Effective December 12, 2006, the Government of Ontario will eliminate mandatory retirement at age 65 and employees may choose to work as long as they are able to perform their jobs. This is a significant change for UW since all benefits and the Pension Plan were developed under the assumption of retirement at age 65 or, in the case of employees hired before January 1, 1969, 68 years of age.

For the past few weeks, the Pension & Benefits Committee has been discussing the effects of this change on UW’s pension and benefits programs and what the appropriate approach should be for those who choose to stay past age 65.

The removal of mandatory retirement is both welcome and worrisome. Welcome because valuable and productive employees may stay and continue to contribute to UW’s success. Pension plan liabilities may also decrease since employees will be taking their pensions at a later date and presumably collecting them over a shorter period of time. However, it is also worrisome because when employees do not retire at age 65 the cost of benefits may increase. As well, salary costs to the University will increase due to lack of turnover in the system (normally when employees retire, they are replaced by new employees with lower salaries).

It is the Committee’s intention to make the following recommendations to the Board of Governors at its June meeting. Comments may be forwarded to the Committee’s Secretary, Trenny Canning, at tcanning@uwaterloo.ca, by April 17, 2006.

During all of these discussions, members referred to the Committee’s basic principles and developed further guidelines to assist in their deliberations. Discussions have focused on what is appropriate coverage for employees beyond the age of 65, the effects of a workforce beyond age 65 on benefit premiums and the long-term viability of the Pension Plan.

GENERAL ISSUES

Normal Retirement Date will continue to be 65 years of age although employees will be able to continue employment as long as they are able to perform their jobs.

All employees must begin to collect their pension no later than the end of the calendar year in which they reach age 69. This is federal government law.

Benefits will continue for employees past age 65 with some modifications. Once employees start to collect a pension, even if they continue in employment, their benefits will be those of retirees.
BENEFITS

Extended Health Care Plan
The extended health care plan will continue to pension start date. At that time, extended health care coverage will convert to the retiree plan. The main difference between the active and retiree health plans is that out-of-Canada coverage for retirees is limited to 60 days per trip.

Dental
The dental plan will continue to pension start date.

Sick Leave
Sick leave coverage continues past age 65 under the same terms and conditions applicable prior to age 65. If employees continue in employment past the pension start date they will be entitled to a total of 120 days and coverage will be cumulative. The current coverage for unrelated illnesses will not continue and when 120 days have been used, there will be no further sick leave payment (employees in this situation will be receiving not only their pension but their full salary). The 120 days of sick leave are not expected to include one or two days off due to minor illness or injury.

Long Term Disability (LTD)
LTD will end at age 65 as it does now. This is consistent with other universities in provinces where there is no mandatory retirement. Without an end date, LTD could continue indefinitely and the subsequent increases to the cost of the LTD plan for all employees would be prohibitive. Since employees will be able to access their pension if they become disabled, they will be protected from loss of income. The Committee has agreed to examine other options of providing cost effective disability insurance coverage to members over age 65.

Life Insurance
Provided costs are as anticipated, the University will pay for 1 X annual salary until pension start date. Additional, age-related optional life insurance, to the extent of the remaining insurance held at age 65, can be continued without medical evidence at the employee’s own cost until pension start date. Any request to increase insurance is subject to medical evidence of insurability.

NOTE: There will be no change in the benefits for employees hired before January 1, 1969 until they reach age 68 or the end of the contract year in which they turn 68. At that point, benefits will be the same as for other employees who continue to work past age 65. Once employees start to collect a pension, even if they continue in employment, their benefits will be those of retirees.

PENSION

Pension Calculation
The Committee spent a great deal of time on this issue because of its complexity and potential effect on the health of the Pension Plan.

The Committee determined:

A. Continued accrual of pension will apply to all employees except as noted in B below.

Before the elimination of mandatory retirement, employees who had the right to work until age 68 were offered a choice of continuing to contribute to the Pension Plan and accrue service in the normal fashion or to stop contributing and have their age 65 pension actuarially adjusted until they retired. When this latter option was chosen, their pension was “actuarially
increased” by an amount that reflected that they will be drawing their pension for fewer years than if they retired at age 65.

After much deliberation, it was the unanimous decision of the Committee that providing the option of actuarial adjustment for all employees would, in the long run, not benefit the sustainability of the Pension Plan. With continued pension accrual, both employees and the University continue to contribute to the Pension Plan. These continued contributions, along with the delay in collection of benefits, can provide an opportunity for the Plan to achieve a healthier funded position. Over the last few years, the Committee has been increasingly concerned about maintaining the health and long-term viability of the Pension Plan.

Currently, faculty members who have the right to work to the beginning of their contract date following age 65 are given a choice between continued accrual or actuarial adjustment over the few months between their 65th birthday and pension start date. In the past five years, no one has selected actuarial accrual. This prompted the Committee to recommend that the actuarial adjustment option be ended.

B. The existing calculation methodology (i.e., choice at Normal Retirement Date between continued accrual and actuarial increase) will continue to apply to grandparented members (i.e., those who have been continuously employed by the University since prior to January 1, 1969) who elect at age 65 to retire no later than the end of the contract year in which they turn age 68.

This recommendation represents no change to current practice.

C. Commuted value (a lump sum payment equal to the value of the pension earned), which is a Pension Plan alternative to receiving a UW pension, will be allowed only until Normal Retirement Date (i.e., age 65). This is necessary because the long-term viability of the Plan could be negatively affected given the potentially large amounts of money that could be removed.

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