

# **Contributory Pension Plan for Hourly-Rated Employees of McMaster University including McMaster Divinity College**

Report on the Actuarial  
Valuation for Funding Purposes  
as at July 1, 2022

**March 2023**

Financial Services Regulatory Authority of Ontario Registration Number: 0215418

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## **Note to reader regarding actuarial valuations:**

This valuation report may not be relied upon for any purpose other than those explicitly noted in the Introduction, nor may it be relied upon by any party other than the parties noted in the Introduction. Mercer is not responsible for the consequences of any other use. A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a pension plan's future financial condition or its ability to pay benefits in the future. If maintained indefinitely, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, the amount of plan expenses, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date. The content of the report may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission. All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used, or relied upon without reference to the report as a whole.

To prepare the results in this report, actuarial assumptions are used to model a single scenario from a range of possibilities for each valuation basis. The results based on that single scenario are included in this report. However, the future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be significant or material. Different assumptions or scenarios within the range of possibilities may also be reasonable, and results based on those assumptions would be different. Furthermore, actuarial assumptions may be changed from one valuation to the next because of changes in regulatory and professional requirements, developments in case law, plan experience, changes in expectations about the future, and other factors.

The valuation results shown in this report also illustrate the sensitivity to one of the key actuarial assumptions, the discount rate, and the sensitivity to three adverse scenarios. We note that the results presented herein rely on many assumptions, all of which are subject to uncertainty, with a broad range of possible outcomes, and the results are sensitive to all the assumptions used in the valuation.

Should the Plan be wound up, the going concern funded status and solvency financial position, if different from the wind-up financial position, become irrelevant. The hypothetical wind-up financial position estimates the financial position of the Plan assuming it is wound up on the valuation date. Emerging experience will affect the wind-up financial position of the Plan assuming it is wound up in the future. In fact, even if the Plan were wound up on the valuation date, the financial position would continue to fluctuate until the benefits are fully settled.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security, and/or benefit-related issues should not be made solely on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic, and societal factors, including financial scenarios that assume future sustained investment losses.

Funding calculations reflect our understanding of the requirements of the Pension Benefits Act of Ontario, the Income Tax Act, and related regulations that are effective as of the valuation date. Mercer is not a law firm, and the analysis presented in this report is not intended to be a legal opinion. You should consider securing the advice of legal counsel with respect to any legal matters related to this report.

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## Section 1

# Summary of results (\$000's)

	07.01.2022	01.01.2020
<b>Going Concern Financial Status</b>		
Smoothed value of assets	\$70,069	\$66,202
Going concern funding liabilities	\$53,660	\$57,202
Provision for adverse deviations in respect of the going concern liabilities	\$5,903	\$6,292
Funding excess (shortfall)	\$10,506	\$2,708
<b>Hypothetical Wind-up Financial Position</b>		
Wind-up assets	\$62,745	\$68,085
Wind-up liability	\$62,327	\$76,215
Wind-up excess (shortfall)	\$418	(\$8,130)
Transfer ratio	101%	90%
<b>Solvency Financial Position</b>		
Wind-up assets	\$62,745	\$68,085
Solvency asset adjustment	\$7,144	\$0
Smoothed solvency assets	\$69,889	\$68,085
Wind-up liability	\$62,327	\$76,215
Solvency liability adjustment	\$9,837	\$0
Smoothed solvency liabilities	\$72,164	\$76,215
Solvency surplus (shortfall)	(\$2,275)	(\$8,130)
Solvency ratio <sup>1</sup>	101%	90%

<sup>1</sup> Before smoothing impacts, per pension regulations

	07.01.2022	01.01.2020
<b>Funding Requirements<sup>2</sup></b>		
Total current service cost	\$743	\$1,081
Provision for adverse deviations in respect of current service cost	\$82	\$119
Estimated members' required contributions	(\$314)	(\$479)
Estimated University's current service cost	\$511	\$721
University's current service cost and provision for adverse deviations in respect of the current service cost expressed as a percentage of members' required contributions	163%	151%
Minimum special payments	\$0	\$0
<b>Estimated minimum University contribution</b>		
Year 1	\$511	\$721
Year 2	\$544	\$719
Year 3	\$581	\$761
Estimated maximum eligible University contribution	\$511	\$8,851
Next required valuation date	July 1, 2025	Jan. 1, 2023

<sup>2</sup> Provided for reference purposes only. Contributions must be remitted to the Plan in accordance with the Minimum Funding Requirements and Maximum Eligible Contributions sections of this report.

## Section 2

# Introduction

## To McMaster University

At the request of McMaster University, we have conducted an actuarial valuation of the Contributory Pension Plan for Hourly-Rated Employees of McMaster University including McMaster Divinity College (the “Plan”), sponsored by McMaster University (the “University”), as at the valuation date, July 1, 2022. We are pleased to present the results of the valuation.

## Purpose

The purpose of this valuation is to determine:

- The funded status of the Plan as at July 1, 2022, on going concern, hypothetical wind-up, and solvency bases;
- The minimum required funding contributions from July 1, 2022, in accordance with the *Pension Benefits Act of Ontario* (the “Act”); and
- The maximum permissible funding contributions from July 1, 2022, in accordance with the *Income Tax Act*.

The information contained in this report was prepared for the internal use of the University, and for filing with the Financial Services Regulatory Authority of Ontario and with the Canada Revenue Agency, in connection with our actuarial valuation of the Plan. This report will be filed with the Financial Services Regulatory Authority of Ontario and with the Canada Revenue Agency. This report is not intended or suitable for any other purpose.

In accordance with pension benefits legislation, the next actuarial valuation of the Plan will be required as at a date not later than July 1, 2025 or as at the date of an earlier amendment to the Plan depending on any funding implications.

## Terms of Engagement

In accordance with our terms of engagement with McMaster University, our actuarial valuation of the Plan is based on the following material terms:

- It has been prepared in accordance with applicable pension legislation and actuarial standards of practice in Canada.
- As instructed by the University, we have not reflected a margin for adverse deviations in the going concern valuation in excess of the provision for adverse deviations prescribed by the Act.

- We have reflected the University’s decisions for determining the solvency funding requirements, summarized as follows:
  - The same plan wind-up scenario was hypothesized for both hypothetical wind-up and solvency valuations.
  - Although permissible, no benefits were excluded from the solvency liabilities (see Section 5 for a listing of excludable benefits).
  - Solvency smoothing was used.

See the Valuation Results – Solvency section of the report for more information.

## Events since the Last Valuation at January 1, 2020

### Pension Plan

There have been no special events since the last valuation date.

This valuation reflects the provisions of the Plan as at July 1, 2022. The Plan has not been amended since the date of the previous valuation, and we are not aware of any pending definitive or virtually definitive amendments coming into effect during the period covered by this report. The Plan provisions are summarized in Appendix F.

### Assumptions

We have used the same going concern valuation assumptions and methods as were used for the previous valuation, except for the following:

	Current valuation	Previous valuation
Discount rate:	5.55%	4.85%
Inflation:	2.25%	2.00%
ITA limit / YMPE increases:	3.25%	3.00%
Pensionable earnings increases:	3.50%	3.25%
Interest on employee contributions:	5.55%	4.85%

A summary of the going concern methods and assumptions is provided in Appendix C.

The hypothetical wind-up and solvency assumptions have been updated to reflect market conditions at the valuation date. A summary of the hypothetical wind-up and solvency methods and assumptions is provided in Appendix D.

## Regulatory Environment and Actuarial Standards

There have been no changes to the Act or the relevant regulations that impact the funding of the Plan.

On July 2, 2020, the Minister of Finance of Canada released draft regulations that would permit sponsors of pension plans to recognize full pensionable service in 2020 for employees who are working reduced hours or who are receiving reduced earnings. The eligible period of reduced pay will be subject to the limit of five years of full-time equivalent compensation.

On July 23, 2020, the CIA published the final version of Section 3500 of the Standards of Practice on Pension Commuted Values and confirmed that the effective date of the new standards is December 1, 2020.

On September 21, 2020, the Ontario government filed Regulation 520/20, providing potential temporary funding relief for eligible single employer defined benefit pension plans registered in Ontario. The new regulation allows sponsors of eligible plans to defer required employer contributions starting with those contributions due in October 2020 and ending with contributions due in March 2021. Each deferred monthly contributions plus interest are due to be paid in 2 consecutive monthly payments ranging no later than April/May 2021 to February/March 2022. The University did not elect to defer any of its payments.

From the effective date, the revised standards affect the assumptions used to value the solvency and wind-up liabilities for benefits assumed to be settled through a lump sum transfer. The financial impact of those changes is reflected in this actuarial valuation on a solvency and hypothetical wind-up basis.

## Subsequent Events

After checking with representatives of the University, to the best of our knowledge there have been no events subsequent to the valuation date that, in our opinion, would have a material impact on the results of the valuation as at July 1, 2022. Our valuation reflects the financial position of the Plan as of the valuation date and does not take into account any subsequent experience after the valuation date.

## Impact of Case Law

This report has been prepared on the assumption that all claims on the Plan after the valuation date will be in respect of benefits payable to members of the Plan determined in accordance with the Plan terms and that all Plan assets are available to provide for these benefits. It is possible that court and regulatory decisions and changes in legislation could give rise to additional entitlements to benefits under the Plan and cause the results in this report to change. By way of example, we bring your attention to the following decisions:

- The Ontario Court of Appeal's 2003 decision in *Aegon Canada Inc. and Transamerica Life Canada versus ING Canada Inc.* restricted the use of original plan surplus where two or more pension plans were merged.



- The Supreme Court of Canada's 2004 decision in *Monsanto Canada Inc. versus Superintendent of Financial Services* upheld the requirement, with retroactive effect, to distribute surplus on partial plan wind-up under the *Pension Benefits Act (Ontario)*.

We are not in a position to assess the impact that such decisions or changes could have on the assumption that all plan assets on the valuation date are available to provide for benefits determined in accordance with the Plan terms. If such a claim arises subsequent to the date of this report, the consequences will be dealt with in a subsequent report. We are making no representation as to the likelihood of such a claim.

## Section 3

# Valuation results – Going concern

## Financial Status

A going concern valuation compares the relationship between the value of Plan assets and the present value of expected future benefit cash flows in respect of accrued service, assuming the Plan will be maintained indefinitely.

The results of the current valuation, compared with those from the previous valuation, are summarized as follows:

(\$000's)	07.01.2022	01.01.2020
<b>Assets</b>		
Market value of assets	\$62,925	\$68,265
Asset smoothing adjustment	\$7,144	(\$2,063)
Smoothed value of assets	\$70,069	\$66,202
<b>Going concern funding target</b>		
Going concern liabilities:		
• Active and suspended members	\$16,852	\$23,344
• Pensioners and survivors	\$35,747	\$32,583
• Deferred pensioners	\$1,061	\$1,275
Subtotal	\$53,660	\$57,202
Provision for adverse deviations in respect of going concern liabilities as prescribed by the Act	\$5,903	\$6,292
Total	\$59,563	\$63,494
Funding excess (shortfall)	\$10,506	\$2,708

The going concern liabilities at July 1, 2022 do not include an additional margin for adverse deviations beyond the provision for adverse deviations prescribed by the Act.

## Reconciliation of Financial Status (\$000's)

Funding excess (shortfall) as at previous valuation	\$2,708
Provision for Adverse Deviations (PfAD) at previous valuation	\$6,292
Funding excess (shortfall) before PfAD	\$9,000
Interest on funding excess (shortfall) before PfAD at 4.85% per year	\$1,131
University's special payments, with interest	\$1,328
Expected funding excess (shortfall)	\$11,459
Net experience gains (losses)	
• Net investment return	(\$8,315)
• Impact of asset smoothing	\$9,412
• Increases in pensionable earnings	\$1,109
• Increase in YMPE	\$85
• Indexation	(\$495)
• Mortality	\$65
• Retirement	(\$202)
• Termination	(\$100)
• Interest on employee contributions	(\$260)
• Impact of PfAD on current service cost	\$224
Total experience gains (losses)	\$1,523
Impact of changes in assumptions	\$3,344
Net impact of other elements of gains and losses	\$83
Funding excess (shortfall) before PfAD	\$16,409
Provision for Adverse Deviations at current valuation	(\$5,903)
Funding excess (shortfall) as at current valuation	\$10,506

## Current Service Cost

The current service cost is an estimate of the present value of the additional expected future benefit cash flows in respect of pensionable service that will accrue after the valuation date, assuming the Plan will be maintained indefinitely. A provision for adverse deviations in respect of the current service cost is determined in accordance with the Act.

The current service cost and the provision for adverse deviations in respect of the current service cost, during the year following the valuation date, compared with the corresponding values determined in the previous valuation, is as follows:

(\$000's)	2022/2023	2020
Total current service cost <sup>3</sup> excluding the provision for adverse deviations	\$743	\$1,081
Estimated members' required contributions	(\$314)	(\$479)
Estimated University's current service cost	\$429	\$602
University's current service cost expressed as a percentage of members' required contributions	137%	126%
Provision for adverse deviations in respect of the current service cost (based on the percentage defined in Appendix A)		
• As a dollar amount per year	\$82	\$119
• As a percentage of members' required contributions	26%	25%
Total estimated University's current service cost		
• As a dollar amount per year	\$511	\$721
• As a percentage of members' required contributions	163%	151%

The key factors that have caused a change in the University's current service cost, excluding the provision for adverse deviations, since the previous valuation are summarized in the following table:

University's current service cost as at previous valuation	126%
Demographic changes	27%
Changes in assumptions	(16%)
University's current service cost as at current valuation	137%

<sup>3</sup> The Total Current Service Cost includes no amount for escalated adjustments as defined in the Act.

## Discount Rate Sensitivity (\$000's)

The following table summarizes the effect on the going concern liabilities and current service cost shown in this report of using a discount rate that is 1% lower than that used in the valuation. The effect of a change in the discount rate on the provision for adverse deviations is not reflected.

Scenario	Valuation Basis	Reduce Discount Rate by 1%
<b>Going concern funding liabilities</b>	\$53,660	\$58,831
<b>Current service cost</b>		
• Total current service cost	\$743	\$829
• Estimated members' required contributions	(\$314)	(\$314)
Estimated University's current service cost	\$429	\$515

## Plausible Adverse Scenarios

The financial impact on the going concern results of plausible adverse scenarios that would pose threats to the Plan's future financial condition is presented in Appendix G.

## Section 4

# Valuation results – Hypothetical wind-up

## Financial Position

When conducting a hypothetical wind-up valuation, we determine the relationship between the respective values of the Plan's assets and its liabilities assuming the Plan is wound up and settled on the valuation date, assuming benefits are settled in accordance with the Act and under circumstances consistent with the hypothesized scenario on the valuation date. More details on such scenario are provided in Appendix D.

The hypothetical wind-up financial position as of the valuation date, compared with that at the previous valuation, is as follows:

(\$000's)	07.01.2022	01.01.2020
<b>Assets</b>		
Market value of assets	\$62,925	\$68,265
Termination expense provision	(\$180)	(\$180)
Wind-up assets	\$62,745	\$68,085
<b>Present value of accrued benefits for:</b>		
• Active and suspended members	\$21,377	\$34,284
• Pensioners and survivors	\$39,679	\$40,007
• Deferred pensioners	\$1,271	\$1,924
Total wind-up liability	\$62,327	\$76,215
Wind-up excess (shortfall)	\$418	(\$8,130)
Transfer ratio	101%	90%

## Wind-up Incremental Cost

The wind-up incremental cost is an estimate of the present value of the projected change in the hypothetical wind-up liabilities from the valuation date until the next scheduled valuation date, adjusted for the benefit payments expected to be made in that period.

The hypothetical wind-up incremental cost determined in this valuation, compared with the corresponding value determined in the previous valuation, is as follows:

(\$000's)	07.01.2022	01.01.2020
Number of years covered by report	3 years	3 years
Total hypothetical wind-up liabilities at the valuation date (A)	\$62,327	\$76,215
Present value at the valuation date of projected hypothetical wind-up liability at the next required valuation plus expected benefit payments until the next required valuation (B)	\$63,708	\$80,159
Hypothetical wind-up incremental cost (B – A)	\$1,381	\$3,944

The incremental cost is not an appropriate measure of the contributions that would be required to maintain the windup position of the Plan even if actual experience is exactly in accordance with the going concern valuation assumptions. For example, the expected return on plan assets (based on the going concern assumptions) is greater than the discount rate used to determine the hypothetical wind-up liabilities.

## Discount Rate Sensitivity (\$000's)

The following table summarizes the effect on the hypothetical wind-up liabilities shown in this report of using a discount rate that is 1% lower than that used in the valuation:

Scenario	Valuation Basis	Reduce Discount Rate by 1%
Total hypothetical wind-up liability	\$62,327	\$69,177

## Section 5

# Valuation results – Solvency

## Overview

The Act also requires the financial position of the Plan to be determined on a solvency basis. The financial position on a solvency basis is determined in a similar manner to the Hypothetical Wind-up Basis, except for the following:

Exceptions	Reflected in valuation based on the terms of engagement
<p>The circumstance under which the Plan is assumed to be wound up could differ for the solvency and hypothetical wind-up valuations.</p>	<p>The same circumstances were assumed for the solvency valuation as were assumed for the hypothetical wind-up valuation.</p>
<p>Certain benefits can be excluded from the solvency financial position. These include:</p> <ul style="list-style-type: none"> <li>(a) any escalated adjustment (e.g. indexing),</li> <li>(b) certain plant closure benefits,</li> <li>(c) certain permanent layoff benefits,</li> <li>(d) special allowances other than funded special allowances,</li> <li>(e) consent benefits other than funded consent benefits,</li> <li>(f) prospective benefit increases,</li> <li>(g) potential early retirement window benefit values, and</li> <li>(h) pension benefits and ancillary benefits payable under a qualifying annuity contract.</li> </ul>	<p>No benefits were excluded from the solvency liabilities shown in this valuation.</p>
<p>The financial position on the solvency basis needs to be adjusted for any Prior Year Credit Balance.</p>	<p>Not applicable.</p>
<p>The solvency financial position can be determined by smoothing assets and the solvency discount rate over a period of up to 5 years.</p>	<p>Solvency assets and liabilities were smoothed over 3 years.</p>
<p>The benefit rate increases coming into effect after the valuation date can be reflected in the solvency valuation.</p>	<p>Not applicable.</p>



## Financial Position

The financial position on a solvency basis, compared with the corresponding figures from the previous valuation, is as follows:

(\$000's)	07.01.2022	01.01.2020
<b>Assets</b>		
Market value of assets	\$62,925	\$68,265
Termination expense provision	(\$180)	(\$180)
Net assets	\$62,745	\$68,085
<b>Liabilities</b>		
Total hypothetical wind-up liabilities	\$62,327	\$76,215
Difference in circumstances of assumed wind-up	\$0	\$0
Value of excluded benefits	\$0	\$0
Liabilities on a solvency basis	\$62,327	\$76,215
Surplus (shortfall) on a market value basis	\$418	(\$8,130)
Solvency liability adjustment (smoothing)	(\$9,837)	\$0
Asset smoothing adjustment	\$7,144	\$0
Surplus (shortfall) on a solvency basis	(\$2,275)	(\$8,130)
Solvency ratio	101%	90%

## Section 6

# Minimum funding requirements

The Act prescribes the minimum contributions that the University must make to the Plan. The minimum contributions in respect of a defined benefit component of a pension plan are comprised of going concern current service cost, the provision for adverse deviations in respect of the current service cost, and special payments to fund any funding shortfall or solvency shortfall that exceeds the level set out under the Act.

On the basis of the assumptions and methods described in this report, no special payments are required. However, since the available actuarial surplus is zero, the Act requires the University to contribute the current service cost including the provision for adverse deviations. The determination of the provision for adverse deviations is shown in Appendix A. On the basis of the assumptions and methods described in this report, the rule for determining the minimum required University monthly contributions, as well as an estimate of the employee and University contributions, from the valuation date until the next required valuation are as follows:

Period beginning	Monthly Employee Contribution	Estimated University's contributions			
		Provision for adverse deviations related to monthly current service cost	Monthly current service cost and provision for adverse deviations	Available actuarial surplus applied <sup>4</sup>	Minimum monthly contributions
July 1, 2022	\$26,167	\$6,833	\$42,583	\$0	\$42,583
July 1, 2023	\$27,167	\$7,167	\$45,333	\$0	\$45,333
July 1, 2024	\$28,167	\$7,583	\$48,417	\$0	\$48,417

Period beginning	University's contribution rule		
	Monthly current service cost <sup>5</sup>	Provision for adverse deviations in respect of current service cost	Explicit monthly expense allowance
July 1, 2022	137%	26%	\$0
July 1, 2023	140%	26%	\$0
July 1, 2024	145%	27%	\$0

<sup>4</sup> Notwithstanding the available actuarial surplus in the Plan, the terms of the Plan may require the University to make current service cost contributions.

<sup>5</sup> Expressed as a percentage of members' required contributions.

The estimated contribution amounts above are based on projected members' required contributions. Therefore, the actual University's current service cost and provision for adverse deviations in respect of the current service cost may be different from the above estimates and, as such, the contribution requirements should be monitored closely to ensure contributions are made in accordance with the Act.

Appendix A includes details on the determination of the provision for adverse deviations.

## **Other Considerations**

### **Differences between Valuation Bases**

There is no provision in the minimum funding requirements to fund the difference between the hypothetical wind-up and reduced solvency shortfalls, if any.

In addition, although minimum funding requirements do include a requirement to fund the going concern current service cost and a provision for adverse deviations in respect of the current service cost, there is no requirement to fund the expected growth in the hypothetical wind-up or solvency liability after the valuation date, which could be greater.

### **Timing of Contributions**

Funding contributions are due on a monthly basis. Contributions for current service cost and the provision for adverse deviations must be made within 30 days following the month to which they apply. Special payment contributions must be made in the month to which they apply.

### **Retroactive Contributions**

The University must contribute the excess, if any, of the minimum contribution recommended in this report over contributions actually made in respect of the period following the valuation date. This contribution, along with an allowance for interest, is due no later than 60 days following the date this report is filed.

### **Payment of Benefits**

The Act imposes certain restrictions on the payment of lump sums from the Plan when the transfer ratio revealed in an actuarial valuation is less than one. If the transfer ratio shown in this report is less than one, the plan administrator should ensure that the monthly special payments are sufficient to meet the requirements of the Act to allow for the full payment of benefits, and otherwise should take the prescribed actions. If the full payment of benefits does not occur, the residual amount plus interest within 5 years of the initial transfer.

Additional restrictions are imposed when:

- The transfer ratio revealed in the most recently filed actuarial valuation is less than one and the administrator knows or 'ought to know' that the transfer ratio of the Plan has declined by 10% or more since the date the last valuation was filed.

- The transfer ratio revealed in the most recently filed actuarial valuation is greater than or equal to one and the administrator knows or 'ought to know' that the transfer ratio of the Plan has declined to less than 0.9 since the date the last valuation was filed.

As such, the administrator should monitor the transfer ratio of the Plan and, if necessary, take the prescribed actions.

## Letters of Credit

Minimum funding requirements in respect of required solvency special payments that otherwise require monthly contributions to the pension fund may be met, in the alternative, by establishing an irrevocable letter of credit subject to the conditions established by the Act. Required solvency special payments in excess of those met by a letter of credit must be met by monthly contributions to the pension fund.

## Section 7

# Maximum eligible contributions

The *Income Tax Act* (the “ITA”) limits the amount of employer contributions that can be remitted to the defined benefit component of a registered pension plan. For purposes of this section on maximum eligible contributions only, any reference to the current service cost includes the provision for adverse deviations in respect of the current service cost.

In accordance with Section 147.2 of the ITA and *Income Tax Regulation* 8516, for a plan that is underfunded on either a going concern or on a hypothetical wind-up basis, the maximum permitted contributions are equal to the employer’s current service cost, including the explicit expense allowance if applicable, plus the greater of the going concern funding shortfall and hypothetical wind-up shortfall.

For a plan that is fully funded on both going concern and hypothetical wind-up bases, the employer can remit a contribution equal to the employer’s current service cost, including the explicit expense allowance if applicable, as long as the surplus in the plan does not exceed a prescribed threshold. Specifically, in accordance with Section 147.2 of the ITA, for a plan that is fully funded on both going concern and hypothetical wind-up bases, the plan may not retain its registered status if the employer makes a contribution while the going concern funding excess exceeds 25% of the going concern funding target.

Notwithstanding the above, any contributions that are required to be made in accordance with pension benefits legislation are eligible contributions in accordance with Section 147.2 of the ITA and can be remitted.

## Schedule of Maximum Contributions

Since the surplus does not exceed 25% of the going concern funding target, the University may make monthly contributions until the next valuation. The rule for determining the estimated maximum eligible annual contributions and an estimate of the maximum eligible contributions are as follows:

Year beginning	University’s contribution rule	Estimated University’s contributions	
	Monthly current service cost including provision for adverse deviations <sup>6</sup>	Deficit Funding	Monthly current service cost including expense allowance
July 1, 2022	163%	n/a	\$42,583
July 1, 2023	166%	n/a	\$45,333
July 1, 2024	172%	n/a	\$48,417

<sup>6</sup> Expressed as a percentage of members’ required contributions.

## Section 8

# Actuarial opinion

In our opinion, for the purposes of the valuations,

- The membership data on which the valuation is based are sufficient and reliable;
- The assumptions are appropriate; and
- The methods employed in the valuation are appropriate.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada. It has also been prepared in accordance with the funding and solvency standards set by the *Pension Benefits Act* of Ontario.



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Chad Spence

Fellow of the Society of Actuaries  
Fellow of the Canadian Institute of Actuaries

March 20, 2023

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Date



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Bill Watson

Fellow of the Society of Actuaries  
Fellow of the Canadian Institute of Actuaries

March 20, 2023

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Date

## Appendix A

# Prescribed disclosure

### Definitions

The Act defines a number of terms as follows:

Defined Term	Description	Result	
Going Concern Assets	Total smoothed value of assets plus the sum of the following:	\$70,069,000	
	(a) The present value of special payments in respect of any past service unfunded liability identified in a previously filed report	\$0	
	(b) The present value of special payments in respect of any plan amendment that increases going concern liabilities	\$0	
	(c) Present value of special payments in respect of going concern unfunded liabilities identified in a previously filed report that are scheduled for payment within one year of the date of this report	\$0	
Going Concern Excess / (Unfunded Liability)	The Going Concern Assets minus the sum of the following:	\$10,506,000	
	(a) The going concern liabilities		
	(i) liabilities excluding the value of escalated adjustments		\$53,660,000
	(ii) liabilities in respect of escalated adjustments		\$0

Defined Term	Description	Result
	(b) The provision for adverse deviations in respect of the going concern liabilities excluding the value of escalated adjustments	\$5,903,000
	(c) Prior Year Credit Balance	\$0
Going Concern Funded Ratio	The ratio of: (a) Total smoothed value of assets (excluding letters of credit) less the Prior Year Credit Balance; to (b) Going concern liabilities	1.31
Transfer Ratio	The ratio of: (a) Solvency Assets minus the lesser of the Prior Year Credit Balance and the minimum required University contributions including the provision for adverse deviations until the next required valuation; to (b) The sum of the Solvency Liabilities and liabilities for benefits, other than benefits payable under qualifying annuity contracts that were excluded in calculating the Solvency Liabilities.	1.01
Solvency Ratio	The ratio of: (a) Solvency Assets related to defined benefits and ancillary benefits plus the total amount of any letters of credit minus the Prior Year Credit Balance (b) The sum of the Solvency Liabilities related to defined benefits and ancillary benefits	1.01
Prior Year Credit Balance	Accumulated sum of contributions made to the pension plan in excess of the minimum required contributions (note: only applies if the University chooses to treat the excess contributions as a Prior Year Credit Balance).	\$0
Solvency Assets	Market value of assets including accrued or receivable income and excluding the value of any qualifying annuity contracts.	\$62,925,000



Defined Term	Description	Result
Solvency Asset Adjustment	The sum of:	
	(a) The difference between smoothed value of assets and the market value of assets	\$7,144,000
	(b) The present value of going concern special payments required to liquidate any past service unfunded liability	\$0
	(c) The present value of going concern special payments identified in January 1, 2020 valuation and scheduled for July 1, 2022 – June 30, 2023.	\$0
	(d) The present value of going concern special payments (identified in this report) that are scheduled for payment within 6 years following the valuation date	\$0
	(e) The present value of any previously scheduled solvency special payments (excluding those identified in this report)	\$0
	(f) The total value of all letters of credit in respect of the special payments due before the valuation date, subject to the limit of 15% of solvency liabilities	\$0
	\$7,144,000	
Solvency Liabilities	Liabilities determined as if the plan had been wound up on the valuation date, including liabilities for plant closure benefits or permanent layoff benefits that would be immediately payable if the University's business were discontinued on the valuation date of the report, but, if elected by the plan sponsor, excluding liabilities for, <ul style="list-style-type: none"> <li>(a) Any escalated adjustment,</li> <li>(b) Excluded plant closure benefits,</li> <li>(c) Excluded permanent layoff benefits,</li> <li>(d) Special allowances other than funded special allowances,</li> <li>(e) Consent benefits other than funded consent benefits</li> <li>(f) Prospective benefit increases,</li> <li>(g) Potential early retirement window benefit values, and</li> <li>(h) Pension benefits and ancillary benefits payable under a qualifying annuity contract.</li> </ul>	\$62,327,000

Defined Term	Description	Result
Solvency Liability Adjustment	The amount by which Solvency Liabilities are adjusted as a result of using a solvency valuation interest rate that is the average of market interest rates calculated over the period of time used in the determination of the smoothed value of assets.	\$9,837,000
Solvency Deficiency	The amount, if any, by which the sum of:	
	(a) The Solvency Liabilities	\$62,327,000
	(b) The Solvency Liability Adjustment	\$9,837,000
	(c) The Prior Year Credit Balance	\$0
		<hr/>
		\$72,164,000
	Exceeds the sum of	
	(d) The Solvency Assets net of estimated termination expenses <sup>7</sup>	\$62,745,000
	(e) The Solvency Asset Adjustment	\$7,144,000
		<hr/>
		\$69,889,000
		\$2,275,000
Reduced Solvency Deficiency / (Solvency Excess)	The sum of:	
	(a) 85% of the Solvency Liabilities	\$52,978,000
	(b) 85% of the Solvency Liability Adjustment	\$8,361,000
	(c) The Prior Year Credit Balance	\$0
		<hr/>
		\$61,339,000
	minus the sum of:	
	(d) The Solvency Assets net of estimated termination expenses <sup>7</sup>	\$62,745,000
	(e) The Solvency Asset Adjustment	\$7,144,000
		<hr/>
		\$69,889,000
		(\$8,550,000)

<sup>7</sup> In accordance with accepted actuarial practice, for purposes of determining the financial position, the market value of plan assets was reduced by a provision for estimated termination expenses payable from the Plan's assets that may reasonably be expected to be incurred in terminating the Plan and to be charged to the Plan.

## Provision for Adverse Deviations

The provision for adverse deviations has been established in accordance with regulations taking into account the following parameters:

Defined Amount		Results						
Fixed Income Component (L)	The sum of the Plan's target allocation of assets (excluding those allocated to annuity contracts and meeting the minimum rating requirement) as described in the regulations according to the investment policy applicable at the valuation date:	45.0%						
	<table border="1"> <thead> <tr> <th>Investment</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Universe bonds</td> <td>20.0%</td> </tr> <tr> <td>Long-term bonds</td> <td>25.0%</td> </tr> </tbody> </table>	Investment	Target	Universe bonds	20.0%	Long-term bonds	25.0%	
Investment	Target							
Universe bonds	20.0%							
Long-term bonds	25.0%							
Alternative Investment Component (M)	The sum of the Plan's target allocation of assets (excluding those allocated to annuity contracts) meeting requirements as described in the regulations according to the investment policy applicable at the valuation date	0.0%						
Investment Component (N)	Plan's target asset allocation for mutual, pooled or segregated funds	0.0%						
Investment Component Fixed Income % (P)	Portion of Investment Component (N) that is allocated to investment categories accounted for in Fixed Income Component (L)	N/A						
Investment Component Alternative Investment % (Q)	Portion of Investment Component (N) that is allocated to investment categories accounted for in Alternative Income Component (M)	N/A						
Annuity Contract Allocation (R)	Annuity contracts that have been purchased from an insurance company and excluded from the Fixed Income Component (L) and Alternative Investment Component (M)	0.0%						

<b>Combined Target Asset Allocation for Fixed Income Assets (J)</b>		
Sum of		
• Fixed Income Component (L)	45.0%	
• 0.5 x Alternative Investment Component (0.5 x M)	0.0%	
• Investment Component x Investment Component Fixed Income % (N x P)	0.0%	
• 0.5 x Investment Component x Investment Component Alternative Investment % (0.5 x N x Q)	0.0%	
	45.0%	
Divided by		
• 100% - Annuity Contract Allocation (100% - R)	100.0%	
<b>Combined Target Asset Allocation for Fixed Income Assets</b>		<b>45.0%</b>

<b>Combined Target Asset Allocation for Non-Fixed Income Assets (K)</b>	
100% – Combined <b>Target</b> Asset Allocation for Fixed Income Assets (100% - J)	<b>55.0%</b>
<b>Duration of going concern liabilities at valuation date</b>	
= $(F - G) / (G \times 0.01)$ where,	<b>9.64</b>
G = going concern liabilities at valuation date established using the discount rate determined for this valuation	\$53,660,000
F = going concern liabilities established using the discount rate minus 1%	\$58,831,000

<b>Benchmark Discount Rate (E)</b>	
Base rate	0.50%
Effective yield from CANSIM Series V39056 (H)	3.14%
1.5% x Combined <b>Target</b> Asset Allocation for Fixed Income Assets (1.5% x J)	0.68%
5.0% x Combined <b>Target</b> Asset Allocation for Non-Fixed Income Assets (5.0% x K)	2.75%
<b>Benchmark Discount Rate</b>	<b>7.07%</b>

<b>Provision for Adverse Deviations</b>		
i. 5.0% for a closed plan and 4.0% for a Plan that is not a closed plan		5.00%
ii. Provision based on Combined Target Asset Allocation for Non-Fixed Income Assets		6.00%
iii. Greater of zero and the		
• Duration of going concern liabilities at valuation date	9.64	
Multiplied by:		
– Going concern valuation gross discount rate net of active investment management fees (D), less	5.95%	
– Benchmark Discount Rate (E)	7.07%	0.00%
<b>Provision for Adverse Deviations (i. + ii. + iii.)</b>		<b>11.00%</b>

The available actuarial surplus that may be used according to the Act is established as follows:

<b>Available actuarial surplus</b>		
Excess of		
• Assets determined on basis of going concern valuation including accrued and receivable income but excluding the value of any letters of credit		\$70,069,000
Over		
• Going concern liabilities	\$53,660,000	
• Provision for adverse deviations in respect of the going concern liabilities	\$5,903,000	
• Prior Year Credit Balance	\$0	
		\$59,563,000
		\$10,506,000 (a)
Excess of		
• Solvency assets excluding the value of any letters of credits and lesser of Prior Year Credit Balance and minimum required University contributions, including the provision for adverse deviations until the next required valuation		\$62,925,000
Over		
• Wind-up liabilities × 105%		\$65,443,000
		\$0 (b)
<b>The available actuarial surplus = the lesser of a) and b) above</b>		<b>\$0</b>

## Timing of Next Required Valuation

In accordance with the Act the next valuation of the Plan would be required at an effective date within one year of the current valuation date if:

- The ratio of solvency assets to solvency liabilities is less than 85%.
- The University elected to exclude plant closure or permanent lay-off benefits under Section 5(18) of the regulations, and has not rescinded that election.

Otherwise, the next valuation of the Plan would be required at an effective date no later than three years after the current valuation date.

Accordingly, the next valuation of the Plan will be required as of July 1, 2025.

## Special Payments

As the Plan does not have a funding shortfall and there is a solvency excess, no special payments are required.

## Pension Benefits Guarantee Fund (PBGF) Assessment

The PBGF is a Financial Services Regulatory Authority of Ontario administered fund that employers must contribute to if they provide a defined benefit pension plan that is covered by the PBGF. The purpose is to provide a guaranteed payment of certain benefits for Ontario employees if the pension plan terminates due to the employer's bankruptcy.

A PBGF assessment is required to be paid under Section 37 of the Act. The PBGF assessment base and additional information required under Section 3 of the Regulation 909 under the Act is as follows:

Solvency assets	\$62,925,000 (a)
PBGF liabilities	\$62,327,000 (b)
Solvency liabilities	\$62,327,000 (c)
Ontario asset ratio	100.00% (d) = (b) ÷ (c)
Ontario portion of the fund	\$62,925,000 (e) = (a) × (d)
PBGF assessment base	\$0 (f) = max(0, (b) – (e))
Amount of additional liability for plant closure and/or permanent layoff benefits which is not funded and subject to the 2% (3% for years after 2018) assessment pursuant to s.37(4)	\$0 (g)
Modified PBGF liabilities	\$56,030,000
Number of Ontario Plan beneficiaries	459
Number of Ontario Plan beneficiaries receiving monthly pensions (including bridge benefit) of \$1,500 or less	261
Number of Ontario Plan beneficiaries who have accrued monthly pensions (including bridge benefit) of \$1,500 or less	125
Amount of largest monthly pension or monthly pension benefit (including bridge benefit) that has accrued under the plan to an Ontario beneficiary	\$3,854

<b>Percentiles of amounts payable under Plan to Ontario beneficiaries (in reference to all accrued monthly pensions, including bridge benefits for actives, disabled, suspended, transfers and deferred pensioners)</b>	<b>Accrued monthly pension (including bridge benefit)</b>	<b>PBGF liabilities</b>
90 <sup>th</sup>	\$1,700	\$16,344,000
80 <sup>th</sup>	\$1,524	\$11,873,000
70 <sup>th</sup>	\$1,055	\$8,453,000
60 <sup>th</sup>	\$894	\$5,992,000
50 <sup>th</sup>	\$815	\$3,690,000
40 <sup>th</sup>	\$578	\$1,849,000
30 <sup>th</sup>	\$401	\$810,000
20 <sup>th</sup>	\$87	\$160,000
10 <sup>th</sup>	\$21	\$12,000

<b>Percentiles of amounts payable under Plan to Ontario beneficiaries (in reference to all monthly pensions in pay, including bridge benefits for pensioners and beneficiaries)</b>	<b>Accrued monthly pension (including bridge benefit)</b>	<b>PBGF liabilities</b>
90 <sup>th</sup>	\$1,721	\$28,157,000
80 <sup>th</sup>	\$1,331	\$21,374,000
70 <sup>th</sup>	\$1,072	\$16,389,000
60 <sup>th</sup>	\$913	\$11,941,000
50 <sup>th</sup>	\$801	\$8,433,000
40 <sup>th</sup>	\$693	\$5,530,000
30 <sup>th</sup>	\$577	\$3,505,000
20 <sup>th</sup>	\$414	\$1,653,000
10 <sup>th</sup>	\$248	\$426,000



## Appendix B

# Plan assets

The pension fund is held in trust by CIBC Mellon. In preparing this report, we have relied upon the fund statements prepared by CIBC Mellon for the period from January 1, 2020 to June 30, 2020 and the auditors' reports for the period from July 1, 2020 to June 30, 2022 prepared by KPMG, without further audit. Customarily, this information would not be verified by a plan's actuary. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.

### Reconciliation of Market Value of Plan Assets

The pension fund transactions since the last valuation are summarized in the following table:

(\$000's)	January 1, 2020 – June 30, 2020	July 1, 2020 - June 30, 2021	July 1, 2021 – June 30, 2022
January 1 / July 1	\$63,381	\$68,036	\$76,165
<b>PLUS</b>			
Members' contributions	\$217	\$387	\$393
University's contributions			
• Current service	\$299	\$552	\$528
• Special payments	\$5,292	\$1,033	\$0
• Investment income	\$768	\$1,536	\$1,595
Net capital gains (losses)	\$211	\$8,346	(\$11,359)
	<u>\$6,787</u>	<u>\$11,854</u>	<u>(\$8,843)</u>
<b>LESS</b>			
Pensions paid	\$1,441	\$3,083	\$3,304
Lump-sums paid	\$397	\$175	\$272
Administration and investment fees	\$366	\$467	\$393
	<u>\$2,204</u>	<u>\$3,725</u>	<u>\$3,969</u>
Adjustment to audited statement	\$72		
June 30	\$68,036	\$76,165	\$63,353
Gross rate of return <sup>8</sup>	1.61%	14.71%	-13.08%
Rate of return net of expenses <sup>9</sup>	1.05%	13.97%	-13.57%

<sup>8</sup> Assuming mid-period cash flows

The market value of assets shown in the above table is adjusted to reflect in-transit amounts as follows:

(\$000's)	Current Valuation	Previous Valuation
Market value of invested assets	\$63,353	\$63,381
In-transit amounts		
• Members' contributions	\$0	\$36
• University's contributions	\$0	\$4,848
• Expenses	\$0	\$0
• Benefit payments	(\$428)	\$0
Market value of assets adjusted for in-transit amounts	\$62,925	\$68,265

We have tested the pensions paid, the lump-sums paid, and the contributions for consistency with the membership data for the Plan members who have received benefits or made contributions. The results of these tests were satisfactory.

## Investment Policy

The plan administrator has adopted a statement of investment policy and procedures. This policy is intended to provide guidelines for the manager(s) as to the level of risk that is consistent with the Plan's investment objectives. A significant component of this investment policy is the asset mix.

The plan administrator is solely responsible for selecting the Plan's investment policies, asset allocations, and individual investments.

The constraints on the asset mix and the actual asset mix at the valuation date are provided for information purposes:

	Investment policy			Actual asset mix as at July 1, 2022
	Minimum	Target	Maximum	
Canadian equities	10%	20%	30%	21.5%
US equities	8%	18%	28%	19.2%
Non-North American equities	7%	17%	27%	18.8%
Universe bonds	10%	20%	30%	19.2%
Long bonds	15%	25%	35%	20.7%
Cash and cash equivalents	0%	0%	10%	0.6%
	100%			100%

Because the Plan's assets (which are invested in accordance with the above investment policy) are not matched to the Plan's liabilities (which tend to behave like long bonds), the Plan's financial position will fluctuate over time. These fluctuations could be significant and could cause the Plan to become underfunded or overfunded even if the University contributes to the Plan based on the funding requirements presented in this report.

## Appendix C

# Methods and assumptions – Going concern

### Valuation of Assets

For this valuation, we have continued to use an adjusted market-value method to determine the smoothed value of assets. Under this method, investment experience gains (losses) (actual versus the expected investment return on assets, net of expenses) arising during a given year are spread on a straight-line basis over 3 years.

The asset values produced by this method are related to the market value of the assets, with the advantage that, over time, the market-related asset values will tend to be more stable than market values. To the extent that more investment experience gains than losses will arise over the long term, the smoothed value will tend to be lower than the market value.

The smoothed value of the assets at July 1, 2022 was derived as follows:

(\$000's)	2020 / 2021	2021 / 2022
Market value of assets at July 1	\$68,036	\$76,165
Payments into Plan	\$1,973	\$922
Payments out of Plan <sup>9</sup>	\$3,258	\$3,576
Expected interest	\$3,269	\$3,630
Investment experience gains (losses)	\$6,145	(\$13,788)
Market value of assets at December 31	\$76,165	\$63,353
Market value of assets		\$63,353
LESS		
Investment experience gains (losses)	2021/2022: (\$13,788) x 66.67% =	(\$9,192)
	2020/2021: \$6,145 x 33.33% =	\$2,048
		(\$7,144)
Smoothed value of assets		\$70,497

<sup>9</sup> Other than administration fees.

The smoothed value of assets shown in the above table is adjusted to reflect in-transit amounts as follows:

<b>(\$000's)</b>	<b>Current Valuation</b>	<b>Previous Valuation</b>
Smoothed value of assets	\$70,497	\$61,318
In-transit amounts		
• Members' contributions	\$0	\$36
• University's contributions	\$0	\$4,848
• Expenses	\$0	\$0
• Benefit payments	(\$428)	\$0
Smoothed value of assets, adjusted for in-transit amounts	\$70,069	\$66,202

## Going Concern Funding Target

Over time, the real cost to the University of a pension plan is the excess of benefits and expenses over member contributions, if any, and investment earnings. The actuarial cost method allocates this cost to annual time periods.

For purposes of the going concern valuation, we have continued to use the projected unit credit actuarial cost method. Under this method, we determine the present value of benefit cash flows expected to be paid in respect of service accrued prior to the valuation date, based on projected final average earnings. This is referred to as the funding target.

The funding excess or funding shortfall, as the case may be, is the difference between the market or smoothed value of assets and the funding target. A funding excess on a market value basis indicates that the current market value of assets and expected investment earnings are expected to be sufficient to meet the cash flows in respect of benefits accrued to the valuation date as well as expected expenses – assuming the plan is maintained indefinitely. A funding shortfall on a market value basis indicates the opposite – that the current market value of the assets is not expected to be sufficient to meet the plan's cash flow requirements in respect of accrued benefits, absent additional contributions.

As required under the Act, a funding shortfall (including the prior year credit balance) and the provision for adverse deviations must be amortized over no more than 10 years through special payments beginning one year after the valuation date. A funding excess may, from an actuarial standpoint, be applied immediately to reduce required University current service contributions unless precluded by the terms of the plan or by legislation.

The actuarial cost method used for the purposes of this valuation produces a reasonable matching of contributions with accruing benefits. Because benefits are recognized as they accrue, the actuarial cost method provides an effective funding target for a plan that is maintained indefinitely.

## Current Service Cost

The current service cost is the present value of projected benefits to be paid under the plan with respect to service expected to accrue during the period until the next valuation.

The University's current service cost is the total current service cost reduced by the members' required contributions.

The University's current service cost has been expressed as a percentage of the members' required contributions to provide an automatic adjustment in the event of fluctuations in membership and/or pensionable earnings.

Under the projected unit credit actuarial cost method, the current service cost for an individual member will increase each year as the member approaches retirement. Therefore, the current service cost of the entire group, expressed as a percentage of the members' required contributions, can be expected to increase as long as the average age distribution of the closed active population increases.

## Actuarial Assumptions – Going Concern Basis

The present value of future benefit payment cash flows is based on economic and demographic assumptions. At each valuation we determine whether, in our opinion, the actuarial assumptions are still appropriate for the purposes of the valuation, and we revise them, if necessary. Emerging experience will result in gains or losses that will be revealed and considered in future actuarial valuations.

The table below shows the various assumptions used in the current valuation in comparison with those used in the previous valuation.

Assumption	Current valuation	Previous valuation
Discount rate:	5.55%	4.85%
Inflation:	2.25%	2.00%
ITA limit / YMPE increases:	3.25%	3.00%
Pensionable earnings increases:	3.50%	3.25%
Post-retirement pension increases:	0.00%	0.00%
Interest on employee contributions:	5.55%	4.85%
Retirement rates:	20% where first eligible for an unreduced pension, remainder at age 64	20% where first eligible for an unreduced pension, remainder at age 64
Termination rates:	None	None
Mortality rates:	115% of the rates of the 2014 Public Sector Canadian Pensioners Mortality Table (CPM2014Publ)	115% of the rates of the 2014 Public Sector Canadian Pensioners Mortality Table (CPM2014Publ)
Mortality improvements:	Fully generational using CPM Improvement Scale B (CPM-B)	Fully generational using CPM Improvement Scale B (CPM-B)
Disability rates:	None	None

The assumptions are best estimate and do not include a margin for adverse deviations.

### Pensionable Earnings

The benefits ultimately paid will depend on each member's final average earnings. To calculate the pension benefits payable upon retirement, death, or termination of employment, we have taken the rate of pay on July 1, 2022 and assumed that such pensionable earnings will increase at the assumed rate.

## Rationale for Assumptions

A rationale for each of the assumptions used in the current valuation is provided below.

### Discount Rate

We have discounted the expected benefit payment cash flows using the expected investment return on the market value of the fund net of fees. Other bases for discounting the expected benefit payment cash flows may be appropriate, particularly for purposes other than those specifically identified in this valuation report.

The discount rate is comprised of the following:

- An **assumed investment return** based on estimated returns for each major asset class that are consistent with market conditions on the valuation date modified to include a provision for increases in market interest rates to a level higher than current historically low levels, on the expected time horizon over which benefits are expected to be paid, and on the target asset mix specified in the Plan's investment policy. Consistent with market observable and available data, the assumed investment return is a gross return for all asset classes.
- An **assumed passive investment management expense provision** which represents the hypothetical fees for passive investment management of assets based on estimated fees charged by index managers for balanced mandates.
- An **active investment management expense provision**. We have assumed that these fees would be offset by an equivalent **additional return resulting from active investment management**.
- An **implicit non-investment management expense provision** determined as the average rate of non-investment expenses paid from the fund over the last 3 years. These would include all fees payable from the fund (administration, custodial, audit, consulting, etc.) except those payable to investment managers, to the extent that these fees are not covered in an explicit provision for expenses added to the current service cost.

The discount rate was developed as follows:

Assumed investment return	5.95%
Assumed passive investment management expense provision	(0.07%)
Implicit non-investment management expense provision	(0.32%)
Rounding to nearest 5 basis points	(0.01%)
Net discount rate	5.55%



### **Inflation**

The inflation assumption has taken into consideration of the Bank of Canada's inflation target range of between 1% and 3%.

### **Income Tax Act Pension Limit and Year's Maximum Pensionable Earnings**

The assumption is based on historical real economic growth and the underlying inflation assumption.

### **Pensionable Earnings**

The assumption is based on general wage growth assumptions increased by our best estimate of future merit and promotional increases over general wage growth, considering the University's expectations.

### **Post-Retirement Pension Increases**

The assumption is based on the Plan formula and inflation assumption above.

### **Retirement Rates**

The assumption is based on the Plan provisions and our experience with similar plans and employee groups.

### **Termination Rates**

Use of a different assumption would not have a material impact on the valuation.

### **Mortality Rates**

The assumption for the mortality rates is based on the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014.

Due to the size of the Plan, specific data on plan mortality experience is insufficient to determine the mortality rates. The CPM mortality rates from the public sector have been adjusted after considering plan-specific characteristics, such as the type of employment, the industry experience, the pension and employment income for the plan members, and data in the CPM study.

There is broad consensus among actuaries and other longevity experts that mortality improvement will continue in the future, but the degree of future mortality improvement is uncertain. Two mortality improvement scales published by the Canadian Institute of Actuaries (CIA) are generally adopted for Canadian pension valuations:

- The Canadian Pensioners Mortality (CPM) study published in February 2014 included CPM Improvement Scale B (CPM-B).
- A report released by the Task Force on Mortality Improvement on September 20, 2017 included an analysis of the rate of mortality improvement for the Canadian population and

## Mortality Rates

provides for mortality improvement scale MI-2017 to be considered for the purpose of reflecting future mortality improvement in Canadian actuarial work, while acknowledging that it might be appropriate to use alternative mortality improvement assumptions to reflect the nature of the work.

The CIA Committee on Pension Plan Financial Reporting published a revised version of the Educational Note on the Selection of Mortality Assumptions for Pension Plan Valuations on December 21, 2017. The Educational Note indicated that given the recent publication of the CPM-B and MI-2017 improvement scales and the similar data sets used in their development, it may be appropriate to use either scale in the absence of credible information to the contrary, such as the publication of a successor scale by the CIA.

COVID-19 has impacted mortality rates globally. Statistics Canada reported excess mortality in 2020 and 2021 for the general Canadian population and other peer countries globally have also seen excess mortality over the course of the pandemic. Mortality experience for the plan has been reflected up to the date of the valuation. We have not adjusted the expected mortality rates for Plan members after the valuation date. The long-term implications of the pandemic on mortality rates is unclear as at the date of this report. Credible plan specific experience and relevant broader observed mortality trends after the report date will be reflected in future valuations.

For the current valuation, we have continued to use the CPM-B scale, which is a reasonable outlook for future mortality improvement.

Based on the assumption used, the life expectancy of a member age 65 at the valuation date is 22.1 years for males and 23.9 years for females.

## Interest on Employee Contributions

The assumption is based on Plan terms and the underlying investment return assumption.

## Disability Rates

Use of a different assumption would not have a material impact on the valuation.

## Appendix D

# Methods and assumptions – Hypothetical wind-up and solvency

## Hypothetical Wind-up Basis

The Canadian Institute of Actuaries requires actuaries to report the financial position of a pension plan on the assumption that the plan is wound up on the effective date of the valuation, with benefits determined on the assumption that the pension plan has neither a surplus nor a deficit.

To determine the actuarial liability on the hypothetical wind-up basis, we have valued those benefits that would have been paid had the Plan been wound up on the valuation date, with all members fully vested in their accrued benefits.

The Standards of Practice of the Canadian Institute of Actuaries require that the scenario upon which the hypothetical wind-up valuation is based be postulated. However, there are no benefits under the Plan contingent upon the circumstances of the plan wind-up or contingent upon other factors. Therefore, it was not necessary to postulate a scenario upon which the hypothetical wind-up valuation is made. No benefits payable on plan wind-up were excluded from our calculations. The plan wind-up is assumed to occur in circumstances that maximize the actuarial liability.

Upon plan wind-up, members are given options for the method of settling their benefit entitlements. The options vary by eligibility and by province of employment, but in general, involve either a lump sum transfer or an immediate or deferred pension.

The value of benefits assumed to be settled through a lump sum transfer is based on the assumptions described in Section 3500 – *Pension Commuted Values* of the Canadian Institute of Actuaries' Standards of Practice applicable for July 1, 2022.

Benefits provided as an immediate or deferred pension are assumed to be settled through the purchase of annuities based on an estimate of the cost of purchasing annuities.

The Educational Note provides guidance on estimating the cost of annuity purchases assuming a typical group of annuitants. That is, no adjustments for sub- or super-standard mortality are considered. However, it is expected that insurers will consider plan experience and certain plan-specific characteristics when determining the mortality basis for a particular group. The Educational Note states that the actuary would be expected to make an adjustment to the regular annuity purchase assumptions where there is demonstrated substandard or super-standard mortality or where an insurer might be expected to assume so. In such cases, the actuary would be expected to make an adjustment to the mortality assumption in a manner consistent with the underlying annuity purchase basis. Given the uncertainty surrounding the actual mortality basis that would be typical of a group annuity purchase, it is reasonable to assume that there is a range of bases that can be expected not

to be materially different from the actual mortality basis. Therefore, an adjustment to the regular annuity purchase assumptions would be warranted when the plan's assumed basis falls outside that range. In this context, we have determined that no adjustment to the mortality rates used in the regular annuity purchase assumptions is required.

We have not included a margin for adverse deviations in the solvency and hypothetical wind-up valuations.

The assumptions are as follows:

### Form of Benefit Settlement Elected by Member

Lump sum:	70% of active and deferred vested members under age 55, and 50% of active and deferred vested members over age 55, elect to receive their benefit entitlement in a lump sum
Annuity purchase:	All remaining members are assumed to elect to receive their benefit entitlement in the form of a deferred or immediate pension. These benefits are assumed to be settled through the purchase of deferred or immediate annuities from a life insurance company

### Basis for Benefits Assumed to be Settled through a Lump Sum

Mortality rates:	100% of the rates of the 2014 Canadian Pensioners Mortality Table (CPM2014) with fully generational improvements using CPM Scale B blending 50% male mortality and 50% female mortality
Interest rate:	4.30% per year for 10 years, 4.6% per year thereafter (2.57% per year for 10 years, 3.53% per year thereafter, for solvency liability adjustment)

### Basis for Benefits Assumed to be Settled through the Purchase of an Annuity

Mortality rates:	100% of the rates of the 2014 Canadian Pensioners Mortality Table (CPM2014) with fully generational improvements using CPM Scale B
Adjustment to mortality rates:	No adjustment
Interest rate:	4.62% (3.26% for solvency liability adjustment) per year based on a duration of 9.15 years determined for the liabilities assumed to be settled through the purchase of an annuity.

### Retirement Age

Benefits assumed to be payable through a lump sum:	Members are assumed to retire with a 50% probability at the age that maximizes the value of their entitlement from the Plan and a 50% probability at the member's earliest unreduced age in accordance with applicable legislation and based on the eligibility requirements that have been met at the valuation date
Benefits assumed to be settled through the purchase of an annuity:	Members are assumed to retire at the age that maximizes the value of their entitlement from the Plan, based on the eligibility requirements that have been met at the valuation date

Grow-in:	The benefit entitlement and assumed retirement age of Ontario members whose age plus service equals at least 55 at the valuation date reflect their entitlement to grow into early retirement subsidies
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### Other Assumptions

Final average earnings:	Based on actual pensionable earnings over the averaging period
Family composition:	Same as for going concern valuation
Maximum pension limit:	\$3,420.00
Termination expenses:	\$180,000

To determine the hypothetical wind-up position of the Plan, a provision has been made for estimated termination expenses payable from the Plan's assets in respect of actuarial and administration expenses that may reasonably be expected to be incurred in terminating the Plan and to be charged to the Plan.

Because the settlement of all benefits on wind-up is assumed to occur on the valuation date and is assumed to be uncontested, the provision for termination expenses does not include custodial, investment management, auditing, consulting, and legal expenses that would be incurred between the wind-up date and the settlement date or due to the terms of a wind-up being contested.

Expenses associated with the distribution of any surplus assets that might arise on an actual wind-up are also not included in the estimated termination expense provisions.

In determining the provision for termination expenses payable from the Plan's assets, we have assumed that the plan sponsor would be solvent on the wind-up date. We have also assumed, without analysis, that the Plan's terms as well as applicable legislation and court decisions would permit the relevant expenses to be paid from the Plan.

Although the termination expense assumption is a best estimate, actual fees incurred on an actual plan wind-up may differ materially from the estimates disclosed in this report.

## Incremental Cost

In order to determine the incremental cost, we estimate the hypothetical wind-up liabilities at the next valuation date. We have assumed that the cost of settling benefits by way of a lump sum or purchasing annuities remains consistent with the assumptions described above. Since the projected hypothetical wind-up liabilities will depend on the membership in the Plan at the next valuation date, we must make assumptions about how the Plan membership will evolve over the period until the next valuation.

We have assumed that the Plan membership will evolve in a manner consistent with the going concern assumptions as follows:

- Members terminate, retire, and die consistent with the termination, retirement, and mortality rates used for the going concern valuation.

- Pensionable earnings, the Income Tax Act pension limit, and the Year's Maximum Pensionable Earnings increase in accordance with the related going concern assumptions.
- Active members accrue pensionable service in accordance with the terms of the Plan.
- Cost of living adjustments are consistent with the inflation assumption used for the going concern valuation.

## **Solvency Basis**

In determining the financial position of the Plan on the solvency basis, we have used the same assumptions and methodology as were used for determining the financial position of the Plan on the hypothetical wind-up basis, except as noted in Section 5 of this report. Specifically, solvency assets and liabilities were smoothed over three years. The smoothed value of assets for solvency is equal to the smoothed value of assets used for the going concern valuation, as determined above. The solvency interest rates for determining the solvency liability adjustment were determined based on an average of the applicable hypothetical wind-up interest rates and the rates applicable at July 1, 2021 and July 1, 2020. These interest rates are specified in the table above in the Hypothetical Wind-up Basis.

The solvency position is determined in accordance with the requirements of the Act.

## Appendix E

# Membership data

### Analysis of Membership Data

The actuarial valuation is based on membership data as at July 1, 2022, provided by the University.

We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), pensionable earnings, pensionable service, contributions accumulated with interest, and pensions to retirees and other members entitled to a deferred pension. Contributions, lump sum payments, and pensions to retirees were compared with corresponding amounts reported in financial statements. The results of these tests were satisfactory.

If the data supplied are not sufficient and reliable for its intended purpose, the results of our calculation may differ significantly from the results that would be obtained with such data. Although Mercer has reviewed the suitability of the data for its intended use in accordance with accepted actuarial practice in Canada, Mercer has not verified or audited any of the data or information provided.

Plan membership data are summarized below. For comparison, we have also summarized corresponding data from the previous valuation.

	07.01.2022	01.01.2020
<b>Active Members</b>		
Number	102	141
Total pensionable earnings	\$5,168,741	\$6,913,116
Average pensionable earnings	\$50,674	\$49,029
Average years of pensionable service	19.5	18.9
Average age	57.3	56.2
<b>Suspended Members<sup>10</sup></b>		
Number	4	3
Total pensionable earnings	\$183,423	\$134,954
Average pensionable earnings	\$45,856	\$44,985
Average years of pensionable service	8.8	6.3
Average age	53.7	50.6
<b>Deferred Pensioners<sup>11</sup></b>		
Number	50	54
Total annual pension	\$123,576	\$136,978
Average annual pension	\$2,472	\$2,537
Average age	56.5	55.7
<b>Pensioners and Survivors</b>		
Number	301	292
Total annual lifetime pension	\$3,290,199	\$2,803,790
Average annual lifetime pension	\$10,931	\$9,602
Average age	75.1	74.8

<sup>10</sup> Refers to members that have moved to salaried positions at McMaster but retain frozen pensions in the Plan.

<sup>11</sup> In addition to the deferred pensioners included here, there are 2 former members entitled to a refund of excess contributions with interest only. The cumulative amount of the excess contributions is \$498 at July 1, 2022 (3 members and \$629 at January 1, 2020).



The membership movement for all categories of membership since the previous actuarial valuation is as follows:

	<b>Actives</b>	<b>Suspended Members</b>	<b>Deferred Pensioners</b>	<b>Pensioners and Survivors</b>	<b>Total</b>
<b>Total at 01.01.2020</b>	<b>141</b>	<b>3</b>	<b>54</b>	<b>292</b>	<b>490</b>
Terminations:					
• Transfers/refunds	(3)		(8)		(11)
• Deferred pensions	(2)		2		0
Suspended	(1)	1			0
Deaths	(1)			(27)	(28)
Retirements	(32)		(1)	33	0
Beneficiaries				3	3
Data corrections			3		3
Rehire					0
<b>Total at 07.01.2022</b>	<b>102</b>	<b>4</b>	<b>50</b>	<b>301</b>	<b>457</b>

The distribution of the active members by age and pensionable service as at the valuation date is summarized as follows:

Age	Years of Pensionable Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30 +	
Under 30								
30 to 34			1					1
			*					*
35 to 39		2						2
		40,125						40,125
40 to 44				2				2
				55,727				55,727
45 to 49			1	3	2			6
			*	57,730	40,490			49,545
50 to 54	1	1		15	2	2	3	24
	*	*		54,079	42,859	66,559	47,406	52,176
55 to 59		2	3	15	3	2	5	30
		41,743	41,117	52,868	40,630	60,423	42,194	48,452
60 to 64		4	3	12	4	1	4	28
		41,743	68,583	48,244	42,531	*	58,659	50,267
65 +		1	1	4	1	1	1	9
		*	*	59,003	*	*	*	53,055
<b>Total</b>	<b>1</b>	<b>10</b>	<b>9</b>	<b>51</b>	<b>12</b>	<b>6</b>	<b>13</b>	<b>102</b>
	*	<b>41,392</b>	<b>55,884</b>	<b>53,015</b>	<b>41,565</b>	<b>63,814</b>	<b>48,300</b>	<b>50,674</b>

\* Not shown to protect member confidentiality

The distribution of the inactive members by age as at the valuation date is summarized as follows:

Age	Deferred Pensioners		Pensioners and Survivors	
	Number	Average Annual Pension	Number	Average Annual Pension
Under 40	2	41		
40 – 44	3	2,027		
45 – 49	6	6,108		
50 – 54	10	3,925	2	14,201
55 – 59	14	1,994	7	14,809
60 – 64	7	920	37	15,156
65 – 69	4	1,069	53	13,225
70 – 74	2	228	63	12,042
75 – 79	2	1,219	48	10,834
80 – 84			41	8,241
85 – 89			24	6,150
90 – 94			20	5,090
95 +			6	5,073
<b>Total</b>	<b>50</b>	<b>2,472</b>	<b>301</b>	<b>10,931</b>

## Appendix F

# Summary of plan provisions

Mercer has used and relied on the plan documents, including amendments and interpretations of plan provisions, supplied by the University. If any plan provisions supplied are not accurate and complete, the results of any calculation may differ significantly from the results that would be obtained with accurate and complete information. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and the results of estimates under each of the different interpretations could vary.

This valuation is based on the plan provisions in effect on July 1, 2022. Since the previous valuation, the Plan has not been amended.

The following is a summary of the main provisions of the Plan in effect on July 1, 2022. This summary is not intended as a complete description of the Plan.

**Background** The Plan became effective July 1, 1962.  
Benefits are based on a set formula and are partially paid for by the University.

**Eligibility for Membership** The Plan was completely closed to new entrants on March 15, 2010.

### Employee Contributions

Class of Member	Period Beginning	Employee Contribution Rate on Annual Earnings	
		Up to YMPE	In Excess of YMPE
Operations and Maintenance	July 15, 2018	7.00%	10.00%
	November 29, 2020	8.00%	11.00%
Hospitality Services	July 15, 2018	7.00%	10.00%
	April 7, 2019	8.00%	11.00%
Parking and Transit Services	July 15, 2018	7.00%	10.00%
	July 14, 2019	8.00%	11.00%
Machinists and Operating Engineers	July 15, 2018	7.00%	10.00%
	May 14, 2023	8.00%	11.00%
Special Constables	July 15, 2018	7.00%	10.00%
	October 2, 2022	8.00%	11.00%

**Retirement  
Dates**

**Normal Retirement Date**

- The normal retirement date is the first day of the month coincident with or next following the member's 65th birthday.

**Special Early Retirement Date**

- A member whose age plus Continuous Service equals or exceeds 80 points may retire early without any reduction for early retirement.

**Early Retirement Date**

- A member may retire early with a reduced pension at any time during the 10-year period preceding the member's normal retirement date. The pension payable will be reduced by 0.25% for each month between age 60 and 65 and 0.50% for each month prior to age.

**Postponed Retirement Date**

- A member may postpone the actual retirement and commencement of pension (with University consent prior to December 12, 2006), but in any event the member's pension shall commence no later than the 1st of December of the year of attainment of age 71. The member will continue to make contributions and benefits under the Plan and will continue to accrue benefits until such postponed retirement date.

**Normal  
Retirement  
Pension**

- a) Service prior to July 1, 1979, the greater of:
- I. 1.0% of 1978 earnings multiplied by years of Plan membership, or
  - II. the benefit accrued to June 30, 1979
- PLUS
- b) Service from July 1, 1979 to December 31, 1985, 40% of member contributions in each year
- PLUS
- c) One-third of the benefits accrued under (a) and (b) above
- PLUS
- d) 20% of the benefits accrued under (a), (b) and (c) above
- PLUS
- e) 8% of the benefits accrued under (a), (b), (c) and (d) above
- PLUS
- f) 20% of the benefits accrued under (a), (b), (c), (d) and (e) above
- PLUS
- g) 1.5% of the benefits accrued under (a), (b), (c), (d), (e) and (f) above
- PLUS
- h) Service after December 31, 1985, 1.4% of Final Five Year Average Earnings up to the Average Year's Maximum Pensionable Earnings and 2.0% of Final Five Year Average Earnings in excess of the Average Year's Maximum Pensionable Earnings multiplied by years of Credited Service earned after December 31, 1985.

Average Year's Maximum Pensionable Earnings is calculated using the average YMPE for the final three-year period of a member's participation in the Plan.

The amount by which the member's required contributions with interest exceed 50% of the commuted value of the member's benefit shall be paid to the member.

**Bridge  
Benefits**

A member who retires early on or after July 1, 2001 is eligible to receive a bridge benefit equal to \$12.00 per month per year of credited service accrued to July 1, 2001. Such bridge benefit will be payable commencing on the member's early retirement date or age 60, if later. The bridge benefit ceases at age 65 or death, if earlier. Such bridge will be reduced by 0.25% per month for each month commencement occurs prior to 65. If the member has attained 80 points at the early retirement date, the bridge benefit will be unreduced.

All pensioners who retired prior to July 1, 2001 and who had not yet attained age 65 at July 1, 2001, will receive a bridge benefit of \$12.00 per month per year of credited service accrued to July 1, 1999. The bridge benefit ceases at age 65 or death, if earlier.

**Annual  
Pension  
Increase**

Pensions in payment are increased from January 1st each year on a pro-rated basis (using the number of months the pensioner has been retired in the twelve months) by the excess over 6% of the 5-year average rate of return earned on the market value of the fund, subject to a maximum of the previous calendar year's rate of increase in the Consumer Price Index.

<b>Maximum Pension</b>	<p>The total annual pension payable from the Plan upon retirement, death or termination of employment cannot exceed the lesser of:</p> <ul style="list-style-type: none"><li>• 2% of the average of the best three consecutive years of total compensation paid to the member by the University, multiplied by total pensionable service; and</li><li>• \$3,420 or such other maximum permitted under the Income Tax Act, multiplied by the member's total pensionable service.</li></ul>
<b>Death Benefits</b>	<p>Pre-retirement:</p> <ul style="list-style-type: none"><li>• The death benefit payable is equal to the commuted value of benefits accrued under the Plan.</li><li>• The amount by which twice the member's required contributions with interest exceeds the commuted value shall be paid to the member's spouse or if no spouse exists, to the member's designated beneficiary.</li></ul> <p>Post retirement:</p> <ul style="list-style-type: none"><li>• The normal form of payment is a lifetime pension guaranteed for ten years. However, the member may elect to receive an optional form of pension on an actuarial equivalent basis.</li></ul>
<b>Termination Benefits</b>	<p>If a member terminates employment prior to retirement, the member may elect to receive one of the following:</p> <ol style="list-style-type: none"><li>a) A refund of the member's required contributions, with Net Interest on the Fund if the member has not participated in the Plan for at least 2 years.</li><li>b) A transfer of the commuted value of the member's pension.</li><li>c) A deferred pension, payable at Normal Retirement Date, equal to the pension earned to the date of termination.</li></ol> <p>In addition to the benefit payable above, the amount by which twice the member's required contributions with interest exceeds the commuted value of the member's benefit shall be paid to the member.</p> <p>With respect to (b) and (c) above, the transfer must be made to another retirement arrangement or pension plan in the form and manner prescribed by the Canada Revenue Agency and the amounts so transferred must be locked-in to provide retirement benefits commencing no earlier than the member's early retirement date under the Plan.</p>
<b>Disability Benefits</b>	<p>If a member becomes totally and permanently disabled, the member shall continue to accrue benefits on the basis of their earnings in the twelve-month period preceding the onset of disability.</p> <p>A disabled member shall not be required to contribute to the Plan.</p>

## Appendix G

# Plausible adverse scenarios

In this Appendix, the financial impact on the Plan's going concern results (i.e., going concern financial position at the valuation date and current service cost from the valuation date to the next valuation date) of plausible adverse scenarios that would pose threats to the Plan's future financial condition is summarized in the following table for the following risks:

- Interest rate risk - an immediate parallel decrease in market interest rates of 100 basis points;
- Deterioration of asset values - an immediate decrease of 15% in the market value of non-fixed income assets; and
- Longevity risk - life expectancy from the valuation date at age 65 for a male and a female would increase by 1.6 years and 1.4 years, respectively.

(\$000s) Scenario	Going Concern Valuation Results as at 07.01.2022	Plausible Adverse Scenario Results as at 07.01.2022		
		Interest Rate Risk	Deterioration of Asset Values	Longevity Risk
<b>Market value of assets</b>	\$62,925	\$65,830	\$59,353	\$62,925
<b>Going Concern Financial Status</b>				
Smoothed value of assets	\$70,069	\$71,037	\$68,878	\$70,069
Going concern funding target	\$53,660	\$55,798	\$53,660	\$54,986
Provision for Adverse Deviations	\$5,903	\$6,138	\$5,903	\$6,048
Funding excess (shortfall)	\$10,506	\$9,101	\$9,315	\$9,035
<b>Estimated University's Current Service Cost including Provision for Adverse Deviations</b>				
July 1, 2022	\$511	\$547	\$511	\$530
July 1, 2023	\$544	\$580	\$544	\$564
July 1, 2024	\$581	\$614	\$581	\$602

The balance of this Appendix provides details of the plausible adverse scenarios selected and the determination of their impact on valuation results.



## Interest Rate Risk

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to the potential that interest rates will be lower than expected. For this purpose, we have assumed an immediate parallel decrease in market interest rates underlying fixed income investments, where fixed income investments include the following categories as shown in the investment policy summarized in Appendix B:

- Universe bonds
- Long bonds

Using a methodology consistent with the one used to determine the going concern discount rate, we have determined that a parallel decrease in market interest rates of 100 basis points would have a non-trivial probability (between 1 in 10 and 1 in 20) of occurring within the year following the valuation date. For purpose of this scenario, we have assumed that such a decrease in market interest rates would occur immediately on the valuation date and would have the following impact on the value of assets and going concern assumptions:

Defined Term	Description
Market value of assets	The decrease in market interest rates has been assumed to affect only the market value of the fixed income investments. The decrease is assumed to have occurred immediately on the valuation date.
Smoothed value of assets	For purposes of determining the smoothed value of assets, 33% of the change in the market value of asset has been recognized in the smoothed value of assets.
Discount rate assumption	It was assumed that the decrease in market interest rates affects only the expected return on assets for the fixed income portion of assets. The discount rate assumption was therefore decreased from 5.55% to 5.10%.
Other assumptions	Except for the interest rate on member's contributions, all assumptions used were the same as those used for this valuation. In particular, the discount rate used to value benefits assumed to be settled through a lump sum was not changed.
Provision for Adverse Deviations	The above changes would not affect the calculation of the Provision for Adverse Deviations.

## Deterioration of Asset Values

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to a deterioration of asset values. For this purpose, we assumed an immediate reduction in the market value of the Plan's non-fixed income assets, where non-fixed income investments include the following categories as shown in the investment policy summarized in Appendix B:

- Canadian equities
- US equities

- International equities

Using a methodology consistent with the one used to determine the going concern discount rate, we have determined that a decrease of 15% in the market value of value of non-fixed income assets would have a non-trivial probability (between 1 in 10 and 1 in 20) of occurring within the year following the valuation date. For purpose of this scenario, we have assumed that such a decrease would occur immediately on the valuation date and would have the following impact on the value of assets and valuation assumptions:

Market value of assets	The decrease in the market value of the non-fixed income portion of assets is assumed to have occurred immediately on the valuation date.
Smoothed value of assets	For purposes of determining the smoothed value of assets, 33% of the change in the market value of assets has been recognized in the smoothed value of assets.
Going concern assumptions	This scenario is assumed to have no impact on the assumptions used for this valuation.

## Longevity Risk

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to the potential that pension plan members will live longer than expected. For this purpose, we have determined that a plausible adverse scenario would be to assume that future mortality improvements<sup>12</sup> will be in line with the average improvements experienced by the Canadian population<sup>13</sup> over the most recent 15-year period available, with uniform improvement rates for all future years but varying by age<sup>14</sup> and gender.

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<sup>12</sup> i.e. starting one year after the valuation in this context

<sup>13</sup> Based on Canadian population experience from the Human Mortality Database from 2002 to 2016

<sup>14</sup> improvement rates below age 45 are set to those at age 45

## Appendix H

# University certification

With respect to the Report on the Actuarial Valuation for Funding Purposes as at July 1, 2022 of the Contributory Pension Plan for Hourly-Rated Employees of McMaster University including McMaster Divinity College, I hereby certify that, to the best of my knowledge and belief:

- The valuation reflects the terms of the University's engagement with the actuary described in Section 2 of this report, particularly the decision to not reflect a margin for adverse deviations in the going concern valuation and the University's decisions in regards to determining the going concern and solvency funding requirements.
- A copy of the official Plan documents and of all amendments made up to July 1, 2022 was provided to the actuary and is reflected appropriately in the summary of plan provisions contained herein.
- The determination of the fixed income component for purposes of establishing the provision for adverse deviations reflects the Plan's asset mix.
- The asset information summarized in Appendix B is reflective of the Plan's assets.
- The membership data provided to the actuary included a complete and accurate description of every person who is entitled to benefits under the terms of the Plan for service up to July 1, 2022.
- All events subsequent to July 1, 2022 that may have an impact on the Plan have been communicated to the actuary.

March 14, 2023

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Date

Original Signed by University Secretary and  
Freedom of Information and Protection of  
Privacy (FIPPA) Officer

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Signed

Andrea Thyret-Kidd, University Secretary and  
Freedom of Information and Protection of  
Privacy (FIPPA) Officer

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Name



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