5%</td>
</tr>
<tr>
<td>65</td>
<td>65.0%</td>
</tr>
<tr>
<td>66-68</td>
<td>50%</td>
</tr>
<tr>
<td>69</td>
<td>100%</td>
</tr>
</tbody>
</table>

- Net Interest Rate used to Determine Committed value of DB lump sum 3.75% for 10 years and 3.5% thereafter
- Settlement Basis No tax adjustment
- Actuarial equivalence factors 6% per annum (updated from UAPP assumption based factors).

**Defined Contribution Assumptions**

- Projected returns of 7.65% based on U of A endowment fund investment mix.

Net Interest rate used to determine annual pension purchased from accumulated DC account of 3.75% for 10 years, 3.5% thereafter.  

Source: October 23, 2007  
Mercer Report
Appendix 11

Benefit Comparisons – University of Toronto Summary

- U of T sponsors the University of Toronto Pension Plan which is a Defined Benefit Registered Pension Plan
  - Employees contribute 5.0% on earnings up to the YMPE and 6% on earnings above the YMPE
  - Pension = \(1.5\% \text{ of } FAE \text{ up to the YMPE} + 2.0\% \text{ of } FAE \text{ above the YMPE}\) times Service
  - Early retirement reduction of 5% per year prior to age 65
  - Cost of living increases at 75% of CPI
  - YMPE (Year’s Maximum Pensionable Earnings) = $43,700 in 2007

- U of T also sponsors a Defined Benefit Supplementary Retirement Plan
  - Same benefit as the RPP but without the maximum tax limits, however FAE is capped at $150,000.

FAE = Final Average Earnings

Benefit Comparisons – UBC Summary

- UBC Faculty Pension Plan is a Defined Contribution Registered Pension Plan
  - Employees contribute 3.2% on earnings up to the YMPE and 5% on earnings above the YMPE (contributions slightly higher on earnings up to the YBE of $3,500)
  - UBC contributes 8.2% of earnings up to the YMPE and 10% on earnings above the YMPE (contributions slightly higher on earnings up to the YBE of $3,500)

- UBC also has a Defined Contribution Supplementary Retirement Plan
  - Once contributions have reached the maximum Income Tax limits under the Registered Pension Plan ($21,000 in 2008), UBC contributes 10% of excess earnings to the SRP

Source: October 23, 2007
Mercer Report
APPENDIX 14

University Comparisons – Employer Value

- The “Employer Value” charts show the net employer provided value for both the registered pension plan and the SRP
- Employer Value = Total value less accumulated member contributions
- Significant portion of Employer Value comes from registered plans
- SRP’s are all Employer Value (no member contributions)

- Employer Value for the UBC DC plan is as follows:
  - UBC contributes 8.2% of earnings up to the YMPE and 10% on earnings above the YMPE in the registered plan
  - UBC contributes 10% of excess earnings to the SRP

University Comparisons – Employer Value

- Employer Value for U of T and U of A is not as straightforward:
  - For the registered plan, accumulated member contributions are deducted from total value, to calculate Employer Value
    - Member contributions are not the same under both plans
  - Differences in benefit formulas and ancillary benefits (for example, post-retirement indexing) impact the calculation of total value

- The table on the following page summarizes key differences between the U of T and U of A registered plans, to better understand how Employer Value changes at different ages
- U of T registered plan calculations assume the $150,000 salary cap will be indexed in the future, if this does not happen then the U of T values are overstated. The SRP calculations assume the $150,000 cap is NOT indexed.
### University Comparisons – Employer Value
## Registered Plan Comparison

<table>
<thead>
<tr>
<th>UAPP</th>
<th>U of T</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Formula at Normal Retirement</td>
<td>1.4% up to YMPE; 2.0% above YMPE; Final average 5 year earnings</td>
<td>1.5% up to YMPE; 2.0% above YMPE; Final average 3 year earnings</td>
</tr>
<tr>
<td>Early Retirement Reduction Factors</td>
<td>3.0% per year prior to age 60 or 80 points</td>
<td>5% per year prior to age 65</td>
</tr>
<tr>
<td>Post-Retirement Indexing</td>
<td>60% of CPI</td>
<td>75% of CPI</td>
</tr>
<tr>
<td>Member Contributions</td>
<td>6.8% up to YMPE; 9.8% above YMPE</td>
<td>5.0% up to YMPE; 6.0% above YMPE</td>
</tr>
</tbody>
</table>

Source: October 30, 2007
Mercer Report