



# University of Toronto

OFFICE OF THE VICE-PRESIDENT AND PROVOST

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TO: Academic Board

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DATE: March 30, 2005 for April 7, 2005

AGENDA ITEM: 4

## ITEM IDENTIFICATION:

*Agreement Between the Governing Council of the University of Toronto and the University of Toronto Faculty Association on Retirement Matters.*

## JURISDICTIONAL INFORMATION:

The Academic Board has responsibility for consideration of policy in the academic area. The Board is concerned with matters affecting the teaching, learning, and research functions of the University.

## PREVIOUS ACTION TAKEN:

On June 28, 1977 the Governing Council of the University of Toronto and the University of Toronto Faculty Association signed the *Memorandum of Agreement*. Article 2 of the Memorandum states that the University will not change the policies and practices listed except by the mutual consent of the parties. One such policy is as listed in paragraph (f) "...the policy on retirement age affecting faculty members and librarians, namely, no faculty member or librarian shall be required to retire before the 30th day of June following or coincident with the faculty member's or librarian's sixty-fifth birthday."

## HIGHLIGHTS:

The University has had mandatory retirement as part of the Memorandum of Agreement with the Faculty Association for over 30 years; however, in recent years, as a result of societal and institutional changes, the University determined that continuing mandatory retirement was not in its best interest. In particular, the elimination of mandatory retirement in other jurisdictions in Canada and in the United States has led to recruitment and retention issues for senior academics. Accordingly, in November 2003, the University and the Faculty Association agreed to establish a Joint Working Group to "...review and make recommendations with respect to employment relationships and engagement with the University for faculty members and librarians approaching, at and post retirement."

In fall 2004, the provincial government announced plans to proceed with changes to legislation to eliminate discrimination on the basis of age for those over the age of 65. Notwithstanding this anticipated legislation to end Mandatory Retirement, the University determined that it was important to negotiate an agreement that not only addressed issues of choice for faculty members, but also included provisions to facilitate academic planning and to balance the competing objectives of recruitment and retention with the need to facilitate retirement. The University also wished to develop a range of options that are at the very least cost neutral to the Pension Plan, and that have limited One Time Only implementation costs.

The Joint Working Group reviewed best practice in Canada and in peer institutions in the United States and we obtained statistics on how the elimination of MR has impacted on actual retirement dates in other institutions. It is important to note, however, that differing provincial, federal and state legislative provisions regarding pension plans and income tax make it extremely difficult to predict exactly how the elimination of MR will impact retirement decisions of faculty and librarians at the University of Toronto.

**The key provisions of the proposed agreement are as follows:**

### **RETIREMENT DATE**

There will be no mandatory retirement date for faculty members and librarians whose 65<sup>th</sup> birthday is on or after July 1, 2005. To accomplish this, we propose a specific revision to the Memorandum of Agreement, Article 2 paragraph (f) (for consideration by Academic Board and Governing Council).

The Normal Retirement Date (NRD) under the Pension Plan will remain as the June 30<sup>th</sup> coincident with or following the 65<sup>th</sup> birthday.

Effective June 30, 2006, faculty members and librarians may retire under one of the following retirement options.

### **EARLY RETIREMENT**

- **(a) Voluntary Early Academic Retirement Program**

The existing Voluntary Early Academic Retirement Program (“VEARP”) will be renewed for the period September 1, 2005 to December 31, 2005, at which time it will cease. Eligible faculty members and librarians (those who are at least 55 and who have 10 or more years of continuous full-time service as of the retirement date) whose applications receive Provostial approval in accordance with existing VEARP criteria before December 31, 2005 can set an irrevocable retirement date up to June 30, 2010.

- **(b) Unreduced Early Retirement**

The Pension Plan will be amended for retirements on or after June 30, 2006 allowing actuarially unreduced early retirement for faculty members and librarians who are age 60 or more and have 10 or more years of pensionable service. Unlike VEARP, this will be a right and will not require Provostial approval. Faculty members and librarians will be required to indicate their intention to early retire one year in advance of the retirement date.

[NB. Once VEARP ceases, there are no special provisions for early retirement prior to age 60. The pension of an individual taking an early retirement before age 60 will be subjected to 5% per year actuarial reduction from their NRD.]

### **PHASED RETIREMENT**

A phased retirement program will be instituted effective July 1, 2006. This program will allow full-time faculty members and librarians in the three years before they are eligible for the new unreduced early retirement, and up to three years before the Income Tax Act requires them to draw a pension on December 1<sup>st</sup> in the year in which they reach age 69 (i.e. between the ages of 57 and 66):

to scale down their responsibilities over a 3 year period from a total of 300% to between 150 and 200%;

to accrue pension based on their full salary and full service

to receive an incentive premium in the form of a retiring allowance of 25% of their June 30<sup>th</sup> regular salary immediately prior to the start of the 3 year phased retirement.

Life Insurance and Long Term Disability provisions remain in effect until Normal Retirement Date after which Life Insurance is reduced to Basic only and LTD ceases.

Faculty members and librarians will give one year's notice of their intent to enter Phased Retirement.

### **POSTPONED RETIREMENT**

Those faculty members and librarians who choose to postpone their retirement beyond NRD will continue to participate in the Pension Plan and will continue to accrue benefits based on increased service and, where applicable, increased salary. Their pensions will not, however, be actuarially increased as a result of the postponement of retirement. They can choose to retire on December 31 or June 30 in any year after NRD upon one year's notice. However, under the Income Tax Act, pension benefits must start no later

that the December 1<sup>st</sup> in the year in which the individual reaches age 69, even if the individual continues in employment beyond that date.

Existing benefits remain in effect with the exception of Life Insurance, which is reduced to Basic only, and LTD, which ceases at NRD.

### **FACULTY MEMBERS AND LIBRARIANS WITH A JUNE 30, 2005 NORMAL RETIREMENT DATE**

There are special transitional options for faculty members whose normal retirement date is June 30, 2005. They can apply for the phased retirement program described above by April 30, 2005, but acceptance requires Provostial approval. If they are not accepted, they will retire but may request from their unit head a one year contract for 20% of their June 30, 2005 salary (which will include duties in addition to instruction). The request for the one year contract may not be unreasonably denied. The details of the transitional options will be communicated directly to affected faculty members and librarians.

### **RETIREMENT COUNSELLING**

To assist faculty members and librarians assess their retirement options, the University will pay for up to 3 hours of independent retirement counselling.

### **SENIOR SCHOLAR/RETIREE CENTRES**

The importance of retired faculty members and librarians to the life of the University will be reinforced through a commitment to the creation of Senior Scholar/Retiree Centres on each campus. These Centres, which will represent a first for Canada and reflect best practice within peer institutions in the United States, will develop and administer, in collaboration with retirees and those soon to retire, a range of programmes and facilities to support faculty members and librarians in continuing their intellectual activities and to retain their connection with the University. While the Letter of Understanding between the Governing Council of the University of Toronto and the University of Toronto Faculty Association with regard to Retired Faculty and Librarians does not require any governance approval, the creation of any Senior Scholar/Retiree Centres is subject to the normal governance approval processes and the identification of a source of funds.

There will also be access to shared office space, computer resources and email.

A number of currently available opportunities will continue, as follows: Those retired faculty members who are eligible will be able to submit internal and external grant applications, subject to approval; Retired faculty members with ongoing research programmes are eligible to supervise graduate and undergraduate students' research, in accordance with School of Graduate Studies and departmental policies; In accordance with academic needs there will also be access to stipendiary teaching opportunities.

## **FINANCIAL AND/OR PLANNING IMPLICATIONS:**

Given the complexity of the proposed arrangements and the inter-relationships of the various options, it is extremely difficult to develop accurate costings. Detailed information will be presented at the Business Board meeting. What follows is an overall summary of our financial strategy as well as what we anticipate is the worst case scenario costing.

The University entered into the negotiations with the Faculty Association with a goal of cost neutrality to the Pension Plan, limited One Time Only (OTO) implementation costs and ongoing costs that could be managed through the academic planning process. To this end, extensive projections were undertaken with respect to impact upon the Registered Pension Plan /SRA. As noted earlier, it is extremely difficult to predict at what age individuals will choose to retire. All of the projections we have undertaken, however, including worst case scenarios, indicate that the decrease in liabilities in the pension plan resulting from delayed uptake of pension benefits is sufficient to cover the additional costs associated with replacing VEARP with the new Early Retirement Provision. It is anticipated that there will be no increase in liabilities in the pension plan resulting from these proposals.

The incentive payment associated with the Phased Retirement Program is just over half of the maximum payment under VEARP. Notwithstanding the fact that the Phased Retirement is an entitlement while VEARP is discretionary, we do not anticipate any significant increase in cost.

One-time-only costs will result from the Transitional arrangements for the “class of 2005” and are expected to be no more than \$600,000 (the difference between the anticipated number of contracts at 20% of salary versus the stipend rate for the equivalent amount of teaching). Some of this can be covered by departments; the balance will be funded centrally.

There will also be additional OTO costs to cover appointments that were bridged to the anticipated retirement of a faculty member who may now elect to remain employed. The cost of these, estimated to be \$2.5m over a 3 year period. As these appointments were in divisions that were taking on additional students, the costs will be covered by enrolment growth funds.

There will be costs associated with faculty that will remain employed beyond the age of 65. These will be offset in part by those who take early retirement or phased retirement before 65. The net increase in costs will be a series of OTO costs, related to the proportion of PTR recoveries (the difference between the salary of a retiring professor and new hires) that are delayed. This is likely to range from \$1 - \$1.5 million for three to four years.

The provision of Early Retirement counselling is expected to cost approximately \$60,000 per annum in steady state.

Any costs associated with the establishment of the Senior Scholar/Retiree Centres will be considered by the relevant Governance bodies in accordance with normal procedures for capital projects. Funding required will be weighed against other University priorities. We note that in several of our peer institutions in the United States, the retirees themselves have been able to engage in highly successful capital fundraising initiatives.

**Please note, however, that since we have been able to build a number of cost containment provisions into this agreement, any costs we incur will undoubtedly be significantly less than those that would result from a legislated elimination of MR. We also note that the negotiated requirement of one year of notice prior to retirement, as well as a limited term Phased Retirement Program with an irrevocable retirement date are of significant value with respect to academic planning.**

#### **RECOMMENDATION:**

Be it recommended to Governing Council:

1. THAT the policy on retirement age affecting faculty members and librarians, namely 'no faculty member or librarian shall be required to retire before the 30<sup>th</sup> day of June following or coincident with the faculty member's or librarian's sixty-fifth birthday', as stated in Article 2 (f) of the *Memorandum of Agreement between the Governing Council of the University of Toronto and The University of Toronto Faculty Association*, be rescinded, effective June 30, 2005.

And

2. THAT the previous policy on retirement age affecting faculty members and librarians, be replaced by the provision that 'there shall be no mandatory retirement date for faculty members and librarians whose 65<sup>th</sup> birthday occurs on or after July 1, 2005', as stated in Article 2 (f) of the tentative *Memorandum of Agreement between the Governing Council of the University of Toronto and The University of Toronto Faculty Association*, effective July 1, 2005