

## McMaster Description on How Commuted Values are Calculated

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A commuted value represents the lump sum present value of the pension you would otherwise receive as a monthly payment for your lifetime upon retirement.

Commuted values are calculated using the assumptions prescribed under the Pension Benefits Act (Ontario).

The interest rate used to calculate a commuted value is based on yields on long-term Government of Canada bonds and hence can change from month to month. When the commuted value interest rate increases the commuted value will decrease, and conversely, when the commuted value interest rate decreases the commuted value will increase.

The pension plan provides post-retirement indexing based on the excess of the 5-year average of the annual rates of return earned by the pension fund over 4.5%. This indexation formula is included in the calculation of a commuted value. When determining a commuted value, our actuaries assume the 5-year average of the annual rates of return on the pension fund will be same as the commuted value interest rate and therefore reflect the value of the post-retirement indexing provision in the commuted value if the commuted value interest rate exceeds 4.5%. For example, if the commuted value interest rate is assumed to be 5.5%, the commuted value calculation would have assumed a 1.0% average annual increase in the Member's pension.

The mortality table used to calculate a commuted value is the 1994 Uninsured Pension mortality table with projection scale AA applied to 2020 "UP94@2020".<sup>1</sup> Based on blended mortality rates the life expectancy at sample ages are as follows:

<u>Age</u>	<u>Life Expectancy</u>
55	29.4 years
60	24.8 years
65	20.6 years

A commuted value takes into account the death benefits payable under the McMaster University Salaried Pension Plan in the event of your death either before or after retirement. For example, the commuted value reflects the guarantee that your pension will continue to be paid for 7 years following retirement. The commuted value calculation also takes into consideration the life expectancy of a Member's spouse (if applicable), if the spouse's life expectancy is expected to be greater than that of the Member's.

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<sup>1</sup> The Pension Benefits Act (Ontario) requires that the gender of a member not to be taken into account when determining commuted values. Therefore a unisex blend of 50% of the male rates and 50% of the female rates from the UP94@2020 mortality table is used to calculate commuted values under the McMaster pension plans.