Changes to Commuted Value Calculations

Upon termination or retirement from McMaster University, eligible members of the pension plans[1] may elect to receive the lump sum value ("commuted value") of the pension they have earned. The commuted value is the estimated amount of money that would have to be put aside today, to grow with tax-sheltered investment earnings, to provide a future benefit similar to the McMaster pension earned. The commuted value is determined based on interest and mortality rates effective on the date of termination.

Earlier this year, the Actuarial Standards Board of the Canadian Institute of Actuaries issued new standards prescribing how pension commuted values are calculated. The changes came into effect December 1, 2020.

Summary of Changes

	Prior to December 1, 2020	Effective December 1, 2020
Interest rates	**Based on Government of Canada bond yields plus a fixed 90 bps spread**	**Government of Canada bond yields plus a variable spread capped at 150 bps:** **.667 x Provincial bond spread[(1)]** **+ .333 x Corporate bond spread[(1)]**

[(1)] Bond spread set at zero if negative

	Prior to December 1, 2020	Effective December 1, 2020
Pension Commencement Age	**Assume the former member would elect to commence their pension at the age which produces the highest commuted value**	**Assume there is a:** - **50% probability that the former member will commence their pension at the age which produces the highest commuted value; and** - **50% probability that the former member will commence their pension at the earliest unreduced retirement age**

- For the McMaster plans, portability is offered on termination before age 55, but the pension reduction for commencement prior to age 65 is actuarial equivalent[2]; therefore, the change in assumed pension commencement age does not impact these commuted valued calculations (i.e., the expected value of the pension is the same regardless of the assumed commencement age).

- For Salaried Plan 2000, where portability is also offered on retirement, commencement at a "Special Retirement Date" prior to age 65 is typically both the age which produces the highest commuted value and the earliest unreduced age, so there is little or no impact of this change. For high earners where ITA maximum pension limits apply, this change may reduce commuted values.

The above changes apply only to members who elect to take the Commuted Value of their Pension and do not affect members who elect to receive a monthly pension on their retirement.

---

[1] Pension plans refers to the University's three registered pension plans: Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College 2000; Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College; and Contributory Pension Plan for Hourly-Rated Employees of McMaster University Including McMaster Divinity College.

[2] An actuarial equivalent reduction adjusts the pension amount such that the expected value of the future pension payments is the same regardless of the age that the pension is commenced.

Updated: December 18, 2020