April 20, 2006

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Vice-President and Provost

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Vice-President, Human Resources and Equity

This letter is in response to your letter of April 7, 2006, regarding the recent Dispute Resolution Panel Award.

As economists we find your discussion of the continuation of full indexation of pensions to be misleading.

You refer to full indexation as “augmentation”, whereas in reality it preserves the real value of the pensions of retirees. Without full indexation, the standard of living of pensioners would gradually decline. When we served on an advisory committee to the Vice President we discussed the question of including complete indexation under the formal terms of the Pension Plan. We were informed that formalizing full indexation would require pre-funding under the actuarial rules, whereas the annual ad hoc adjustments which had been made for several years did not. Given the other improvements to the Pension Plan which we were considering, the committee decided not to recommend formal 100% indexation. But we all believed that the ad hoc annual indexation would continue, unless the University were in dire financial straits, in which case pensioners as well as employees would share the pain of reduced real incomes. As
the University is clearly not in such dire straits, and as employees are getting salary increases above the rate of inflation, there is no case for not indexing pensions 100%.

You also assert that “the increased [pension] payments will not benefit current faculty and librarians”. While this statement is obviously true regarding the current salaries of faculty and librarians it is not true regarding their expectations of salary and benefits over their lifetimes. The maintenance of full indexation reassures employees that when they retire, the real value of their future pensions will be maintained. To highlight this point, suppose that zero indexing were established and the savings used to for other purposes. Do you think that this would make the U of T a more attractive place to work for most employees?

We would be happy to meet with you at your convenience to discuss these issues.

Yours sincerely

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Thomas A Wilson, Professor Emeritus of Economics

Cc: George Luste, President UTFA

David Naylor, President, University of Toronto