McGill University's Pension Plans: A Comparative Summary

McGill University maintains two different pension plans—Plan A and Plan B—under the auspices of the McGill University Pension Plan (MUPP), which is the pension plan covering all of McGill's permanent employees except those in the Service Employee Union. Important to understanding these plans are the concepts of ***defined contribution*** **(DC)** and ***defined benefit*** **(DB)** retirement plans. In a defined contribution plan, employees and the employer contribute money into an investment account comprised largely of equities and bonds. Consequently, these holdings benefit from rises in the market, but they are also susceptible to market crashes. This means that the risk is borne entirely by the employee, both during the employee's years of employment as a contributor to the plan, and at retirement when the employee seeks to access their investment account for retirement purposes. So, for example, individuals retiring in 2009 with a pure defined contribution plan would have had about half the retirement funds available for retirement than they had in 2007.

By contrast, in a defined benefit plan, the employer guarantees a minimum payment or income on retirement—usually 70% the average salary of the employee's five best years in terms of earnings--meaning employees in a defined benefit plan are not subject to the risk of the market upon retirement. The employer bears the risk. During an employee's years of employment as a contributor to the plan, the risk is shared between employer and employee.

McGill's Plan A is a "hybrid" plan: it is fundamentally a defined contribution plan, but with a defined benefit minimum to provide some measure of protection against market failure. McGill's Plan B is a pure defined contribution plan. Employees who joined the MUPP prior to 2009 are on Plan A. So, during a Plan A employee's working life, market risk is shared between the employee and McGill. Upon retirement, this risk transfers solely to the employee. However, employees who joined the MUPP during or after 2009 are on Plan B. Plan B is a purely defined contribution plan, meaning it includes no minimum benefit guarantee on retirement and market risk is borne entirely by employees both before and during retirement.

While Plan A is superior to Plan B, both are significantly below the standard of plans at other leading universities and law schools (see the table below). Comparing McGill and UdeM, UdeM contributes on average 3.53% more per year to its professors' pensions (11.33% vs 7.8%), and bears the full risk of market failure on retirement. Our actuary and pension experts advise that, on assumptions favouring McGill, the better risk profile alone for UdeM professors translates to a net benefit of 3-5% per year.[1] **Adding together the value of the UdeM DB plan's assumption of risk on retirement (+3% to 5%/year) and UdeM's greater employer contributions (+3.53%/year), UdeM's DB pension gives UdeM professors 6.53-8.53% more per year in compensation than McGill professors. With UdeM full professors of law enjoying salaries now slightly ahead of law colleagues at McGill,[2] this means that UdeM law professors are making on average 7-9% more per year than their McGill counterparts.**

Maintaining two distinct types of plan based on time of hiring, as McGill does, is not common. It makes plan management significantly more complex, and in Quebec such arrangements have been illegal since 2018. This is especially notable given the fact that the demographic history of

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[1] The estimate is based on, roughly, the value of a DB plan less the cost to McGill retirees of buying a guaranteed annuity at retirement (an annuity takes on the risk in a manner similar to a DB plan) subtracted from the value of a DC plan using favourable market assumptions.

[2] https://docs.google.com/spreadsheets/d/1tNI2m79HVoyXigxJvG9s8_3VlAGJZrro4UeCElX1KAA/edit?gid=1883335452#gid=1883335452

the legal profession means that the vast majority of law professors who are members of marginalized groups were hired in 2009 or later, and accordingly discrimination based on time-of-appointment is also implicitly serving to discriminate against equity-seeking identities.

A comparison of McGill's retirement plan with other leading universities

	McGill	**UBC**	**York U / Osgoode Hall**	**U of T**	**UdeM**
Type of Plan	Pan A: DC with DB min Plan B: DC	DC with variable pension option	Hybrid: DC with DB minimum	DB	DB
Employer Contribution	7.8% average	9.25% average	8.1% average	10.5% average	11.33% average
Risk Profile	Plan A: Risk shared during career, on employees in retirement Plan B: Risk entirely on employees before and during retirement.	Risk on members individually during career; collectively on members in retirement.	Risks largely borne by the employer at all times.	Risk shared between employer and employees prior to retirement; by employer after retirement.	Risk shared between employer and employees prior to retirement; by employer after retirement.
Notes	While this table is a summary, in a fuller actuarial analysis of all these plans, they were all better than or equal to the MUPP in every area.	Similar to McGill Plan B, but option of variable pension where funds are exchanged for a lifetime monthly income that pools risk with other retirees.	Shortfalls contributed by employer. Pension at retirement increased if DC investments do well, cannot be decreased - lifetime guarantee plus benefits from market increases.	Indexation funded, but not guaranteed. Employer funds shortfalls through 2031, shared funding by 2041. Risk pooling across members.	Unfunded liabilities shared between employees and employer before retirement. Benefits secure and cannot be reduced at retirement.

McGill is also unusual in its increasing plan contribution rates with age, which limits the ability of employees to capitalize on the compounding interest of early investments. If McGill funded a constant 7.8% rate throughout a full career, it would cost them no additional money but would increase employees' retirement savings by an estimated 13% after a full career.

Possibly more concerning still, it is very difficult to obtain details from McGill about the MUPP. Many other universities and public institutions publish financial records online and/or provide them directly to faculty associations. McGill is at best doing the bare minimum of what is legally required with regards to disclosing records to members of the MUPP, such as only opening records to those able to physically visit their offices to view paper copies. A recent request for historical data was simply denied and referred to McGill's Office of Labour Relations and Human Resources.

There is even more secrecy around the pension plan offered to McGill's senior executives, the Supplemental Executive Retirement Plan, as its terms are not disseminated publicly. In broad terms, executives of the university are given additional payments to compensate for the fact that the *Income Tax Act* limits pension contributions for those at higher incomes. Such additional payments are not available to other employees, even those earning more than the *Income Tax Act* threshold.

The minimal involvement of employees and bargaining agents in McGill's plan management is also well outside the norm in the Canadian university sector: in a 2021 CAUT study, 68% of defined benefit plans involved trustee boards with members appointed by employees and/or unions. This lack of stakeholder involvement and limited disclosure increases the risk of concealing mismanagement, errors, or other financial problems with the MUPP.

The terms of the plan can be changed at any time at the discretion of the university. Unlike at many public institutions, McGill does not include the terms of the MUPP in collective agreements with unionized employees. Rather, unionized employees that do have access to the MUPP (AMURE and MUNACA) are merely guaranteed consultation on amendments. By contrast, members of the Service Employee Union have a separate pension plan, and its terms are explicitly included in their collective agreements and cannot be unilaterally amended.