

CAUBO 2016

MAKING RETIREE BENEFITS SUSTAINABLE

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AGENDA

- Overview
- Historical roadmap
- Long-term financial projections
- Financing strategy 2008
- Negotiation strategies
- Historical roadmap (cont'd)
- Financing strategy 2011
- Financing strategy 2014
- Lessons learned
- Q&A

OVERVIEW

- 40 unique Post-Retirement Benefit plans at McMaster
- Primary employee groups
 - Executive group (30)
 - Management group (600)
 - Faculty (1,000)
 - Clinical faculty (400)
 - Staff (unionized) (3,000)

OVERVIEW

- Plans provide comprehensive coverage
 - Health
 - Dental
 - Life
 - AD&D
 - Out of Country
 - Tuition assistance / Bursary
- Benefit levels same as active benefits coverage, with only modest differences

HISTORICAL ROADMAP

- Baseline eligibility (pre-2008)
 - Eligible for immediate pension (reduced or unreduced)
 - Participated in active benefits immediately before retirement
 - Eligible for Provincial Health Plan upon retirement
 - No years of service threshold
 - 100% employer paid

LONG-TERM FINANCIAL PROJECTIONS SUSTAINABILITY TESTING VS. ACCOUNTING VALUATIONS

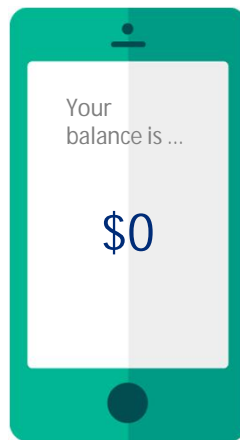
LIABILITIES

Accrued
obligation
for current
employees &
retirees

Total obligation
for current
employees &
retirees

Total obligation
including
future
employees

ASSETS



LONG-TERM FINANCIAL PROJECTIONS

Recipe for Useful Long-Term Projections



Ingredients

- Current membership census data
- Recent per capita spending patterns
- Demographics of recent new employees
- Best estimate assumptions regarding withdrawals, mortality, benefit utilization, healthcare trend rates, etc.

Directions

- Take accurate current membership census data
- Analyze recent per capita spending patterns
- Analyze demographics of recent new employees to establish a profile for future new hires
- Decide on an overall growth pattern for the total population
- Add best estimate assumptions regarding withdrawals, mortality, benefit utilization, healthcare trend rates, etc. , and
- Project expected cashflows 100 years into the future

VOILA!!

LONG-TERM FINANCIAL PROJECTIONS

HOW TO MAKE IT MEANINGFUL

Issue

Projecting increasing cash flows many years into the future results in figures that look like Monopoly money

Potential Solution

Project total payroll into the future using assumptions that are consistent with those for the projected cash flows and express total cash flow as a % of payroll for each year into the future

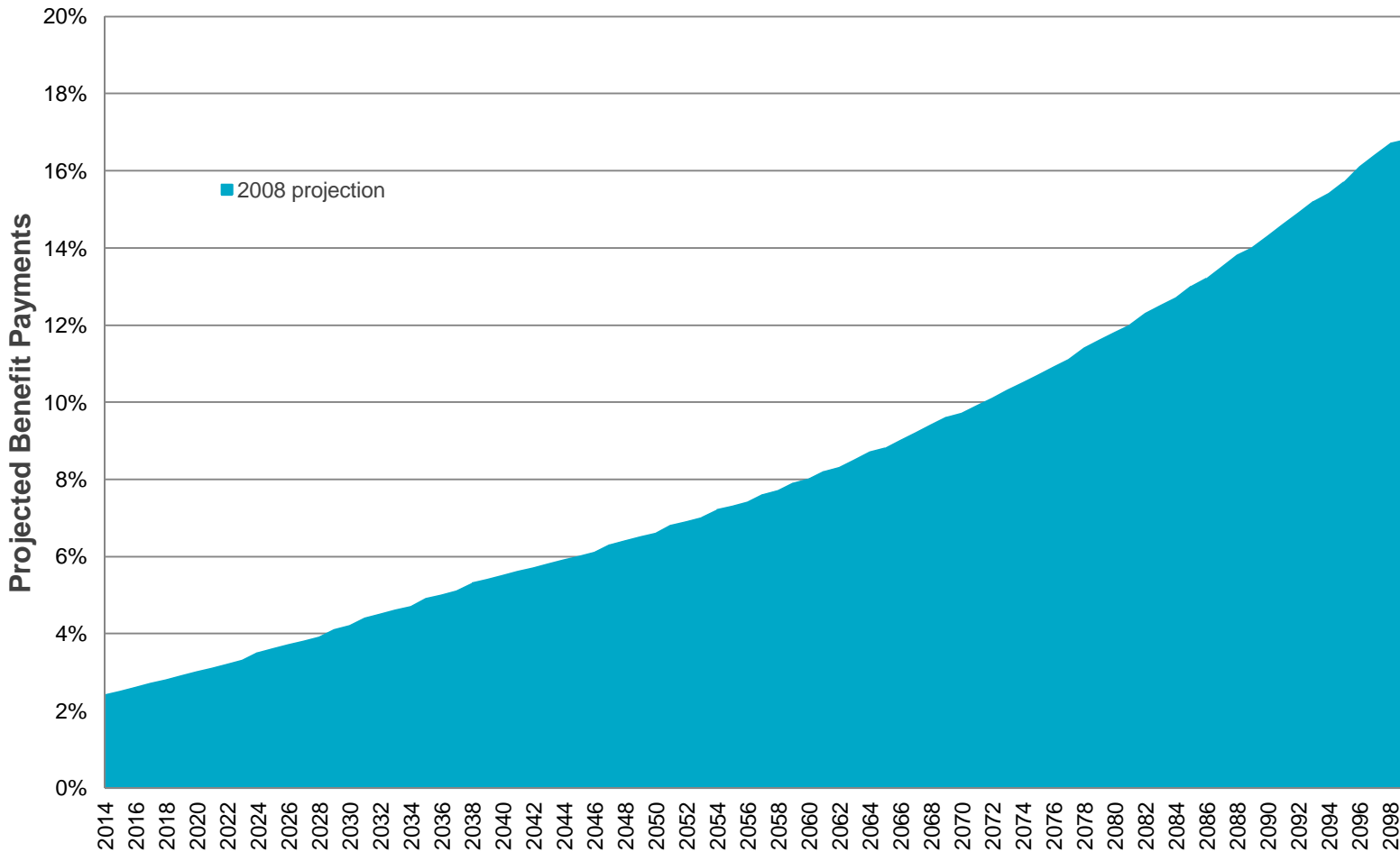
Goal

Stable level of benefit cash flows as % of payroll once plan reaches maturity, i.e. number of total retirees stabilizes

FINANCING STRATEGY 2008

PROJECTED BENEFIT PAYMENTS AS A % OF PAYROLL

2008 PROJECTION



FINANCING STRATEGY 2008

History McMaster University's approach to this obligation in 2008:

- There was NO financing “cash” strategy for future payment requirements in place
- Annually McMaster booked the required obligation as:
 - Credit: Liability and Debit: Equity
- By 2008 close to \$200M had been accounted for without ANY cash set aside, meaning:
 - We had properly recognized the required liability on the balance sheet
 - Without cash set aside we had created a deteriorating financial health position
 - Essentially we had no funding plan for the future obligation and eventual cash outflows
- Finance Committee Resolution in December 2008:
 - ***That the Finance Committee direct the University administration to produce a plan for review by the Committee providing for the level of post retirement employee benefits to become comparable with the level of such benefits at McMaster's comparator group of universities, over such reasonable time period as the administration suggests, whilst maintaining the quality of the institution.***

NEGOTIATION STRATEGIES

- Overall labour strategy
 - Develop a bargaining reputation
 - Plan to implement various measures over time, over multiple employee groups
 - Have leaders lead the way
 - Gain momentum of internal equity / community pressure
 - Given uncertainty of bargaining outcomes, remain flexible / nimble
 - One step at a time

NEGOTIATION STRATEGIES

- Preparing for bargaining
 - Understand your leverage, bargaining power
 - Consider \$ mandate
 - All or nothing approach?
 - don't go for gold unless you're prepared for a strike
 - don't accept a strike for a bronze medal

NEGOTIATION STRATEGIES

- At the bargaining table
 - Be strategic about priorities
 - Consider the voters and union bargaining team members
 - Conceding small victories for big return
 - Balanced proposals
 - Grandparenting

NEGOTIATION STRATEGIES

- Specific strategies to increase eligibility threshold and reduce cost
 - Closed Plan to new employee groups
 - Introduced years of service threshold for new hires only (Grandparenting) - minimum 10 years service
 - Closed Plan to new hires (Grandparenting)
 - Introduced Co-Pay based on years of service
 - Introduced managed drug formulary (generic substitution)

HISTORICAL ROADMAP (CONT'D)

- Co-Pay based on years of service, for new hires

YEARS OF CONTINUING SERVICE	% OF YEARLY COST PAYABLE BY RETIREES	% OF YEARLY COST PAYABLE BY UNIVERSITY
30 or more	25%	75%
25-30	50%	50%
20-25	75%	25%
10-20	100%	0%
0-10	Not eligible	n/a

HISTORICAL ROADMAP (CONT'D)

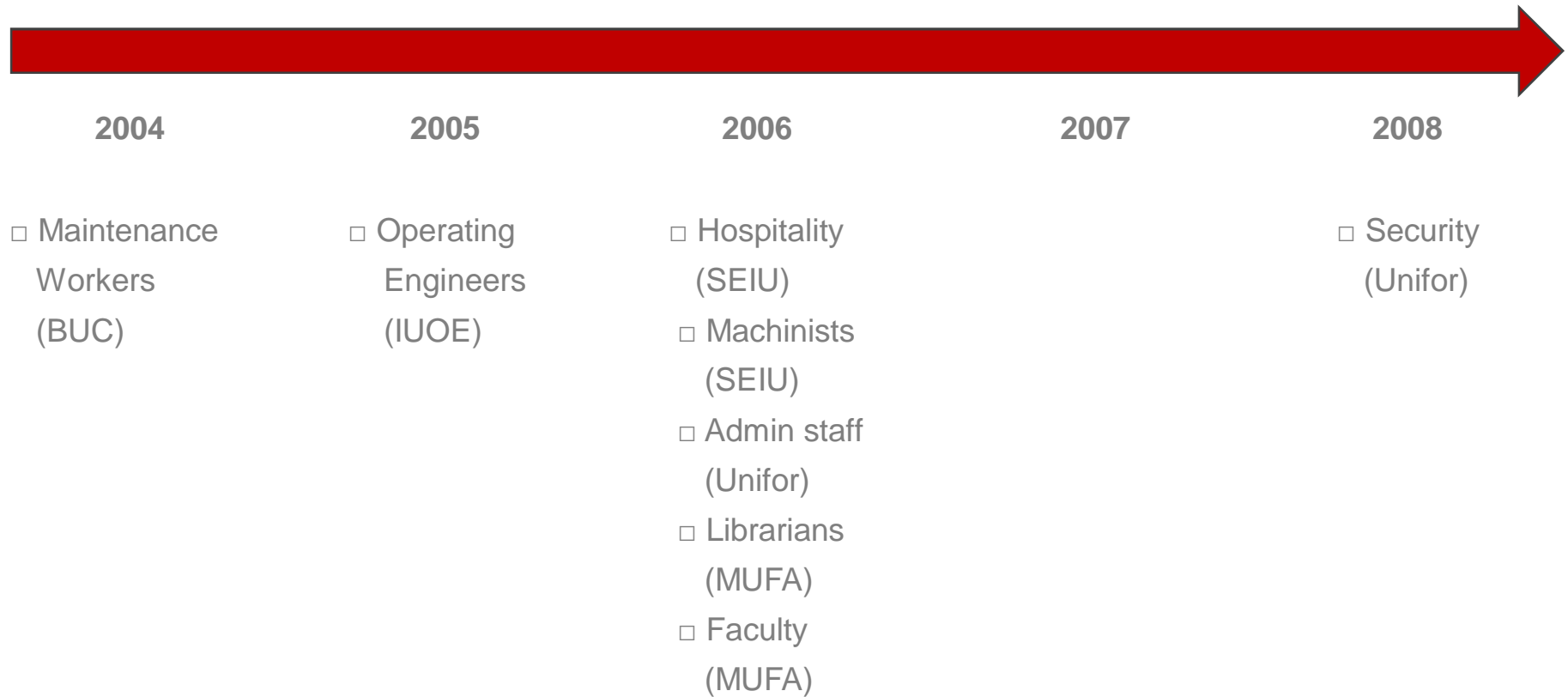
- Modified Co-Pay program for Faculty

YEARS OF CONTINUING SERVICE	% OF YEARLY COST PAYABLE BY RETIREES	% OF YEARLY COST PAYABLE BY UNIVERSITY
30-25 25 or more	25%	75%
25-30 20-25	50%	50%
20-25 10-20	75%	25%
10-20	100%	0%

- Based on years of service for new retirees (notably not new hires)

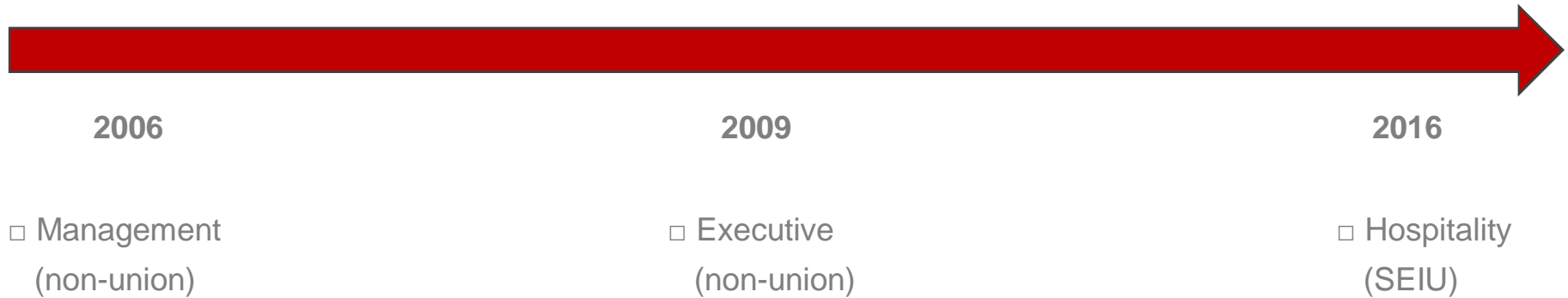
HISTORICAL ROADMAP (CONT'D)

Years of Service threshold (10 years) for new hires



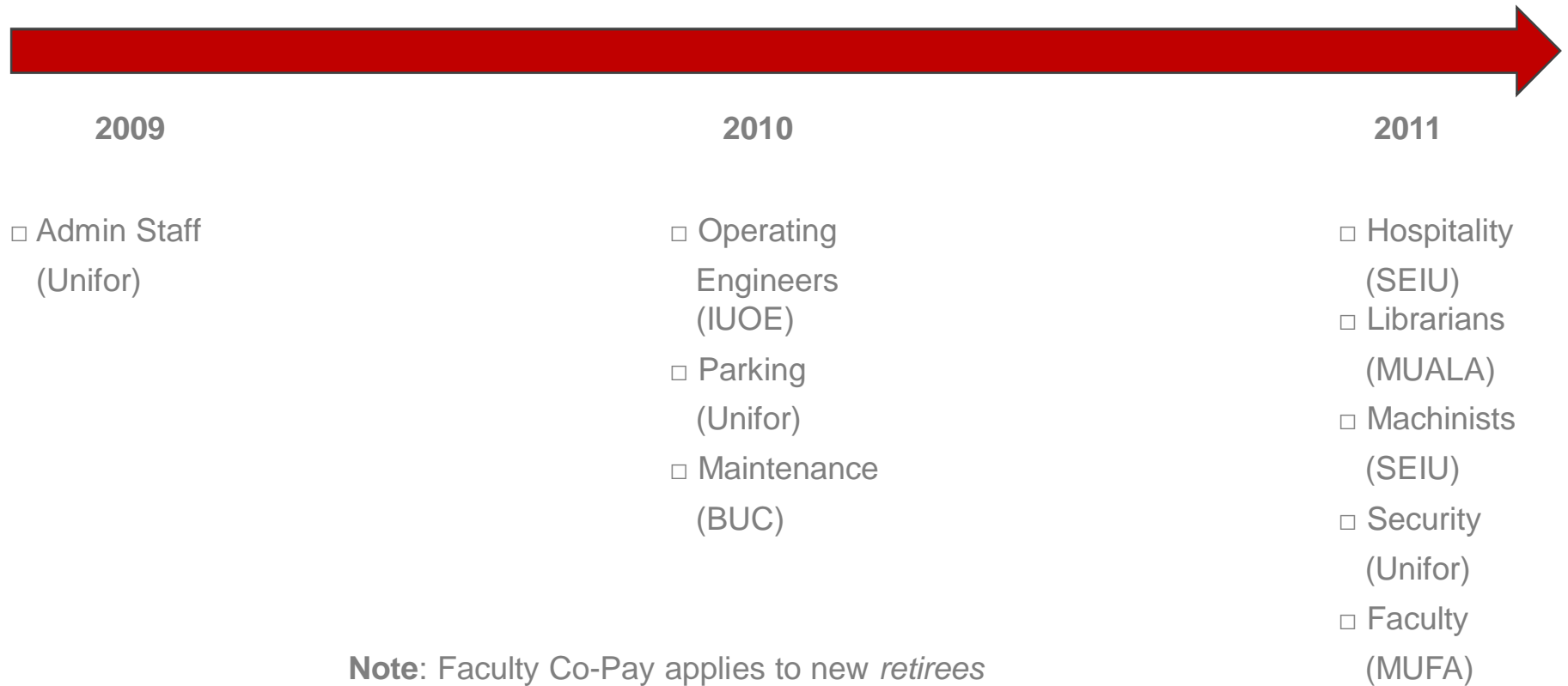
HISTORICAL ROADMAP (CONT'D)

Closed plan for new hires



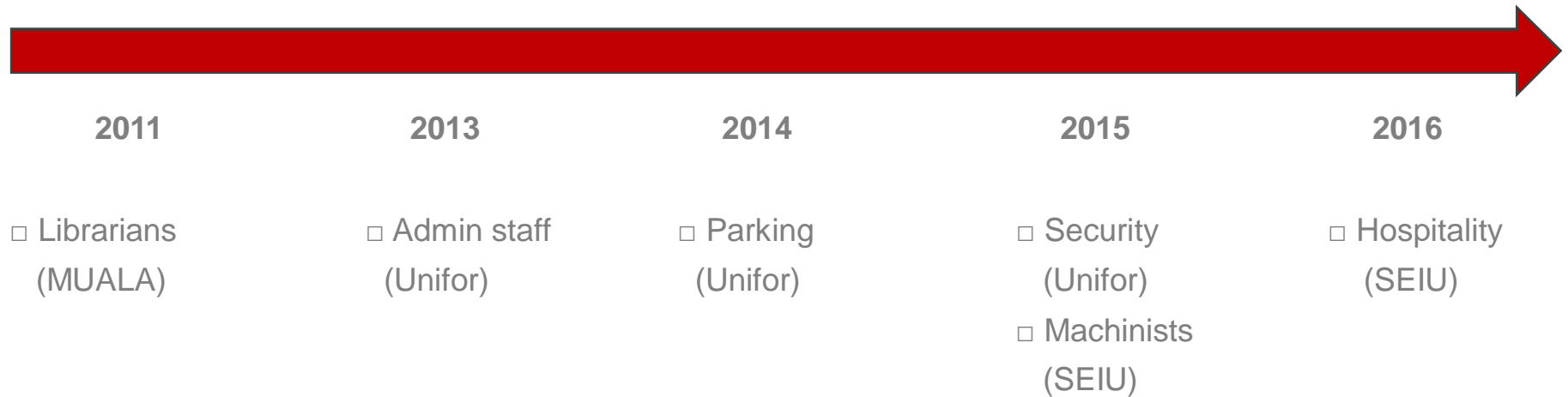
HISTORICAL ROADMAP (CONT'D)

Co-Pay based on years of service for new hires



HISTORICAL ROADMAP (CONT'D)

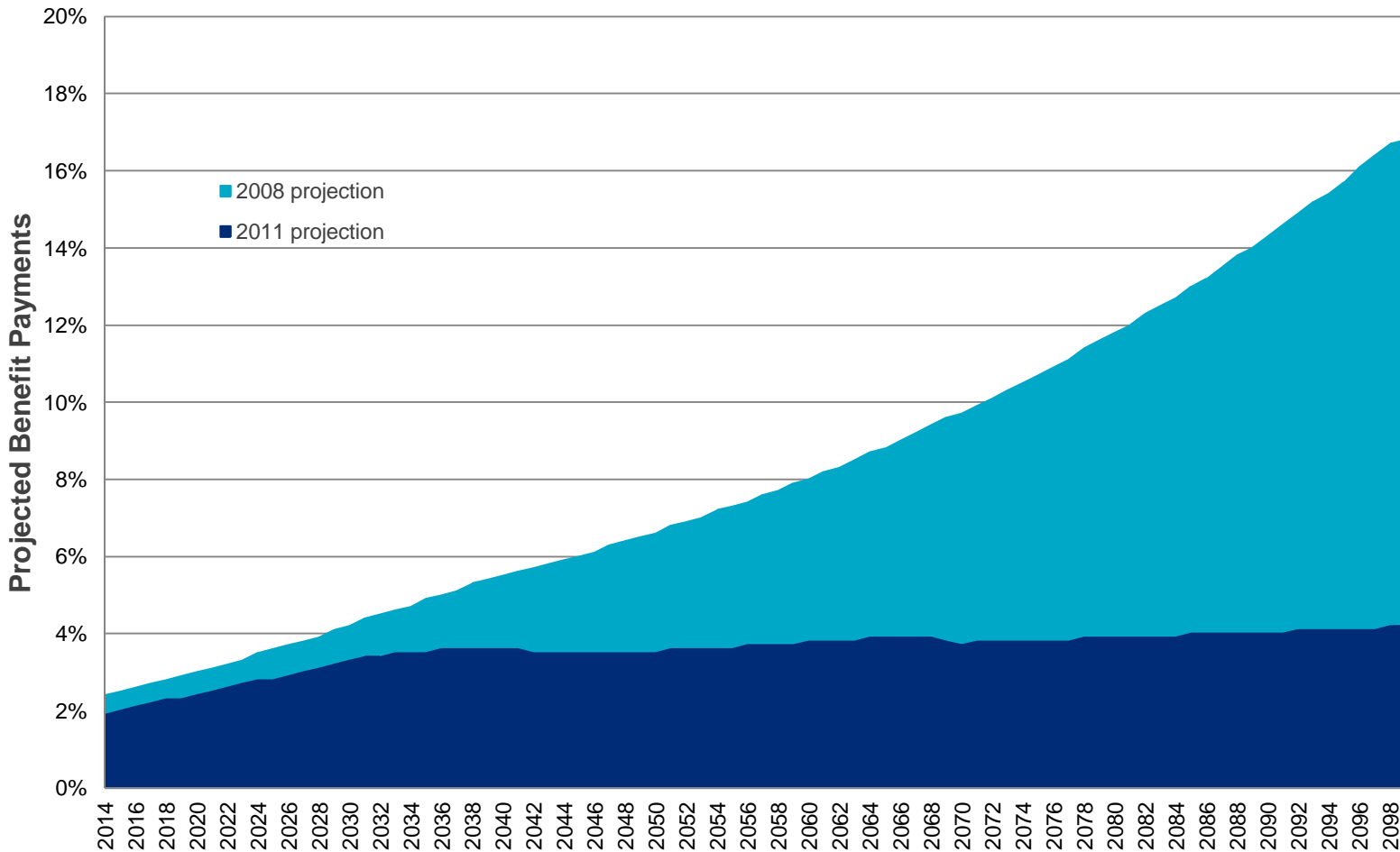
Managed drug formulary (Rx05) for new retirees



FINANCING STRATEGY 2011

PROJECTED BENEFIT PAYMENTS AS A % OF PAYROLL

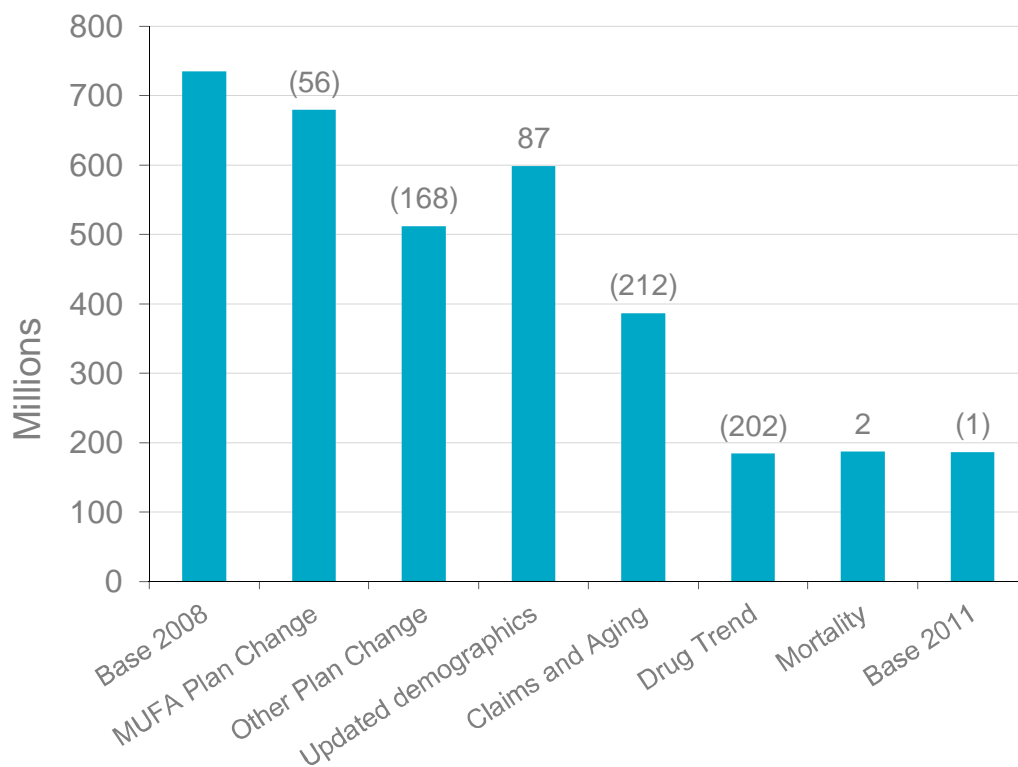
2008 AND 2011 PROJECTIONS



FINANCING STRATEGY 2011

KEY DIFFERENCES BETWEEN 2008 AND 2011

**PROJECTED BENEFIT PAYMENTS IN 2099
IMPACT OF ASSUMPTION AND PLAN
CHANGES**



YEAR	ORIGINAL PLANS IN PLACE IN 2008	REVISED PLAN AND ASSUMPTION EFFECTS IN PLACE IN 2011
2011 Estimated annual cash payments	\$6,460,421	\$5,938,442
2099 Estimated annual cash payments	\$735,043,862	\$186,143,969
NPV of the stream of payments (2011-2099)	\$536,566,077	\$316,012,869

FINANCING STRATEGY 2011

GOAL: MOVE FROM



TO:



Funding Solution

COVER CURRENT

COVER PAST

EST. RESERVE FUND

FINANCING STRATEGY 2011

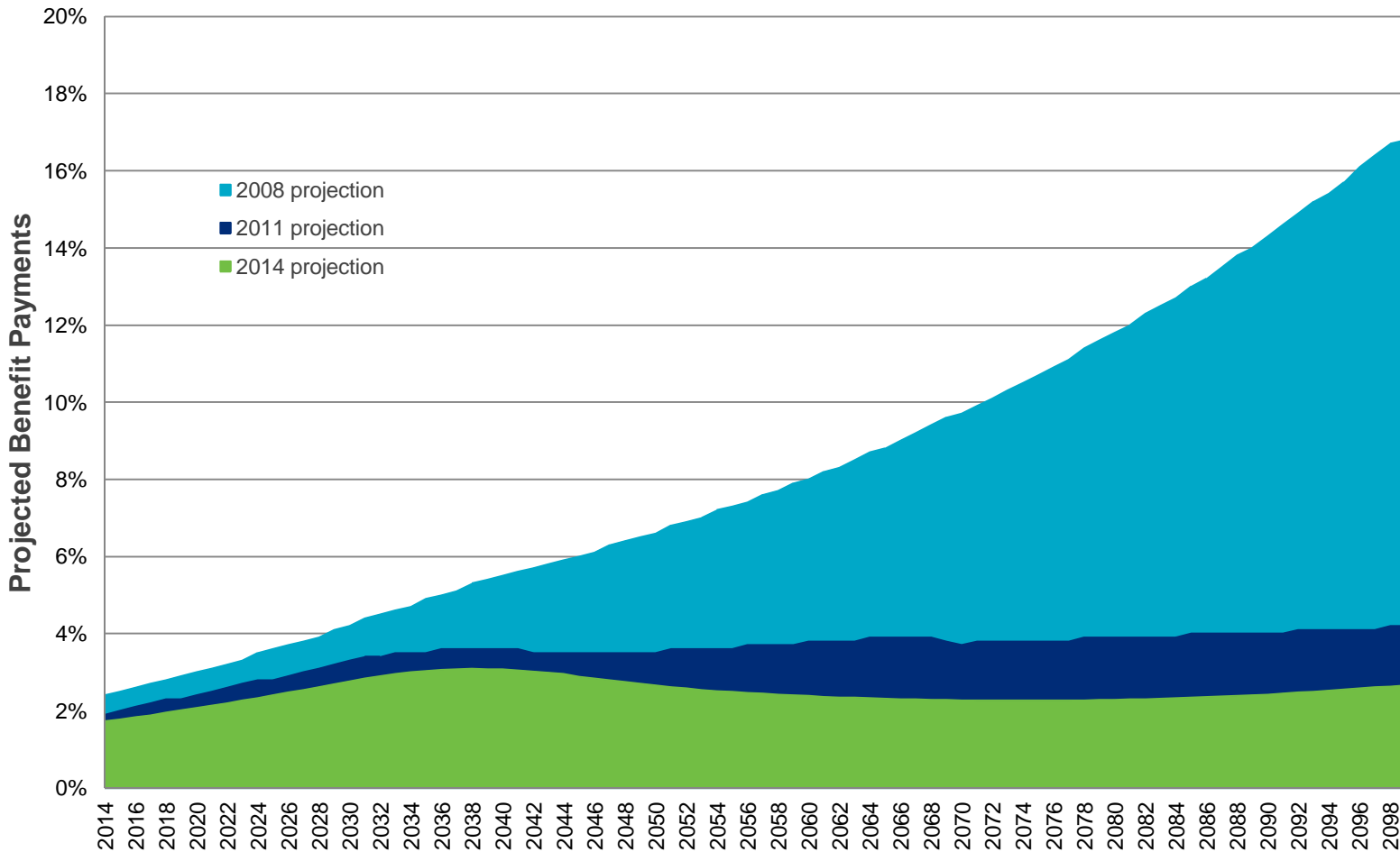
In order to establish an appropriate level of funding:

1. McMaster increased its benefit rate (surcharge) by doing an excel analysis called “goal-seek” to determine the rate required 2014-2099 to cover current/future costs
 - Using excel a rate of 2.65% on salary & wages is necessary versus a previous inadequate 1.75% estimate being used.
2. McMaster also had to eliminate the close to \$200M already accounted for (but without funding set aside). McMaster again used the excel goal-seek function to determine a 40 year supplemental benefit rate (surcharge) for past costs (0.25%)
3. Finally, due to differences of collect PRB funding for current employees who create later costs, McMaster created a specific Post Retirement Benefit Reserve to save and invest accumulated funding for this liability AND possible eliminate the rate charges altogether – achieved by:
 - Use the reserve fund for differences between required cash outflows and benefit rate collections
 - Supplement the reserve balance annually, where possible, by applying either/both undistributed income or excess funds in the University Benefits Reserve (estimated \$1-\$3M/year)
 - Manage the PRB reserve and use its interest income for future costs

FINANCING STRATEGY 2014

PROJECTED BENEFIT PAYMENTS AS A % OF PAYROLL

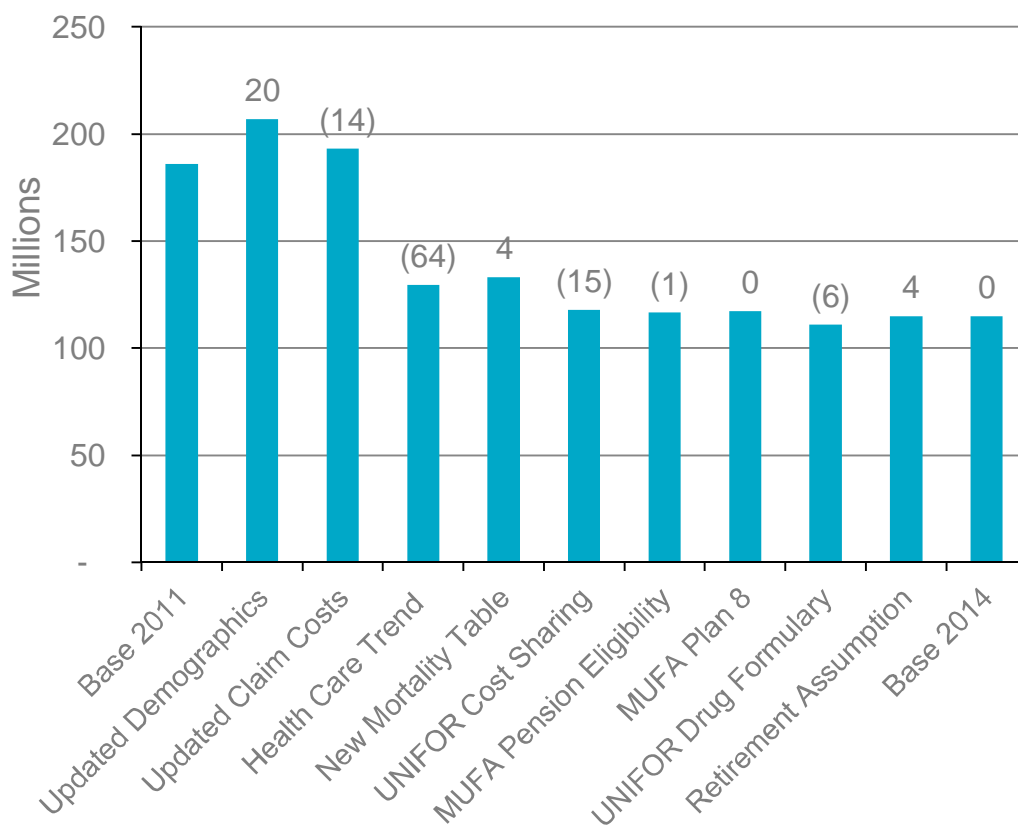
2008, 2011, and 2014 PROJECTIONS



FINANCING STRATEGY 2014

KEY DIFFERENCES BETWEEN 2011 AND 2014

PROJECTED BENEFIT PAYMENTS IN 2099
IMPACT OF ASSUMPTION AND PLAN
CHANGES

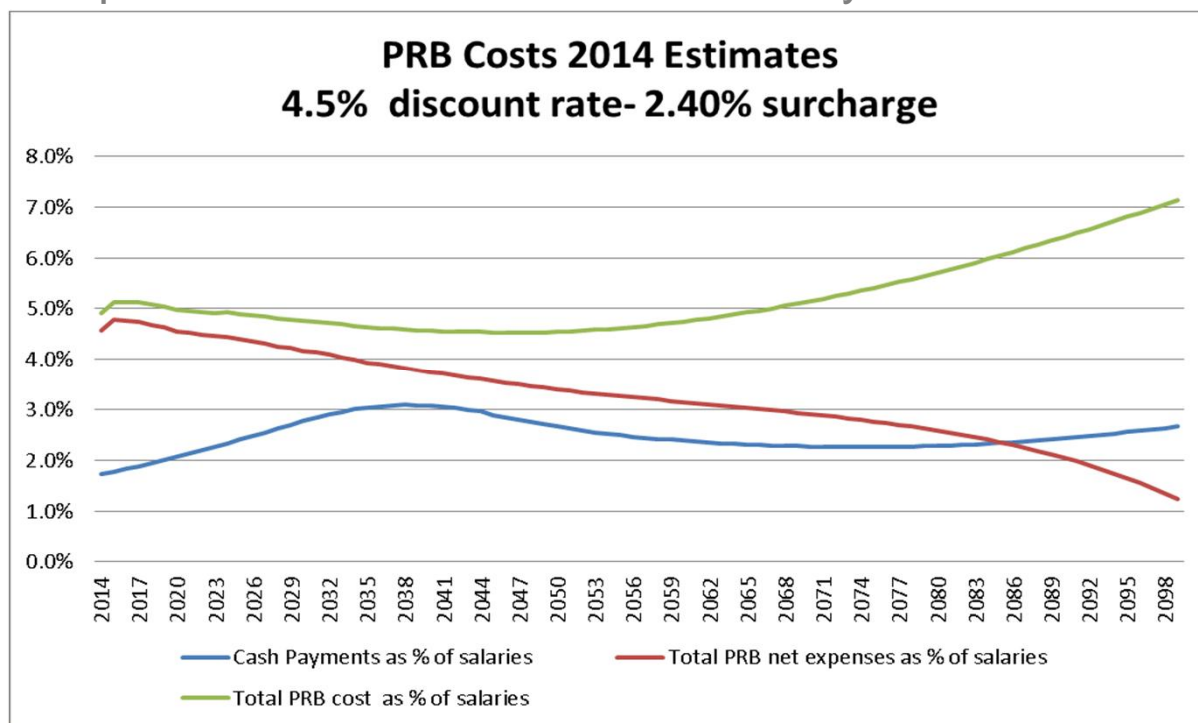


YEAR	REVISED PLAN AND ASSUMPTION EFFECTS IN PLACE IN 2011	REVISED PLANS AND ASSUMPTIONS 2014
2011 Estimated annual cash payments	\$5,938,442	n/a
2014 Estimated annual cash payments	\$7,325,027	\$6,030,000
2099 Estimated annual cash payments	\$186,143,969	\$114,800,000
Net Present Value at 6% of the stream of payments (until 2099)	\$316,012,869	\$272,121,736
Specific Investment Reserve - Value at each review	\$9.7 million	\$18.5 million

FINANCING STRATEGY 2014

Following 2011 is the 3-legged stool working:

- Yes. And, McMaster has been able to further reduce the benefit rate surcharge from 2.65% to 2.4% based on updated projections (monitored triennially)
- McMaster maintains the 0.25% supplemental benefit rate to retire the negative equity entries with funding set-aside.
- Transfer \$1M/year from the University Benefits Reserve for the next 3 years into the Special Investment Reserve to defray future costs



- **2015 UPDATE:**

- \$165M remains unfunded (gone by 2065)
- \$22M Special Investment Reserve in place

LESSONS LEARNED

- Labour relations
 - Internal inequity (impact on morale, recruitment/retention?)
 - Administrative challenges
 - Multiple plans
 - Multiple eligibility thresholds, entitlements
 - New costing obligations (to determine co-pay)
- Financing
 - Need to plan for future cash outflows
 - Easier to start setting the future costs aside for current employees than downloading this cost to future generations
- Projections
 - Cash vs. accounting
 - DIY can be costly
 - Keep your balance sheet strong – don't ignore financial health

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