B-2 COMPENSATION

Introduction to Association proposals with respect to salaries

The Association is making three key proposals with respect to salaries: an above-inflation across-the-board ("ATB") increase in all salaries; an increase of 1% of salaries in the funding of the merit pay pool; and an allocation of 0.5% of salaries to be used to redress the situation of faculty whose salaries have suffered as a consequence of the history of lower-than-inflation ATB adjustments and the underfunding in the past of the merit pay pool.

While these component proposals are made separately, and are supported by information specific to each component, they work together to address the problems that have emerged over the years in the University of Toronto's salary system for faculty and librarians.

ATB increases have failed to keep up either with inflation or with the market for university faculty. Merit pay increases have not, on average, matched the recognition of faculty experience in the market. The fact that the University is paying retention amounts is proof that it is paying less than the market indicates is appropriate.

The Administration has responded to this problem through the extensive use of retention adjustments to increase the salaries of faculty who are underpaid relative to the market and who test that market by applying for employment and receiving offers from other academic institutions or non-academic employers.

Although every university is forced to rely to some extent on market-related salary adjustments to retain faculty, at the University of Toronto such adjustments have been used as a substitute for addressing the underlying problems with the salary system.

Indeed, the Administration's reliance on ad hoc retention adjustments merely underscores the fundamental problems with the salary structure. It addresses the complaints of those faculty who are prepared to go through the exercise of seeking alternative employment in order to extract a salary increase from the Administration. However, in the process, it creates another problem: low salaries for faculty who are not in a position to participate in the academic transfer market or who choose not to do so, because of the time involved (taken away from their academic responsibilities) – both their's and that of other universities – and the ethical issues in making an application for a position elsewhere that is not genuine but is designed solely for the purpose of obtaining a fair salary from one's present employer. Finally, the present system acts as a perverse incentive, which encourages faculty whom the University desires to retain to look elsewhere for employment.

The Association's proposals, taken together, address all of these problems with the salary system. Our proposals with respect to ATB increases and the funding of the merit pay pool will restore credibility to the implicit salary scale at the University and

match career earnings increases more closely to those generated by the market. In doing so, they will reduce both the need for and the size of retention salary adjustments. Our proposal for a low-salary augmentation fund will force the development of a framework within which anomalies created by the “squeaky wheel” approach to salary adjustments can be addressed.

Although it is impossible to solve problems overnight that have accumulated over a more-than-30-year period, over time these changes will restore integrity to a merit-based salary system which, in principle, is still in the view of the Association the preferred way to determine salaries at an institution like the University of Toronto.

ASSOCIATION'S PROPOSALS

(a) Salary – ATB (Across-the-Board) Increase

UTFA Proposal:

(i) UTFA seeks an ATB increase of 4.0% effective July 1, 2005

Administration Proposal:

2.5% commencing July 1, 2005
2.5% commencing July 1, 2006

ATB increase -- normative increase

As has been demonstrated above, the salary increase measure at the University of Toronto that is comparable to general increases in other agreements is the Across-the-Board (ATB) percentage increase.

For the purposes of exposition, the Association's request for an increase of 4.0% ATB may be divided into two components: a normative increase, reflecting general salary increases in the university sector in Ontario; and an additional increase related to catch-up for prior years' losses.

A review of salary increases in the university sector indicates clearly that the normative increase for the period subject to this arbitration is in the range of 3% to 3.5%.

Table B-2 (a) 1 summarizes percentage changes in salary scales provided for in university agreements in Ontario for the academic year 2005-6, where increases have been determined.

Table B-2 (a) 1
2005-2006

(1)	(2)	(3)
University		
	# Faculty	**Scale %**
Brock	468	3.0
Carleton	645	3.0
Lakehead	249	3.0
Laurier	330	3.5
Nipissing	108	3.0
McMaster	621	3.0
Waterloo	828	3.3
Western	906	3.0
Windsor	438	3.0
York	1197	3.5
Total	5460	3.17

[Source: OCUFA; note: faculty counts are for 2003-4 academic year]

Recent surveys of salary increases Mercer Human Resource Consulting and Watson, Wyatt Ltd. underline the point that the normative salary increase in Canada is in the 3% to 4% range.

In its 2005 Compensation Report (September 6, 2005), Mercer reports that: “employers are projecting average salary increases of 3.4% for 2006”. Furthermore, executive salaries – generally speaking more likely to be comparable to those of university faculty – are projected to be higher. “Pay increases are expected to be awarded in a range of 3.5% for executives”. (See Book of Documents, Volume III, Tab 4).

In its survey, also published in September 2005, Watson Wyatt Worldwide reports average increases of 3.3% for 2005. For 2006, Wyatt reports that “the trend towards higher increases is also reflected in employers’ forecasts for next year. According to the survey findings, Canadian employers expect to provide salary increases in 2006 of 3.3%. (See Book of Documents, Volume III, Tab 5).

The University of Toronto itself recently negotiated a voluntary settlement for its administrative, support and technical staff which provided for an across-the-board increase of 3.0%. (See Book of Documents, Volume III, Tab 2-J).

General settlements in the public and private sectors in Ontario are summarized in Table B-2 (a) 2:

Table B-2(a) 2

Ontario			
Collective Bargaining Highlights			
All Agreements			
	Public	Private	
1q 2004	3.60%	2.70%	
2q 2004	3.20%	3.00%	
3q 2004	3.30%	1.40%	
4q 2004	2.80%	2.60%	
1q 2005	2.70%	2.20%	
2q 2005	2.60%	2.50%	
Source: Ministry of Labour, Ontario			
Collective Bargaining Highlights, June 2005			
Ontario Collective Bargaining Review, 2004			

For 2004, negotiated pay increases in the public sector in Ontario were well in excess of 3%. The statistical decline in negotiated increases in the Ontario public sector for the first quarter of 2005 is dominated by the 2.5% increase in a series of settlements involving the Federal Government. The second quarter increase of 2.6% was largely determined by the increase of 2.6% in elementary and secondary education flowing from a central negotiation between teachers' unions and the Province of Ontario and included major changes in working conditions for both elementary and secondary teachers.

The 3% norm of scale increases is in line with expectations for changes in the Consumer Price Index ("CPI") for the 12-month period prior to the expiry of the current agreement and the 12-month period that will be covered by the agreement currently subject to arbitration.

Table B-2(a) 3 shows the CPI for Toronto for the last month of the previous agreement period and the first three months of the period to be covered by the agreement at issue.

Table B-2(a) 3

Year	Month	Date	Index 1992=100
2005	6	15/06/2005	128.5
2005	7	15/07/2005	128.6
2005	8	15/08/2005	129.2
2005	9	15/09/2005	129.9

Over that three-month period, the Toronto CPI increased at an annual rate of 4.43%. While oil and gas price inflation, which drove the increase in the index during the third quarter of 2005, has eased somewhat, the CPI is expected to increase at a rate in excess of 3% until mid-2006, coincident with the termination date of the agreement at issue.

According to a recent statement by Bank of Canada Governor David Dodge, "CPI inflation is projected to average near 3 per cent through the middle of 2006"[1].

Taking inflation since the last month of the previous agreement together with Governor Dodge's prediction to the end of the second quarter of 2006, we can expect inflation to be in excess of 3% over the period covered by the agreement at issue.

In other words, a normative increase in the range of the ATB settlements in the Ontario university sector of 3% to 3.5% will simply keep pace with inflation.

ATB increase – historical realignment

As we noted above in our overview of the history of the faculty and librarians' salary system at the University of Toronto since its inception in 1972, ATB salary increases have varied substantially in relation to changes in the CPI over the years.

Chart B-2 (a) 4 compares the history of ATB increases since the inception of the current PTR salary model with changes in the CPI for Ontario.

[1] Opening statement by David Dodge, Governor of the Bank of Canada to the Standing Senate Committee on Banking, Trade and Commerce, October 26, 2005. See Book of Documents, Volume III, Tab 2-B).

Chart B-2 (a) 4

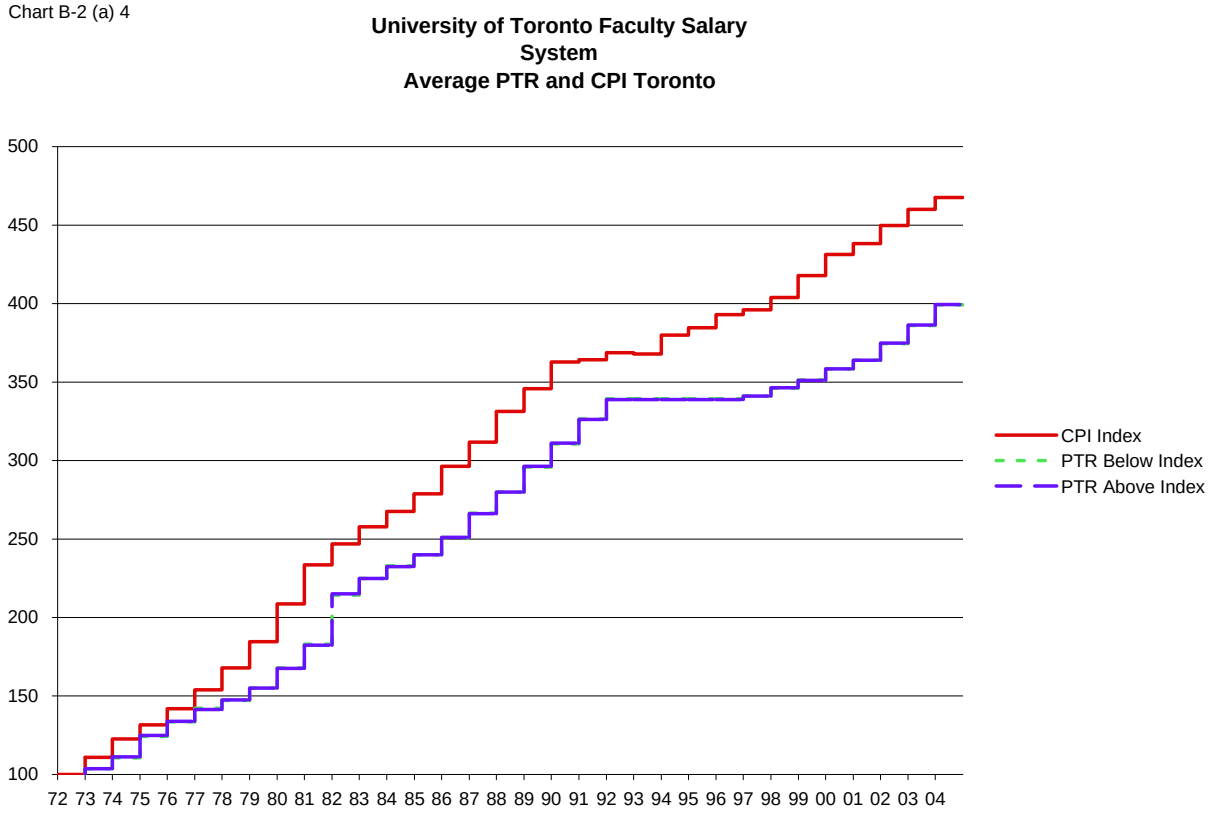
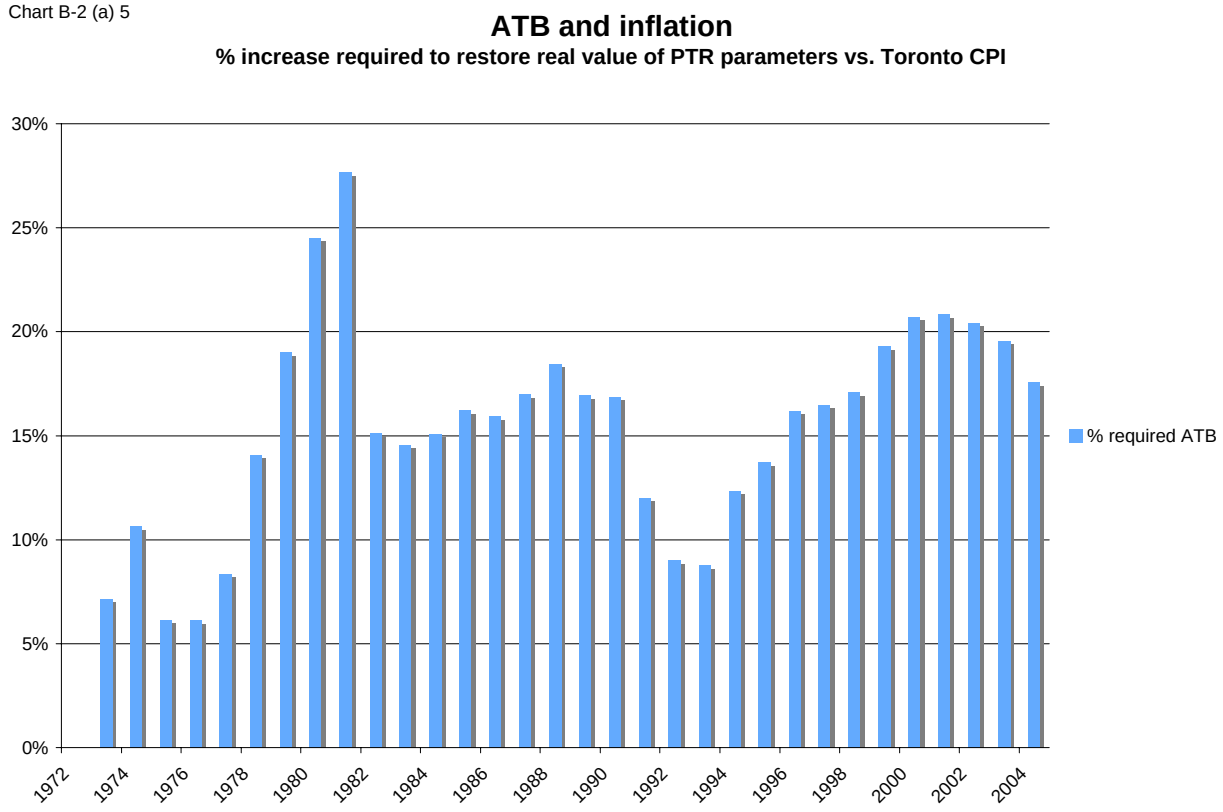


Chart B-2 (a) 5 presents the same information in a format that provides a much clearer indication of the evolution of the system. It shows, for each year since 1972, the percentage ATB that would have been required that year to compensate fully for the accumulated loss relative to inflation from prior ATB adjustments since 1972.

In other words, each data point shows how far behind the pay system had fallen, relative to inflation, as of the given date.

Chart B-2 (a) 5



This chart is particularly helpful because it points to important milestones in ATB changes at the University of Toronto.

In its first decade, the salary system was allowed to erode significantly relative to inflation. By 1981, it would have required an across-the-board increase of 27.7% to offset the loss resulting from below-inflation ATB increases after 1972.

Arbitrator Burkett addressed the issue in 1982, awarding a substantial upward adjustment as an instalment towards the restoration of the ATB losses to inflation over the period since the inception of the system in 1972. That is reflected in the fact that, in 1982 the increase required to offset inflation since the inception of the salary model in 1972 had dropped to 15%. While Arbitrator Burkett specifically referred to his award as a first step towards full restoration inflation losses, there was no second step for nearly a decade.

For the remainder of the 1980s, ATB increases kept approximate pace with inflation. The early 1990s saw a further major step towards restoration of prior losses. The increase required to offset ATB losses relative to inflation dropped as low as 9% in 1993.

From that point until 2002, the situation deteriorated again, as the increase required jumped back to more than 20%. Since then, successive ATB adjustments modestly above the rate of inflation have gradually reduced the extent to which the PTR model has fallen behind inflation. Each year since 2002 has seen a recovery of between ½ of 1% and 2% of prior losses to inflation.

The difference between currently projected inflation of 3% to 3.5% and the Association's proposal for a 4% ATB increase is well within the range of improvements that have been implemented over the past three years.

These data have important implications for the current round of negotiations and interest arbitration.

First, it is clear from the data that the key drivers of the University of Toronto salary model for faculty and librarians have fallen behind increases in the cost of living since the model was established.

Second, there has been a pattern over the past 30 years of addressing the shortfall periodically. Notably, there have been three periods of recovery. We can see a partial recovery in the early 1980s, with the Burkett award. We can see a second partial recovery in the early 1990s in the wake of the substantial settlements in the broader public sector in Ontario. And we can see the beginnings of a third period of recovery in the three years since 2002. It cannot be argued that there is no basis on which the Association might expect further recovery from the erosion of the salary model in the face of inflation. The history suggests exactly the opposite.

Indeed, the evidence is clear from the Administration's own conduct that it understands that its salary scale has been falling behind the market.

Starting salaries at the University of Toronto have been escalating at a rate greater than the rate of ATB and PTR amount increases.

Because the University of Toronto does not provide data for starting salaries separately, starting salaries must be determined from the listing of salaries for professorial faculty provided periodically to the Association by the Administration.

Data provided to the Association by the Administration show on a non-identified basis, each faculty member's current salary, year of hire, year of PhD, rank (assistant professor, associate professor, professor) and department / division.

Analysis of starting salaries over time is complicated by two factors. First, many faculty hired by the University of Toronto join the university in mid career, from other

universities. To ensure that variations in the average prior experience and numbers of mid-career hires do not distort the data, our analysis includes faculty hired out of graduate school only. Second, it is clear from the salary data that salaries vary substantially from division to division within the University. As a general rule, salaries in professional divisions (law, medicine, engineering, business) are higher than salaries in Arts and Science. To reduce the impact of year-to-year differences in the distribution of new hires among divisions, we analyzed data for Arts and Science divisions and for professional divisions separately.

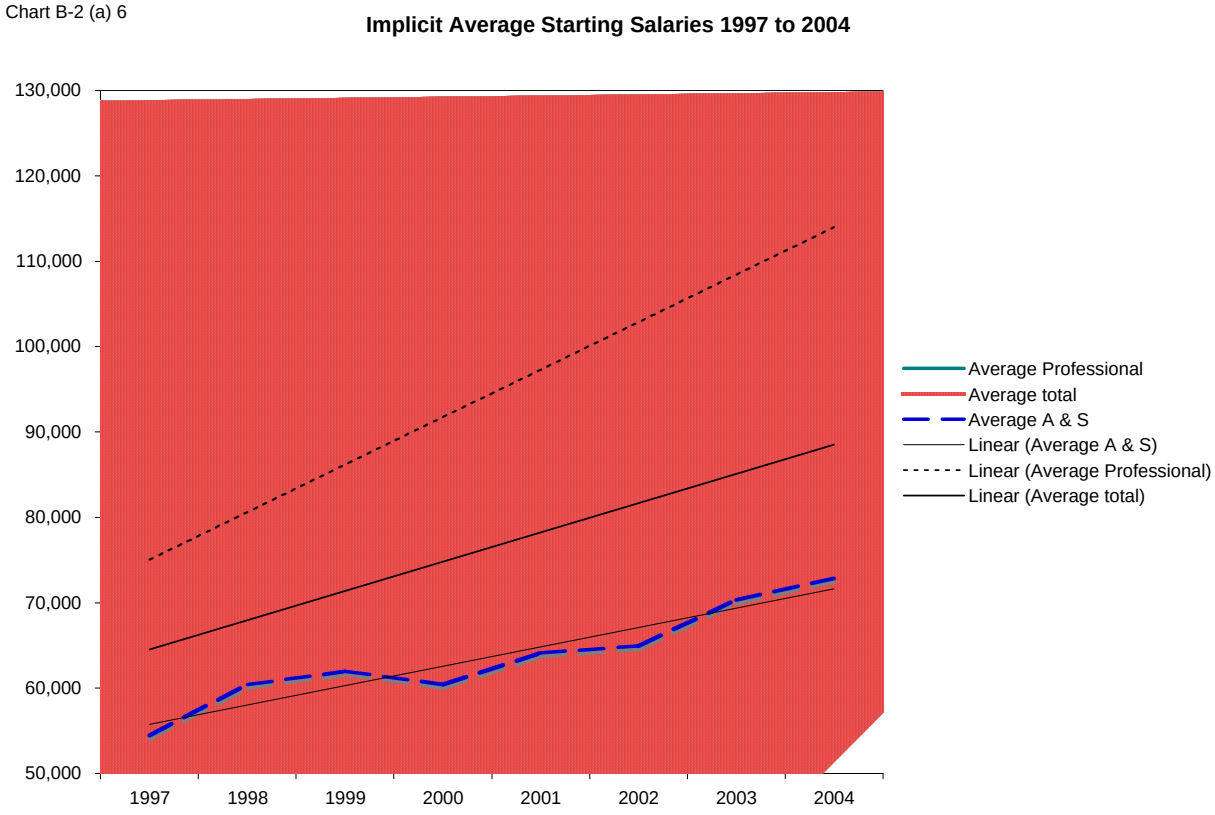
The analysis that follows is based on salary data for academic years 2002-3, 2003-4 and 2004-5 provided by the Administration in February 2005. We limited the analysis to faculty who were hired in academic year 1997-8 or later and were hired within two years of receiving their highest degree. Starting salaries for faculty hired in 2002-3, 2003-4 and 2004-5 are taken directly from the data set. For faculty hired prior to 2002-3, salaries were estimated, using the 2002-3 salary and working backwards assuming average PTR awards and the appropriate ATB increases.[2]

Chart B-2 (a) 6 shows starting salaries for faculty hired within two years of attaining their highest degree in the academic years 1997-8 to 2004-5.[3]

[2] As noted in more detail in the PTR section of this brief, the use of this methodology is subject to two possible sources of inaccuracy. First, it assumes that every faculty member receives average merit pay. Since we are working only with averages, this assumption would not be expected to distort the resulting estimates of starting salaries. Second, it does not account for retention and anomaly adjustments between the year of hire and academic year 2002-2003. While this approach would likely produce distorted results if applied over an extended period of time, it is not likely to have had a substantial impact in this analysis. Because this analysis is restricted to faculty who would have been employed by the University for five or fewer years in 2002-2003 and who would have been hired no more than two years after their year of highest degree, it is unlikely that the faculty subject to this analysis would have received retention adjustments.

[3] The analysis of starting salaries presented here is based on data for Professorial Faculty. Analogous arguments apply with respect to Librarians, and Lecturers, so that the arguments and conclusions with respect to starting salaries and Professorial Faculty should be taken as applying equally to Librarians and Lecturers.

Chart B-2 (a) 6



The chart shows average starting salaries for faculty in Arts and Science, in the professional divisions and overall. For each series, we have also plotted a two-stage linear least squares trend line. It clearly illustrates the steady growth in starting salaries over the period measured.

Over that period, starting salaries increased by 34% in Arts and Science and 56% in professional divisions, compared with an increase in ATB awards of 17%. This phenomenon clearly indicates that the salary scale at the University of Toronto is falling behind the market for recently-graduated faculty.

In effect, the increase in starting salaries means that each year's cohort of new hires starts its employment at the university higher on the career salary scale, after allowing for ATB increases, than the previous year's cohort.

(b) Salary Scale

(i) PTR – Progress Through the Ranks

UTFA Proposal:

Each PTR pool shall be increased by 1.0% of total salary in that pool, effective July 1, 2005

Administration Proposal:

Normal PTR in both years.

Distribute a special one time PTR allotment July 1, 2005 calculated on the basis of $500 per FTE for Professoriate and prorated amounts for Lecturers and Librarians. Ten percent of the additional amount will be set aside to be added to Provostial and Decanal merit points.

Distribute a special one time PTR allotment July 1, 2006 calculated on the basis of $500 per FTE for Professoriate and prorated amounts for Lecturers and Librarians. Ten percent of the additional amount will be set aside to be added to Provostial and Decanal merit pools.

The merit pay pool[4]

The Association is proposing an increase in funding allocated to the annual merit pay pool of 1% of payroll. This would increase the funding available for merit pay increases from approximately 1.9% to approximately 2.9% of payroll.

This would re-establish the merit pay pool at close to the percentage of total salary envisaged for merit pay in the original design of the PTR system in 1972. (See Book of Documents, Volume III, Tab 2-E).

[4] The analysis of PTR presented here is based on data for Professorial Faculty. Analogous arguments apply with respect to Librarians and Lecturers, so that the arguments and conclusions with respect to PTR for Professorial Faculty should be taken as applying equally to Librarians and Lecturers.

It is important to put merit pay in perspective. Merit pay in the University of Toronto PTR system is not a discretionary bonus. It is as fundamental to the pay determination system for faculty as the pay grid is for employees paid according to a conventional wage or salary scale.

The ATB increases correspond to changes in a pay scale. The merit pay system is analogous to the system through which employees' salaries progress through the pay scale as a result of movements up pay grids and promotions from jobs with lower pay scales to jobs with higher pay scales.

Although there is clearly a relationship between rank (Assistant / Associate Professor or Professor) and salary, and salaries are limited at the lower end by floor salaries for each rank, rank is not explicitly a determinant of salary in the University of Toronto salary system.

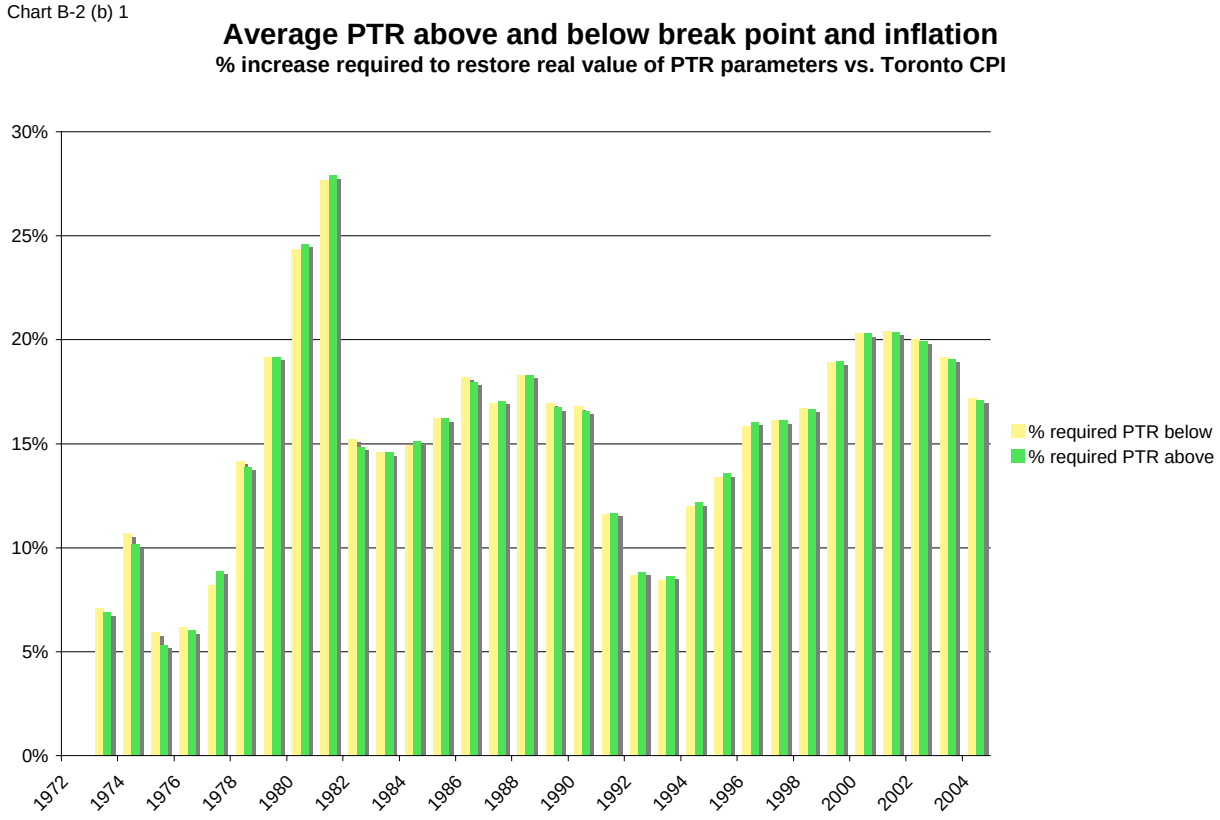
In the University of Toronto system, merit pay adjustments encompass both equivalent-to-grid movements and equivalent-to-promotional adjustments.

Merit pay (PTR) and inflation

Just as would be the case with a pay grid, because annual adjustments in average merit pay amounts reflect the previous year's across-the-board adjustment, the performance of the two PTR amounts – the above-the-break-point amount and the below-the-break-point amount – relative to inflation since the inception of the PTR system is identical to that of the across-the-board adjustment.

Consequently, the chart (Chart B-2 (b) 1) of percentage increases required to restore the original real value of the PTR pools is essentially identical to that for ATB increases.

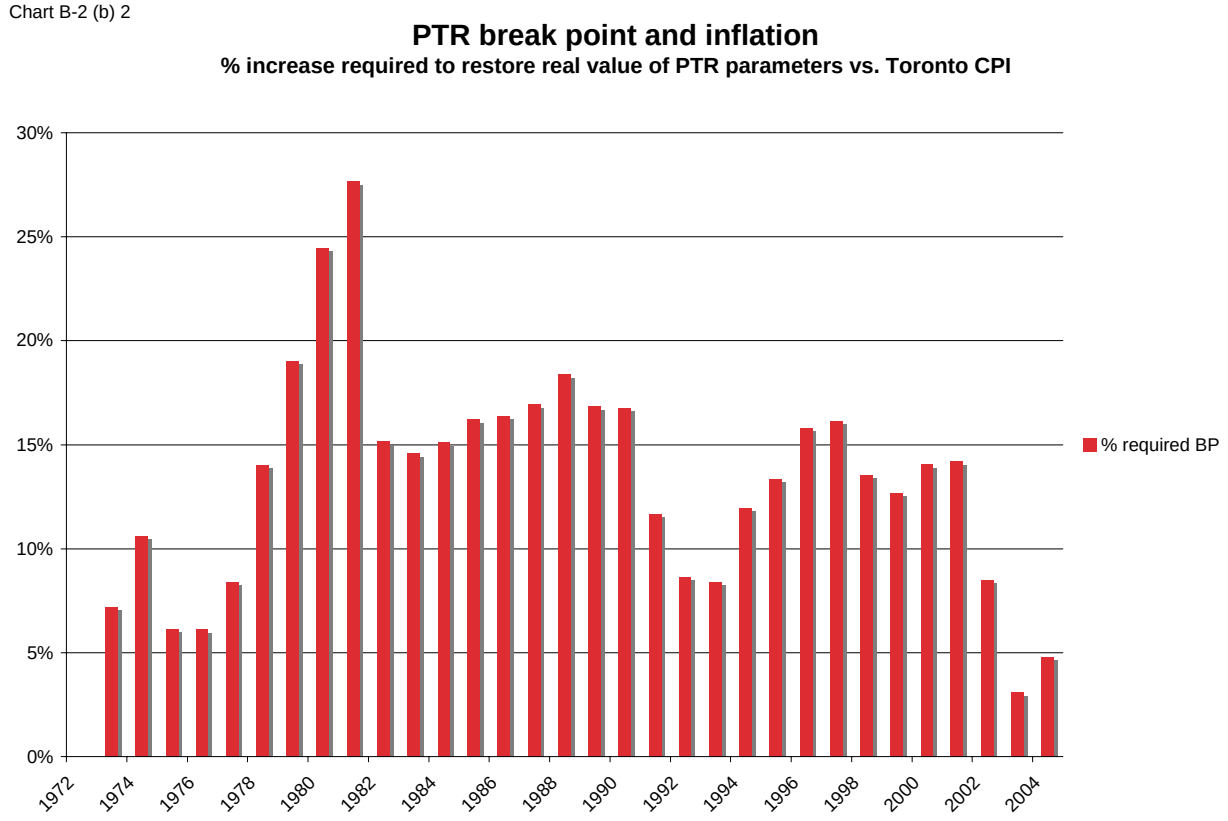
Chart B-2 (b) 1



There is one respect, however, in which the PTR system has been adjusted to reflect better the changes in living costs since the system was created. During the period from 1994 to 2002, when both ATB adjustments and PTR amounts were falling rapidly behind increases in the cost of living, negotiated adjustments in the salary break points exceeded those for both the ATB and the PTR amounts.

Chart B-2 (b) 2 illustrates.

Chart B-2 (b) 2



The adjustment in the PTR break point required to restore its real value in 1972 dollars departed from the upward trend of the other elements of the pay system in 1997 and reached a low of 3.1% in 2003 before increasing again to nearly 5%.

Because the per capita merit pay pool for faculty whose salaries are above the break point is lower than the per capita merit pay pool for faculty whose salaries are above the break point, raising the break point has the effect of increasing the total size of the merit pay pool.

Despite this adjustment, however, the merit pay pool has decreased in value relative to total salaries. From its initial level of 3% of total salary, the faculty merit pay pool has declined in relation to total salary to approximately 1.9% in 2004-2005.

The implication of the analysis so far is clear. It is evident from the data that the Administration itself acknowledges and recognizes that the erosion of the PTR model relative to inflation is a serious problem. Indeed, had all of the elements of the salary model been adjusted in compensation for inflation on the same basis as the salary break points, the extent of erosion of the model would be below 5% -- lower than at any point since the first year of its operation. To put the point slightly differently, if erosion of

the model elements against inflation is not a problem worthy of addressing, as the Administration now appears to contend, why would the PTR break point have been adjusted in the way that it has?

Market adjustments and the PTR model

There is ample evidence from the Administration's own behaviour that PTR funding has been insufficient to maintain an appropriate relationship between salaries for professors at the University of Toronto after they are hired by the university and what the market pays for professors.

As noted above, there are two points of connection between the salary structure at the University of Toronto and the market for university faculty.

The first is the determination of the starting salary of a faculty member. While the agreement between the Association and the Administration sets out the structure of the PTR pay system, it imposes no limits at all on starting salaries. Because universities in North America are similar in structure and operate on essentially the same academic calendar, hiring tends to take place on a common schedule throughout Canada and the United States. As a consequence, the hiring process for new faculty members at North American universities tends to be competitive on both sides of the transactions. Universities generally consider a number of potential applicants for job openings; the most attractive applicants are generally presented with a choice of potential positions.

The Administration's concern about the issue of recruitment and the need to compete with other top-rank universities for new faculty is evidenced by a presentation on recruitment made by the Provost to a committee of Governing Council in November 2004.[5] It highlights the University of Toronto's recruitment challenges, as well as the steady increase in salaries commanded by incoming faculty.

The second point of connection arises from the University's need to retain established faculty who either have tested the market for senior academics or are prepared to do so. When the University awards retention salary increases or anomaly adjustments, it is essentially responding to discrepancies between what the market for established academics pays and what the University's salary system pays.

It is important to note that starting salary movements and retention adjustments reflect different issues with respect to the salary structure. Increases in starting salaries relative to salary floors at the University reflect principally the erosion of the general level of salaries in prior years, as reflected in ATB adjustments as discussed above. On

[5] "Faculty Recruitment 2003-04 and Estimated Searches 2004-05", Office of the Vice-President and Provost, November 18, 2004. See Book of Documents, Volume III, Tab 2-F.

the other hand, retention and anomaly adjustments reflect the combined impact of the inadequacy of PTR funding and the inadequacy of ATB adjustments since the hiring date of the faculty member receiving the adjustment.

Why? If we make the reasonable assumption that a faculty member or librarian's starting salary reflects the market at the time of hire, the need for retention adjustments after hiring must be attributable to gaps between the rate at which the ATB and merit pay system permits salaries to increase after hiring and the rate at which market rates increase as a faculty member's experience grows.

The need for retention adjustments is an indicator of the fact that the PTR system is not keeping pace with market forces post-hiring.

The need for retention adjustments to salary is not, by itself, an indicator of underfunding of the merit pay pool in the PTR system. Most universities are required from time to time to offer increases in salary to professors who have received competing employment offers as an inducement to them to remain at the University.

It is a matter of degree.

Retention increases offered only to a limited number of faculty and at a relatively modest total cost to the university are not an indication of any fundamental problem with the salary system; they simply reflect the fact that no pay system can capture perfectly all of the market pressures on salaries at the University.

Where retention increases are offered on a routine basis to significant numbers of faculty and at substantial cost to the University, however, such increases are a clear indication of a problem with the salary system in general, and with the size of the increases awarded through the merit pay pool in particular.

Retention adjustments for large numbers of faculty which in aggregate contribute significantly to higher total faculty salary costs are a clear indication that the merit pay system is underfunded.

The data with respect to retention pay increases over the past nine years demonstrate precisely that (Chart B-2 (b) 3).

	Total retention and anomaly				
	Number	Amount	Avg. %	% of faculty	% of salary
1996-7	46	265,328	8.8%	2.7%	0.15%
1997-8	41	286,771	8.0%	2.4%	0.16%
1998-9	112	805,022	8.3%	6.6%	0.47%
1999-0	148	1,045,053	7.1%	8.7%	0.60%
2000-1	197	2,177,052	10.4%	11.6%	1.23%
2001-2	116	1,116,414	10.4%	6.8%	0.63%
2002-3	195	1,831,434	10.0%	11.5%	1.03%
2003-4	97	816,815	8.4%	5.7%	0.43%
2004-5	122	1,379,629	9.5%	6.9%	0.71%
Cumulative	1,074	11,663,909		61.1%	5.8%

In the years 1996-19977 to 2004-2005 – the only years for which data are available – retention and anomaly adjustments have affected as many as 11.5% of faculty, and have amounted to as much as 1.3% of total faculty payroll. Salary increases awarded through these adjustments have averaged approximately 10% over that period.

In total, over the past nine years, there have been a total of 1,074 adjustments whose cumulative total in 2004-2005 salary dollars has reached 7.0% of payroll. When one considers that the total allocation by the University of Toronto to merit pay adjustments is less than 2% of payroll, the size and scope of anomaly adjustment is clearly a serious problem.

The 1,074 adjustments recorded over the nine year period compares with a total faculty count in 2004-2005 of 1,757. The cumulative value of the adjustments, in 2004-2005 salary dollars, is over $14 million – approximately 7% of total faculty salaries. Of course, some faculty members have received more than one adjustment during the period, and some faculty members who received adjustments may have retired or left the university for other reasons. Even allowing for some double-counting and some retirements, those numbers are significant.

That the prevalence of substantial ad hoc retention and anomaly adjustments is a serious problem for the salary system is evident from Arbitrator Kevin Burkett's observations concerning the operation of the PTR system in the context of the relationship between professorial rank and salary in his 1982 award.

> "The PTR increases received by a faculty member over time are given in recognition of his increasing contribution to the University so that large, one-time-only promotional increases are not required or justified."[6]

Those observations would apply, *a fortiori*, to *ad hoc* retention adjustments. The Association submits that in a properly functioning salary system, with appropriate ATB adjustments and an adequately funded merit pay system, retention adjustments would neither be "required" or "justified".

Merit pay and salary compression

In all divisions, service and/or experience have less of an impact on salaries than was envisaged in the original concept of the PTR system. In some divisions, the relationship between salaries and experience has broken down to the point where there is an actual salary inversion – salaries for recent PhD graduates are actually higher than they are for more experienced faculty.

The weakening of the relationship between salary and experience results from the interaction of increasing starting salaries on one hand with ATB increases that fall behind inflation and merit pay pools that are too small to permit faculty to keep up with market changes on the other.

To explore the impact of these factors on the pay structure at the University of Toronto, the Association has analyzed the snapshot of faculty salaries provided by the Administration for the 2004-2005 academic year – the most recent year available.

To measure the strength of the relationship between salary and time since PhD, we used the available data to calculate the correlation between salary and time since PhD for University of Toronto faculty.

To account for differences among divisions and among professorial ranks, we measured the correlations separately for each division and, within each division, for each rank.

[6] See Book of Documents, Volume I, Tab 1, @ p. 26.

The results are summarized in Table B-2 (b) 4.

Correlations with year of hire				
	Assistant Prof	Associate Prof	Professor	All
Health Sciences	0.57	0.61	0.16	0.67
Humanities	0.42	0.72	0.39	0.74
Life Sciences	0.50	0.30	0.28	0.70
Physical Science - Engineering & Computer Science	0.31	-0.14	0.25	0.57
Physical Science- excluding Engineering & Computer Science	0.45	0.27	0.14	0.51
Social Sciences - Education	0.48	0.58	0.39	0.74
Social Sciences - excluding Law, Management & Education	0.28	0.57	0.08	0.70
Social Sciences - Law	0.79	-0.04	0.42	0.63
Social Sciences - Management	-0.25	-0.62	-0.53	-0.04
All	0.14	0.27	0.03	0.47
Correlations with year of highest degree				
	Assistant Prof	Associate Prof	Professor	All
Health Sciences	0.37	0.62	0.28	0.74
Humanities	0.27	0.79	0.53	0.85
Life Sciences	0.45	0.50	0.57	0.84
Physical Science - Engineering & Computer Science	0.20	0.09	0.29	0.65
Physical Science - excluding Engineering & Computer Science	0.39	0.35	0.29	0.63
Social Sciences - Education	0.61	0.57	0.53	0.80
Social Sciences - excluding Law, Management & Education	0.18	0.56	0.38	0.80
Social Sciences - Law	0.19	0.08	0.54	0.72
Social Sciences - Management	-0.16	-0.52	-0.24	0.33
All	-0.05	0.29	0.18	0.58

Overall, the correlation between salary and year of hire is relatively weak, at 0.47. The overall correlation between salary and year of highest degree is somewhat stronger at 0.58, but not particularly so.

There is a substantial variability in these relationships across professorial ranks and among divisions of the University. Correlations are strongest in the health sciences, humanities, life sciences and social sciences other than law, management and education. They are weaker in physical sciences. And in law and management, the statistics demonstrate actual salary inversion for some ranks.

We also investigated the interaction between starting salaries and retention adjustments on one hand and average PTR merit awards and ATB adjustments on the other.

Using salary data for the academic year 2004-2005, the most recent year available, we applied the PTR model in reverse to generate an estimate, of the starting salary of each faculty member. The calculation was done by working backwards from the current salary data provided by the Administration. For each year prior to the current year, the salary was estimated by removing the ATB percentage increase awarded and subtracting the average PTR merit adjustment to which the faculty member would have been entitled. In each year, each faculty member is crediting with the appropriate average PTR award (above or below the break point). This calculation is repeated for each faculty member back to his or her year of hire, yielding an implicit starting salary for each faculty member.

It is important to note that implicit starting salaries calculated in this way will differ from actual starting salaries in two respects. First, the PTR adjustments used in the calculation are averages. For faculty members whose PTR adjustments have consistently been above or below the average, this method will over- or under-state the starting salary, respectively. Since in the analysis, we are working only with averages, this shortcoming will not adversely affect the strength of the conclusion.

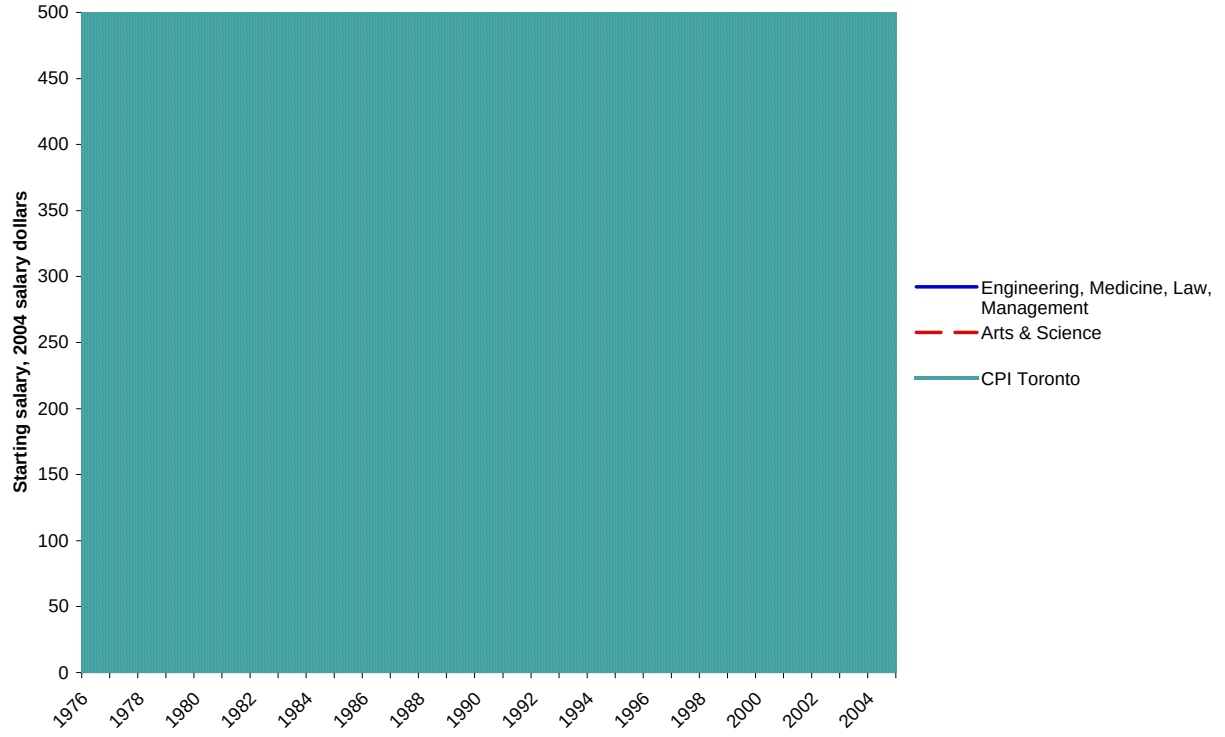
Second, this analysis attributes the full amount of these increases to starting salaries, and thus will tend to overstate the starting salaries of faculty who have received in-career adjustments. As a result, the implicit starting salaries actually capture both changes in initial salaries and in-career market adjustments. While in the description of the results, we refer to changes in implicit starting salaries, it should be kept in mind that we are actually measuring the total impact, by year of hire, of differences in starting salaries and in-career adjustments.

Chart B-2 (b) 5 shows a three-year moving average of the implicit starting salaries of career University of Toronto faculty, from 1976 to 2004.

To ensure that the results are not skewed by variations in the rate of hiring of senior scholars who began their careers at other institutions, the data set excludes faculty who were hired by the University of Toronto more than three years after they attained their highest degree.

Chart B-2 (b) 5

Implicit starting salaries and Toronto CPI, 3-year moving average, 1974-76 = 100



The top line, showing the average of the implicit starting salaries calculated using this methodology shows only what would be expected in a time series beginning in the mid-1970s. Starting salaries have increased substantially.

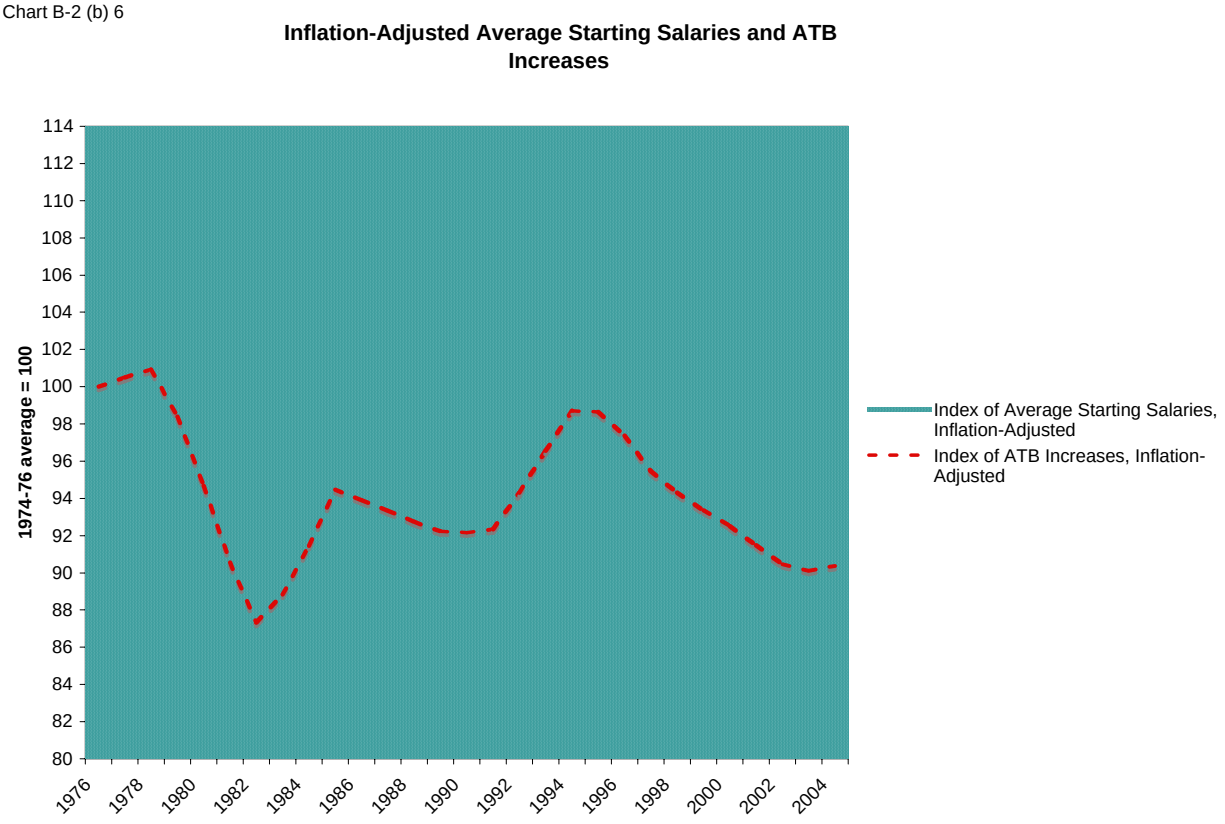
To put these data into perspective, we compare the progress of starting salaries with the changes in the CPI for Toronto and with the ATB increases in faculty and librarians' salaries at the University of Toronto.

The shaded line shows the 1974-1976 implicit average starting salary, adjusted to reflect inflation. Because it lies below the line for starting salaries, it demonstrates that starting salaries at the University of Toronto have increased more rapidly than the cost of living in Toronto.

The dashed line shows the 1974-1976 implicit average starting salary, adjusted to reflect the ATB salary increases at the University. It demonstrates that ATB increases have been below inflation over the period, and that starting salaries have increased at a rate much greater than the rates of ATB increase over the period.

Chart B-2 (b) 6 compares an index of inflation-adjusted starting salaries with an index of inflation-adjusted ATB increases.

Chart B-2 (b) 6



Over the 30-year period, there has been a persistent, albeit variable, gap between inflation-adjusted starting salaries for faculty and inflation-adjusted ATB increase awards.

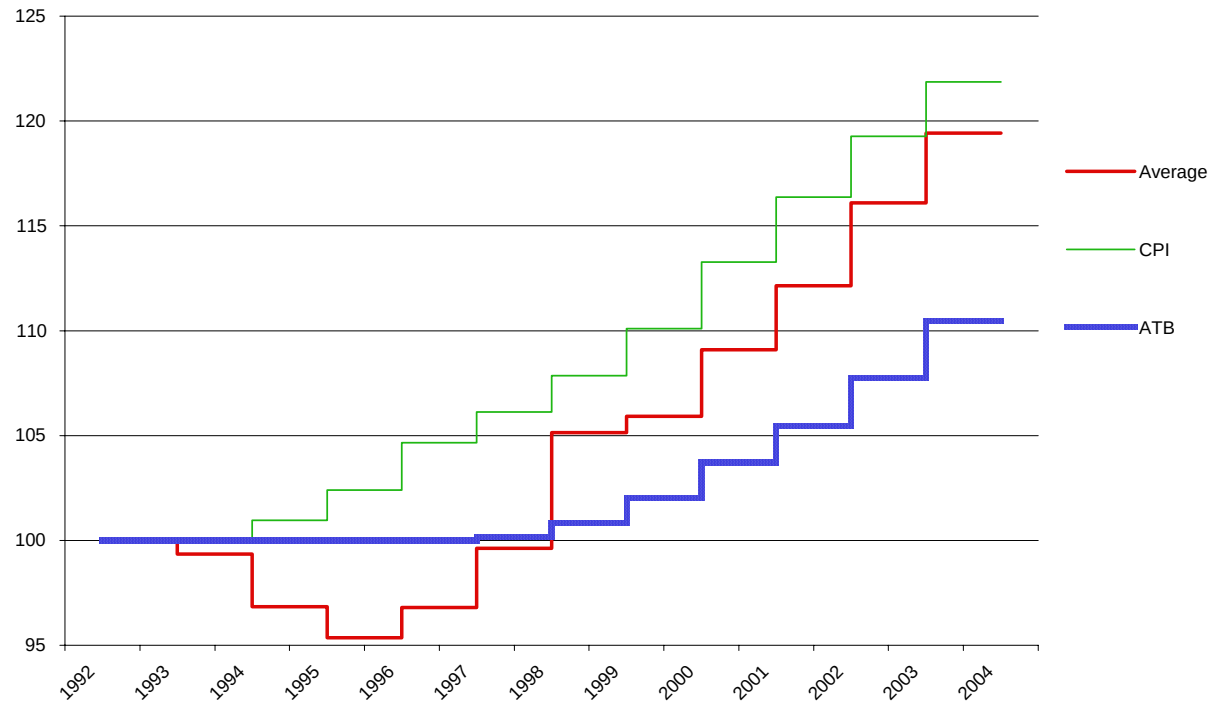
The narrowing of the gap in the early 1990s is particularly noteworthy, as is the widening of the gap since 1995. Indeed, the gap between inflation-adjusted starting salaries and inflation-adjusted cumulative ATB awards is wider now than it has been at any time during the study period.

The effect of this growing gap has been to move starting salaries progressively higher on the notional pay grid for faculty represented by the PTR system.

Chart B-2 (b) 7 focuses on the period since 1992 in particular.

Chart B-2 (b) 7

Average starting salaries, inflation and ATB increases, index 1992-3=100



Neither ATB catch-up nor merit pay pool increases alone will solve this problem. The problem has been created by the combined impact of lower-than-market ATB increases that have effectively moved starting salaries up the pay scale and merit pay adjustments for faculty that have not kept pace with salary increases in the market. A resolution will require both catch-up ATB increases and an increase in the merit pay pool.

The Association's proposal with respect to ATB continues the modest steps towards a rebalancing of the University of Toronto faculty compensation system that began three years ago.

The Association's proposal to increase the merit pay pool by 1% of salary will not solve the problems of salary compression and inversion and below-market salaries for mid-career and senior faculty created by merit pool underfunding over night. It will take several years of merit pay adjustments at this higher percentage of salaries to have a visible impact.

That is why the Administration's proposal as reflected in its exit position in mediation for a one-time-only enhancement of the merit pay pool is not responsive to the salary scale issue. The problem of salary erosion relative to the market in the University of Toronto

PTR system is not going to be solved with a one-time-only merit pool enhancement, especially when it is accompanied by an proposed ATB increase that is below the norm for university faculty in Ontario and below the expected rate of inflation for the agreement period.

(b) Salary Scale

(ii) Joint Working Group re: PTR model

UTFA Proposal:

The parties agree to establish a Joint Working Group to review and report with respect to the PTR model.

Administration Proposal:

The parties agree to establish a Joint Working Group to review and make recommendations with respect to the PTR model.

The parties appear to be in agreement on the establishment of a Joint Working Group on the PTR model.

The Association notes that, during the term of the last agreement between the Administration and the Association, the parties established a working group to consider issues with respect to the PTR system. That working group was not able to reach a consensus on a direction for change, largely because the economic issues addressed in the Association's proposals in this arbitration could not be addressed appropriately in that forum. It is the Association's hope that recognition of the economic issues that underlie the current problems with the PTR system in the next agreement will lay the foundation for a more productive review of the operation of the system.

(b) Salary Scale

(iii) Salary Adjustment Fund

UTFA Proposal:

An amount of 0.5% of total salary shall be set aside for the purpose of addressing salary inversion and anomalies. Allocation shall be retroactive to July 1, 2005.

Salary Adjustment Fund

The need for a salary adjustment fund to address problems of salary equity for faculty, lecturers and librarians at the University of Toronto arises from two factors:

- the exclusive reliance on individual negotiations with faculty for the determination of starting salaries; and
- the interaction of an underfunded merit pay system for advancement within the University's pay structure and the Administration's heavy reliance on retention adjustments in the salary determination process.[7]

(See generally "Salary Adjustments for Academic Staff and Determination of Starting Salary for Faculty, PDAD&C #28, 2002-2003 – Book of Documents, Volume III, Tab 2-G.)

The issue with respect to starting salaries is relatively straightforward. In the University of Toronto system, the most important determinant of an individual's lifetime earnings at the university is his or her skill in negotiating a starting salary. Mistakes are made, either because the faculty member undervalues his or her skills and qualifications or because the faculty member finds himself or herself in a weak bargaining position for other reason. Historically, this has been a particular problem affecting women faculty

[7] The analysis of the need for an anomaly adjustment pool of 0.5% of salary presented here is based on salary data for Professorial Faculty. Analogous arguments apply with respect to Librarians and Lecturers, so that the arguments and conclusions with respect to PTR and Professorial Faculty should be taken as applying to Librarians and Lecturers as well.

members, and most universities have on-going programs for salary adjustment in response to these kinds of issues.

With respect to the impact of retention adjustments on salary equity, it is important to note two features of this system (or non-system, as it should be described). First, these adjustments are not one-time only payments; they are adjustments to the base salaries of the faculty members concerned. As a consequence, these amounts are included in the salary base on which future ATB increases are calculated and accumulate from year-to-year.

Second, these adjustments are not the outcome of a systematic review of the adequacy of salaries at the University of Toronto relative to the market. They are initiated by individual faculty members. Those faculty members who choose to go through the process of obtaining a competitive offer, or of putting together a case for an anomaly adjustment, potentially qualify for these adjustments. Faculty members who simply do their jobs and earn their annual merit pay adjustments do not.

These are not systematic adjustments; they are squeaky wheel adjustments.

As was noted above, over the past few years the cumulative impact of this category of adjustment now represents a substantial share of the total salary budget for faculty at the University of Toronto. As such, it now represents a significant distortion of the pay system at the University.

Impact on the salary structure for faculty and librarians at the University of Toronto

The underlying purpose of the PTR model was to provide for progression of salaries throughout a faculty member's career. While the model is intended to reflect differences in merit, through differences in annual merit adjustments, one would expect in theory to see a strong relationship between faculty salaries and career duration. When we look at the actual data, however, it is evident that distortions in pay introduced by variations in starting salaries over time together with in-career *ad hoc* market-related adjustments for individual faculty members have weakened that relationship.

Retention adjustments are not a substitute for a properly functioning pay system; and do nothing for the faculty who do not receive such an adjustment. The effect is clearly visible in scattergrams linking salary to year of highest degree.

The following charts present the scattergrams for the four major academic divisions: humanities, life sciences, physical sciences and social sciences.

These scattergrams show significant anomalies for all years, but particularly after 1990, reflecting the rapid growth rate of starting salaries relative to across-the-board increases beginning in 1995.

Chart B-2 (b) 8, Humanities

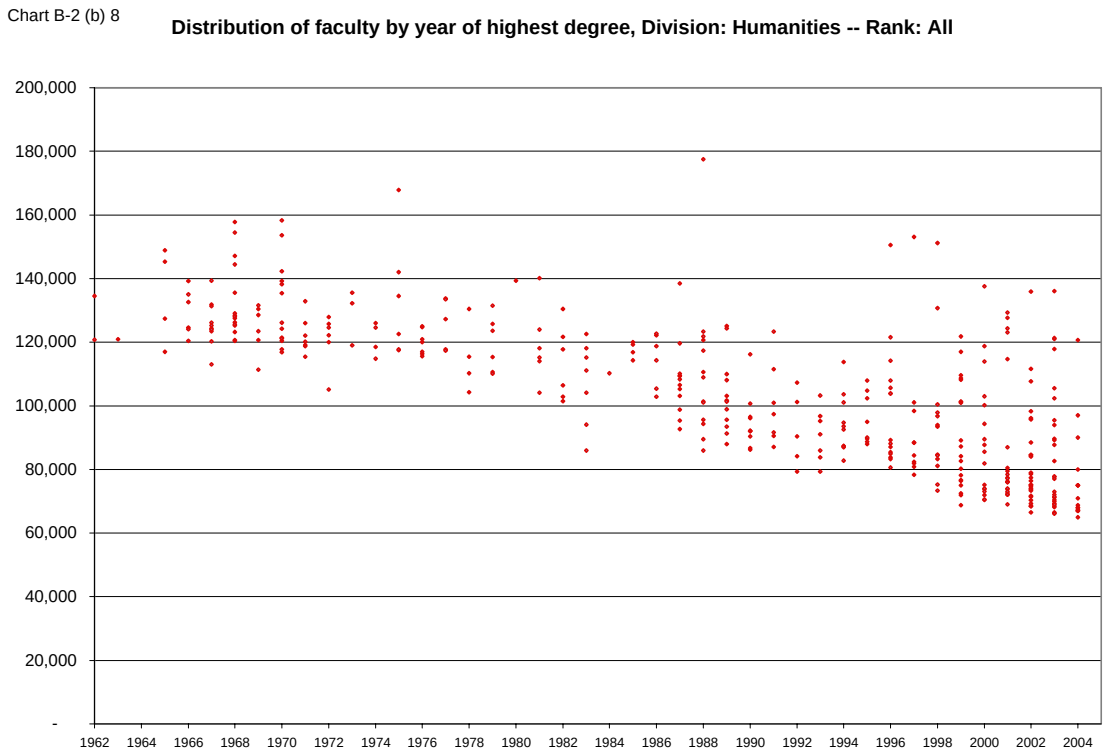


Chart B-2 (b) 9, Life Sciences

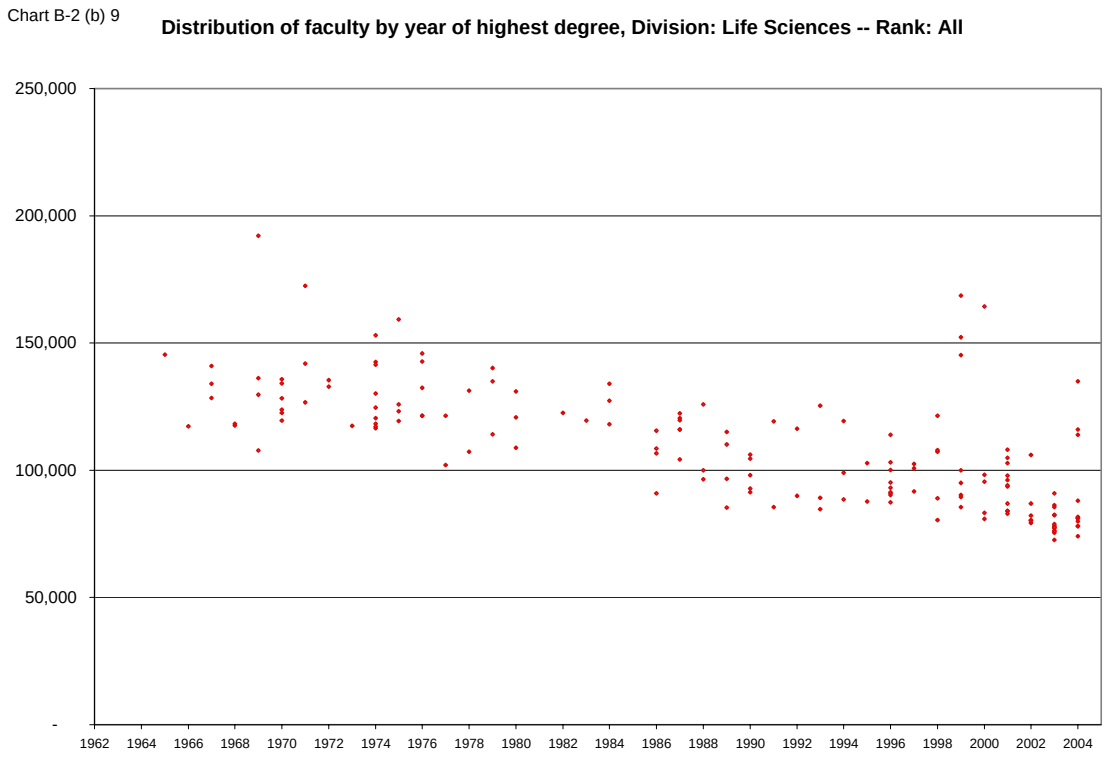


Chart B-2 (b) 10, Physical Sciences excluding engineering and computer science

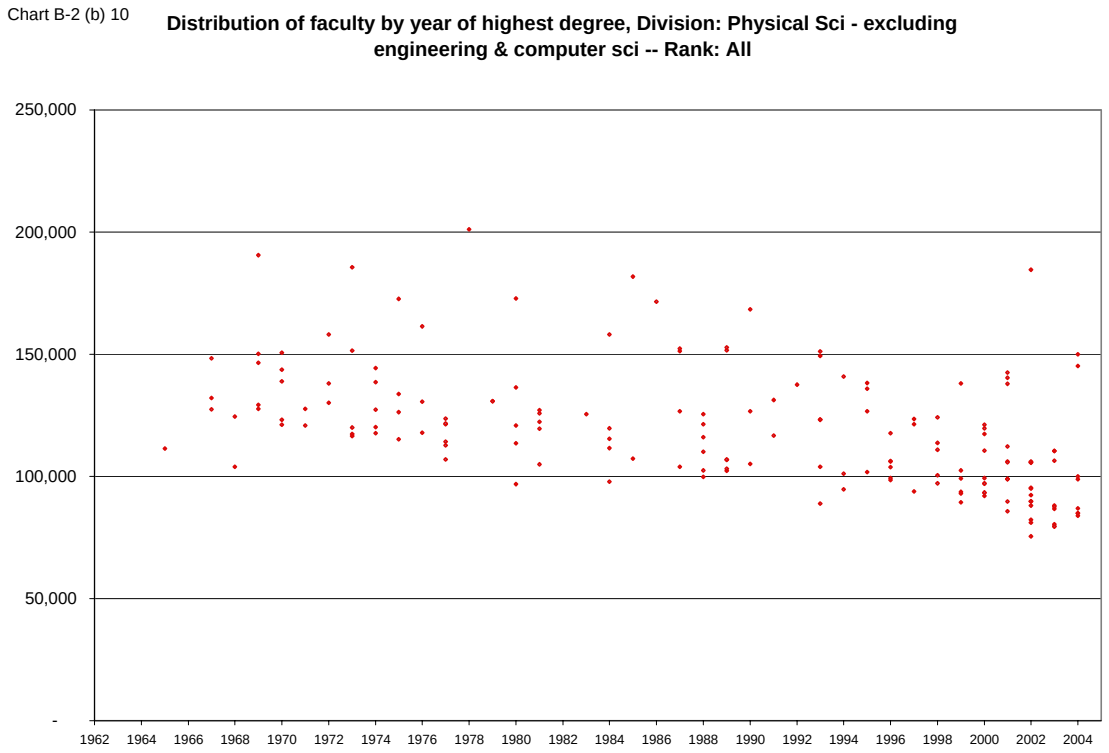
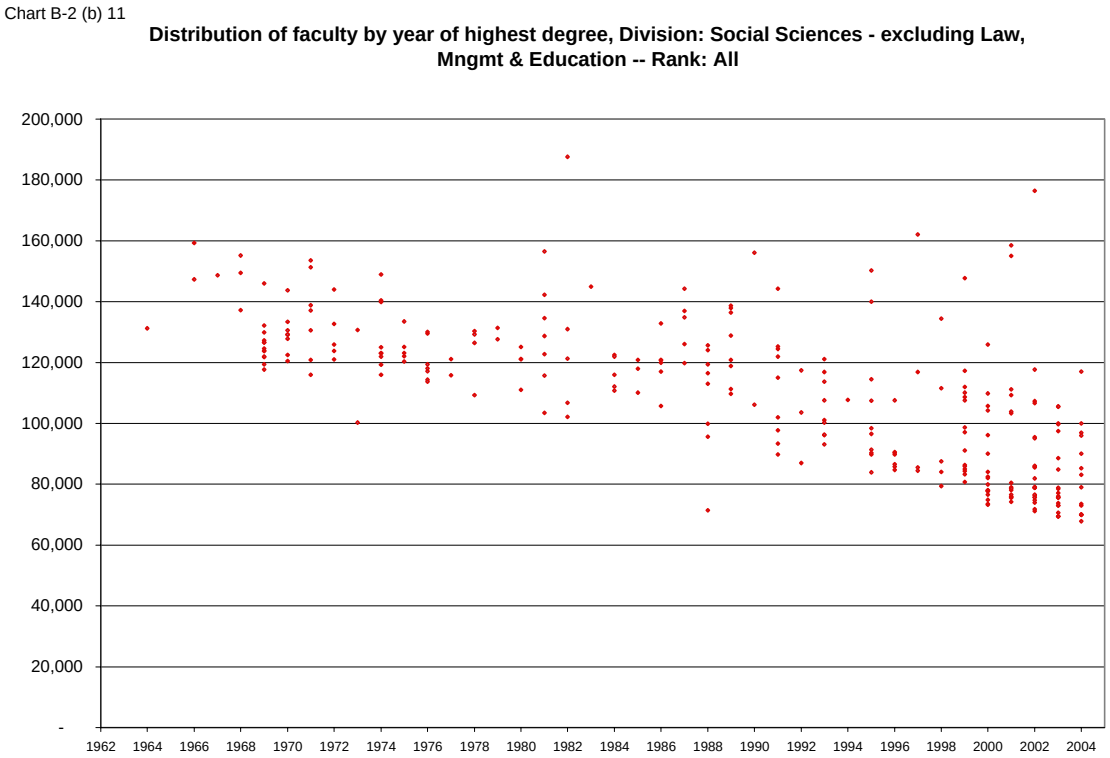


Chart B-2 (b) 11, Social Science excluding education, management and law



These charts show the dispersion of salaries in only the academic disciplines. Spreads are even greater in the professional divisions (Health Sciences, Engineering and Computer Science, Law, Business). In addition, in Management and Law in particular, the distributions show clear evidence of salary inversion.

The fact that there are variations in the salaries paid to faculty in the same division and with the same year of highest degree merely suggests that there are problems with the salary system. It is possible, for example, that these variations may be explained by differences in performance as reflected in merit awards. However, these variations certainly beg further investigation and require an explanation.

Although an allowance of 0.5% of salary as proposed by the Association will almost certainly be insufficient to address fully the situation of now-paid faculty whose salaries are outliers on the low side and reflect anomalies in the salary system, such an allowance will at least permit the Administration and the Association to make a serious start at addressing these anomalies.

The Association believes that it is of crucial importance to allocate funding to stand behind the task of the joint working group on salary anomalies proposed below.

(b) Salary Scale

(iv) Joint Working Group re: Salary Inversion and Anomalies

UTFA Proposal:

A Joint Working Group shall be established effective July 1, 2005 to study the issue of salary inversion and anomalies and to develop a system for rectifying inequities. If agreement is not reached by April 15, 2006 on the mechanism for distribution and/or on the distribution of funds, the issue may be referred by either party to arbitration.

The evidence presented above is clearly suggestive of substantial salary anomalies affecting significant numbers of faculty members.

The current process for addressing these anomalies is totally inadequate. It is ad hoc, discretionary, unfunded and driven solely by complaints from individual faculty members.

Other institutions have succeeded in developing rational models for use in identifying and measuring salary anomalies. Rather than suggest that any one of these models is appropriate for the University of Toronto, the Association is proposing the establishment of a Joint Working Group to analyze the salary data for the University in greater detail, to develop methods for identifying faculty who are low-paid as a result of salary anomalies and to develop a systematic approach to remedying those anomalies.

In contrast with the Association's position with respect to other joint working groups, we are proposing that with respect to salary anomalies:

- that the Joint Working Group on salary anomalies work to a deadline for completion of its work specified in advance;
- that failure to reach consensus on the anomaly process result in a referral of the issues outstanding to binding arbitration; and
- that funding be allocated in advance for increases required to remedy salary anomalies.

We believe that this more rigorous approach is both appropriate and justified with respect to salary anomalies.

Unlike the situation with respect to the broader review of the PTR system, salary anomalies raise a very specific issue – one which will have to be addressed regardless of the future of the PTR system as a whole. It is therefore not unreasonable to expect the Joint Working Group to complete its work by a specified date and to provide for a mechanism for resolving areas of disagreement. The Association is concerned that, in the absence of a specific deadline and a mechanism for resolving disputes, the Administration will simply talk the issue out.

The allocation of funding to begin implementation of an anomaly adjustment system gives added weight to the sense of urgency which we believe should be afforded this exercise and would permit the process of anomaly adjustment to be effective beginning in the current academic year.

(b) Salary Scale

(v) Abolition of Senior Salary Category

UTFA Proposal:

The senior-salary category for faculty and librarians shall be abolished, effective June 30, 2006.

The Association is proposing the elimination of the Senior Salary category in the PTR system.

The Senior Salary category was a late addition to the PTR system. Its existence does not affect the total cost to the University of operating the PTR system. It simply takes the same pool of money that would be available for faculty in the Senior Salary category and establishes a different method for distributing that salary increase money.

The Senior Salary category is significant in two respects. First, faculty in the Senior Salary category receive no ATB salary increase. These faculty members' ATB increase is not awarded to them as individuals; it is pooled with the ATB amounts generated by the Senior Salary category as a group, along with the merit pay allocation for the individuals in the group, and is entirely discretionary.

Second, whereas most of the merit pay allocation for faculty other than those in the Senior Salary category is done at either the departmental or divisional level, the allocation of increases for faculty in the Senior Salary category is done university-wide, by the office of the Provost. Thus while most faculty are awarded merit pay through a comparison with peers in the same or a similar discipline, Senior Salary category faculty are in effect in competition for salary increases with faculty in completely different disciplines. Furthermore, while much of the merit pay of most faculty is determined with some degree of collegial input, all of the merit pay of Senior Salary category faculty – including what would for others be their ATB increase – is at the discretion of the Provost.

The Association believes that this treatment of scholars in the Senior Salary category is both unfair and unjustified. It singles out Senior Salary category faculty as the only faculty members in the University community who are not entitled to an automatic adjustment in their salary to reflect changes in the cost of living. It forces Senior

Scholars – and only Senior Scholars – to compete for their salary increase across the entire University. Furthermore, the Association is unaware any justification – academic or otherwise – for this differential treatment of faculty in the Senior Salary category.

In addition to being unfair to the individuals concerned, the current procedure runs counter to the collegial atmosphere which the University tries to nurture. It separates Senior Salary category faculty from their colleagues, effectively removing them from their departments for salary determination purposes, and it fosters the suspicion that the process serves to favour some divisions of the University at the expense of others.

(b) Salary Scale

(vi) Minimum Salaries for Librarian III and IV, and elimination of salary ceiling on Librarian II

UTFA Proposal:

Librarians: The minimum salary for Librarian III and Librarian IV shall be raised to $62,500 and $75,700 respectively and the salary ceiling for Librarian II shall be eliminated, effective July 1, 2005.

Administration Proposal:

Effective July 1, 2005 the minimum salary for Librarian III and IV to be increased to $62,000 and $75,700 respectively.

Effective July 1, 2005 the salary ceiling for Librarian II will be eliminated.

The parties are in agreement on this issue.

(b) Salary Scale

(vii) Minimum Salary for Lecturers

UTFA Proposal:

The minimum starting salary for Lecturers shall be raised to $60,000, effective July 1, 2005

Administration Proposal:

Effective July 1, 2005 the minimum salary for Lecturers will be increased to $60,000.

The parties are in agreement on this issue.

(c) Per-Course Payments

(i) Overload – minimum rate of pay

UTFA Proposal:

For all individuals in part-time non-sessional appointments (i.e., represented by UTFA), senior research associates, retired faculty and faculty or librarians teaching on overload, the **minimum** rate of pay for each full-course equivalent shall be set at $12,500 effective July 1, 2005.

Administration Proposal:

Stipend Rate

Effective July 1, 2005 the minimum per course stipend rate payable to part-time non-sessional appointments represented by UTFA and faculty members teaching on overload will be increased to $12,500.

The parties are in agreement on this issue.

(c) Per-Course Payments

(ii) PERA

UTFA Proposal:

All part-time faculty represented by UTFA shall receive expense reimbursement pro-rated at 33% per full-course equivalent of the PERA rate effective July 1, 2005.

The Association is seeking 33% of the PERA for each full-course equivalent taught by part-time lecturers up to a maximum of 100% of the PERA paid to full-time lecturers and professors. The new provision is an improvement over the current provision for prorating the professional expense allowance for part-timers. As the Association understands it, the current provision works as follows: Instructors with appointments between 50% and 74% (i.e. teaching between 2.5 and 3.5 full-course equivalents a year) now receive an allowance of $620 per year, 80% of the full-time amount, and those with appointments between 25% and 49% (i.e. teaching between 1.25 and 2.5 full-course equivalents a year) receive an allowance of $387.50 a year, 50% of the full-time amount.

(d) Pensions

(i) Pension Augmentation for Retirees

UTFA proposal:

All retirees shall receive augmentation to their pensions in an amount equal to full inflation catch-up as of July 1, 2005. This applies to all pensions from RPP, OISE and SRA.

Background:

Pensions are not fully indexed for inflation in the pension formula. According to the formula, the purchasing power of pensions will decrease by about[8] 25% of the annual inflation percentage, up to a maximum loss of 4% in any one year. (This means that should inflation exceed 13%, the inflation loss is capped at 4%).

Over the course of many prior settlements between the Administration and the Association, there has been repeated agreement to "augment" the existing pensions by an amount exactly equal to the lost 25%.

The Association's proposal now is that this past practice should become the expected norm.

The Cost Issue:

The Administration (Vice-President Angela Hildyard) has stated in the July 25, 2005 issue of the University of Toronto Bulletin newspaper that:

> Previously, augmentation to 100 per cent of CPI for pensioners has generally occurred when there has been a surplus in the pension plan which has resulted in pension contribution holidays for employees. In other words, augmentation has been a form of surplus sharing. Now, far from a situation of any surplus to share, market constraints and interest rates have created a deficit in the pension plan. There are no longer contribution holidays and the university is required to

[8] The precise cost-of-living adjustment is the greater of (a) and (b), where (a) is the increase in the Consumer Price Index for Canada (CPI) for the previous year minus 4.0% and where (b) is 75% of the increase in the CPI for the previous year to a maximum CPI increase of 8%, plus 60% of the increase in CPI in excess of 8%.

> make significant special payments into the plan for 15 years. Agreeing to augmentation for the faculty and librarians would increase the deficit in the plan by $4.6 million, which would result in an increase to the special payments of $475,000 annually for 15 years. Under the circumstances, the university believes it would be fiscally irresponsible to agree to UTFA's demands for continued pension augmentation in this round of bargaining, particularly in light of the fact that pension augmentation for UTFA members already goes beyond that for all other employee groups at the university.
>
> See Book of Documents, Volume III, Tab 3-A.

We beg to differ.

(a) Contribution holidays. One need only look at the many pension contribution holidays taken by the Administration since 1987, to realize that for years the monies designated for the pension plan were used as a cash cow to fund other University expenses. The cumulative total of all these "holidays" over the past 18 years, in today's dollars, now exceeds one billion dollars. Column [9] in the following table shows how this cumulative sum, as of July 1, 2005, has compounded to $1,121 million[9].

It is true that, for some of those years, employees were also able to negotiate a contribution holiday (at the expense of other benefits). Column [7] shows that the corresponding cumulative value of the employee (faculty and all support staff) holidays is $166 million or about 15% of the value for the employer.

[9] Please note that this sum includes ALL members of the pension plan, not just faculty and librarians. There is no separate data for only faculty and librarians.

November 22, 2005

The U of T Pension Plan - Update of Data Summary (for UTFA SB&P Report #5)

(All dollar figures are totals for both faculty and support staff at U of T)

[1] Academic Year to July 1	[2] Assets Market Value $ in Mil	[3] Liability Actuarial Value $in Mil	[4] Market minus Liability $ in Mil SURPLUS	[5] Market minus Liability $ in Mil DEFICIT	[6] Member - Holiday Yearly $ in Mil	[7] Member - Holiday Cumulative $ in Mil	[8] Uof T - Holiday Yearly $ in Mil	[9] Uof T - Holiday Cumulative $ in Mil	[10] Actual Market Return Rate	[11] RPP Cost (Fees) $ in Mil
1987	805	614	**192**		2	**2**	14	**14**	**13.2%**	**1.3**
1988	801	689	**112**		1	**3**	27	**40**	**0.3%**	**1.5**
1989	890	766	**125**		2	**5**	29	**78**	**12.8%**	**1.9**
1990	888	845	**43**		6	**12**	31	**111**	**1.9%**	**1.7**
1991	944	870	**75**		0	**13**	29	**151**	**8.2%**	**1.8**
1992	1,061	1,032	**30**		4	**19**	10	**179**	**11.2%**	**1.9**
1993	1,209	1,110	**98**		0	**21**	22	**229**	**14.0%**	**1.9**
1994	1,260	1,202	**58**		0	**22**	37	**276**	**3.5%**	**2.2**
1995	1,408	1,244	**164**		-1	**24**	36	**355**	**14.0%**	**1.6**
1996	1,549	1,249	**300**		-1	**26**	31	**434**	**12.6%**	**2.3**
1997	1,848	1,437	**412**		0	**32**	31	**564**	**21.3%**	**2.6**
1998	2,039	1,503	**535**		15	**54**	31	**682**	**14.6%**	**4.8**
1999	2,009	1,594	**415**		18	**73**	32	**728**	**2.0%**	**4.4**
2000	2,259	1,680	**579**		19	**108**	33	**890**	**16.9%**	**4.9**
2001	2,063	1,771	**292**		21	**122**	35	**878**	**-5.1%**	**8.6**
2002*	1,940	1,906	**34**		10	**130**	35	**894**	**-2.4%**	**11.8**
2003	1,863	2,067		**-204**	0	**130**	2	**894**	**-0.3%**	**12.6**
2004*	2,112	2,225		**-113**	0	**150**	-7	**1,023**	**15.4%**	**13.1**
2005*	2,321	2,407		**-86**	0	**166**	-12	**1,121**	**10.9%**	**14.4**

* => with plan changes

This raw data in the above table comes from the official annual actuarial reports for the University of Toronto Registered Pension Plan (RPP), prepared by Hewitt Associates.

> See Book of Documents Volume III, Tab 6.

It should be noted that very recently the Administration decided that in the future, rather than take contribution holidays due to a temporary surplus, the monies should be set aside in a separate account. In a January 12, 2004 memo to Business Board of Governing Council, Ms. Sheila Brown made a number of recommendations, one of which was:

> Continue to set these funds aside, regardless of Income Tax Act restrictions. If not permitted to make contributions to the RPP, reserves should be set aside outside the RPP.
>
> See Book of Documents, Volume III, Tab 3-B.

We can now only wish they had done that years ago.

(b) Changing Assumptions. It is well known that pension surpluses or pension deficits in a defined benefit pension plan can be made to increase or decrease by simply changing the actuarial assumptions. Recently the investment return rate assumption was *decreased* from 7.0% to 6.5% (while at the same time reducing the inflation assumption from 3.0% to 2.5%, thereby keeping the *real return* at the same 4%). This reduction in the future value of today's assets results in an increased liability. This in turn results in increased deficit (or reduced surplus) in the RPP. Similarly, the recent 0.5% increase in the assumed merit and promotion portion of future salaries would also tend to increase the plan liability and so take away from any apparent surplus.

During the last two years the pension plan return (see column [10] in the above table), at 15.4% and 10.9%, have been well in excess of the assumed 7% or 6.5%.

(c) Increasing Expenses. Pension plan expenses have increased dramatically in the past four years. This past year they stood at $14.4 million. Prior to 1998 they never exceeded $3 Million. The expenses from year to year are shown in the above table in column [11].

A substantial part of this increase in expenses, but not all, was for the newly created UTAM (University of Toronto Asset Management Corporation) created in 2000-2001 to actively manage university assets (pension assets, endowment assets and cash assets). The Association was not consulted in this matter although the deferred compensation monies (the pension assets) of its members were involved.

There is no statistically compelling evidence that UTAM has added value in excess of its own costs. Many academic studies prove that on average such active management costs will exceed any added investment gain. In the words of Nobel Prize recipient for financial economics, Merton Miller:

> Most pension fund managers cannot even reasonably hope to do any better than a passive fund. And, on a risk adjusted basis, they don't! I believe that data are quite strong on this.
>
> See Book of Documents, Volume III, Tab 3-C.

Furthermore, a May 5, 2005 National Post article suggests that UTAM spent over $1 million in buy-outs for their staff reorganization alone.

> See Book of Documents, Volume III, Tab 3-H.

Our point is that the Administration is the author of its own pension deficit situation and that pension benefit improvements should take priority over such unwarranted pension expenses.

(d) Indexation, actual vs. assumed. The July 1, 2005 Hewitt actuarial report, on page 20, has the following text:

> Benefit entitlements for retired and terminated vested participants as of July 1, 2005 increased by 1.58%. The increase was lower than the 1.875% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of $3,422,000.

In other words the plan set aside more funds for inflation than was necessary in 2004-2005. The result was that the pension plan gained a windfall of $3.4 million.

Surely these funds could be used to help pay for full indexation.

Similar and even larger surpluses were returned to the fund in previous years when the assumed inflation rate was 3% (before it was reduced to 2.5%). The document at Tab 3-I, Book of Documents, Volume III presents data that was exchanged by the two parties on this topic during mediation in May, 2005.

(e) Help from the SRA. The Supplemental Retirement Arrangement (SRA) and Registered Retirement Plan (RPP) dovetail with each other. The SRA picks up from the salary cap in the RPP and extends the salary limit to $150,000. The RPP limit was frozen for a number of years. But now, as a result of the February 2005 Federal budget announcement, there will be a new schedule such that the maximum per year of service benefit will be increasing from $2,0000 in 2005 to $2,444.44 in 2009, with increases of 3.5% per annum thereafter.

This means that benefits previously covered by the SRA will now be shifted into coverage by the RPP coverage. (Note that if the SRA limit is not increased beyond the $150k cap, in due course the RPP limit could exceed the SRA limit. At that point the SRA is redundant for active faculty.)

It is important to realize that this increased liability (for exiting staff) in the RPP has already been funded via the funding in prior years for the SRA. As of July 1, 2005, this RPP limit change, together with the actuarial assumption changes, resulted in a reduction of about $21.1 Million in the accrued liability for active (non-retired) participants in the SRA.

In other words what was a prior SRA pension liability has now been transferred to the RPP. Because the funds to cover the SRA liability were left in the SRA account, the SRA now has a market surplus of $17.7 Million. This $17.7 surplus does not have any of the restrictions of an RPP. It is not restricted and thus it now becomes free money for the Administration to use as it sees fit. A further annual windfall comes from the fact

that the annual service cost for the SRA has decreased from $1.4 Million (a year ago) to $0.4 Million now.

Surely some of the current $17.7 million surplus in the SRA is available to provide the 100% indexation of the pension plan

(f) USWA Pension Improvement. All University of Toronto staff, be it faculty or librarians or support staff, all belong to one common RPP. There are about 7,500 active (non-retirees) participants in the RPP. This means that about two-thirds of the members in the RPP are non-UTFA members.

USWA members are a substantial portion of the non-UTFA participants in the RPP. Information Request #224 (IR-224 – see Book of Documents, Volume III, Tab 3-D) for the recently concluded settlement with USWA (as a result of a real strike threat), indicates that the Administration was willing to increase the RPP Accrued Liability by $9.7 Million to improve the pension benefits of the USWA members. It also increased the annual service cost for the University by $354,000.

The Administration must not be allowed to increase the pension plan benefits for one group of participants in the plan and then at the same time claim it cannot afford improvement for another group because the plan is now in deficit.

Most of the pension plan asset base resides with the faculty and librarians. We believe the Association's members are entitled to an equivalent pension improvement.

Conclusion. Surely the Administration should be willing to provide significant pension improvements for its retired pensioners, many of whom never saw a contribution holiday and whose dutiful participation in the RPP made the immense surpluses available to the Administration.

(d) Pensions

(ii) Benefits for pre-1981 Retirees

UTFA proposal:

Faculty and librarians who retired before 1981 shall have the same benefits as those who retired during and after 1981, effective January 1, 2006.

Until very recently faculty and librarians who retired prior to 1981 (the “pre-1981 class”) had no health or dental benefits. Those that retired after the 1981 cohort were given full parity with active staff with respect to extended health and dental benefits go.

The pre-1981 class now made up of very elderly retirees. These retirees are in their late eighties or older by now, and their numbers are also rapidly diminishing. In May of 2005 there were 158 individuals in this group plus another 25 with spouses, giving a grand total of 208 beneficiaries in the group.

In the last round of negotiations a Health Care Expense Account was established for the first time for each subscriber providing an annual allowance of $1,000 per survivor or single pensioner or $1,500 per pensioner with spouse or partner.

The usage of this account has been very minimal. In 2004, 1,045 claims made against these accounts for a total cost to the University of $62,443.

The Association believe that this elderly group, who for more than two decades were treated as second class retirees, should be given full parity with all the other retired faculty and librarians.

(d) Pensions

(iii) Commuted Pension Choice

UTFA proposal:

At the time of retirement, individual faculty and librarians shall have the option of receiving a monthly pension or a lump-sum payment equal to the commuted value of the individual's pension. Those who opt to receive the lump-sum payment shall be eligible to receive benefits on the same basis as those receiving a monthly pension.

The present policy discourages individual faculty and librarians from using the commuted value option at the time of normal retirement. Only as a result of negotiations was this option available under VEARP (the Voluntary Early Academic Retirement Program) and more recently it will be available for pre age-65 retirees under the new "Agreement to End Mandatory Retirement".

At present, if an age-65 or older retirees wish to receive the commuted value of their pension account, they must resign from the University. At that point the plan document provides for four pension options, one of which is the commuted value.

However, by resigning one severs ones other relationships with the University and so one must walk away the regular retiree benefits. This is the penalty that the current system extracts if you wish to exercise the commuted value option. The Association believes this should be corrected.

Why should extended health and dental benefits be tied to a particular form of receiving your pension benefit? The Association submits that the current practice is discriminatory and should be terminated.

In the future all retirees (early, phased, regular or late) should be given the commuted value option on the same basis as those taking the monthly-pension option.

(d) Pensions

(iv) Commuted Pension Information

UTFA proposal:

The commuted value of the pension for individual faculty members and librarians shall be included in the annual Benefits Statement along with an explanation of what commuted value means and how interest rate changes and other relevant factors may change the amount.

Administration proposal:

The University agrees to provide in the annual Pension and Benefits Statements for faculty members and librarians an estimate of the lump sum termination value of the pension as of the end of the Plan year, beginning with the Statement as of June 30, 2006. The University and UTFA agree to work towards ensuring that plan members understand that this estimated value is not a guarantee of the amount the member would receive if they terminated from the University.

The Association believes the Administration has already agreed to this information request on behalf of our membership.

(d) Pensions

(v) Joint Working Group re: Pension

UTFA proposal:

The parties agree to establish a Joint Working Group to investigate and report with respect to alternative pension arrangements, including design, eligibility, transition, and a framework for its introduction. Each party will include its respective actuary or pension consultant as a member of the Working Group.

The parties appear to be in agreement on this matter - See below – item 4(v).