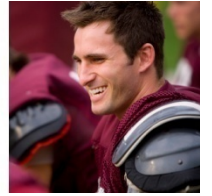


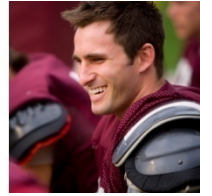
TMG Annual Salary Review Information Sessions

July 2010

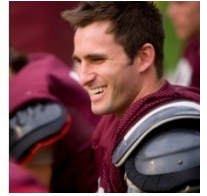


Agenda

- Current context
- Process
- Approved changes for 2010/2011

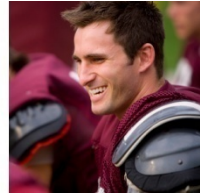


Current Context



Context for the 2010/11 Budget

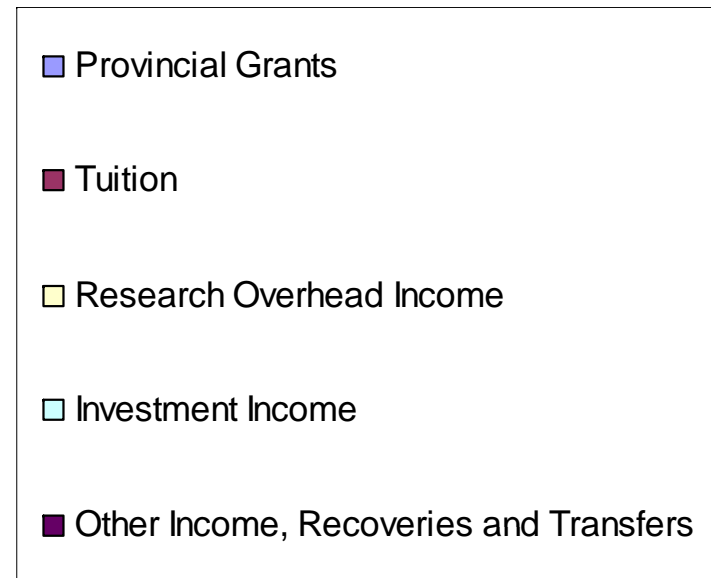
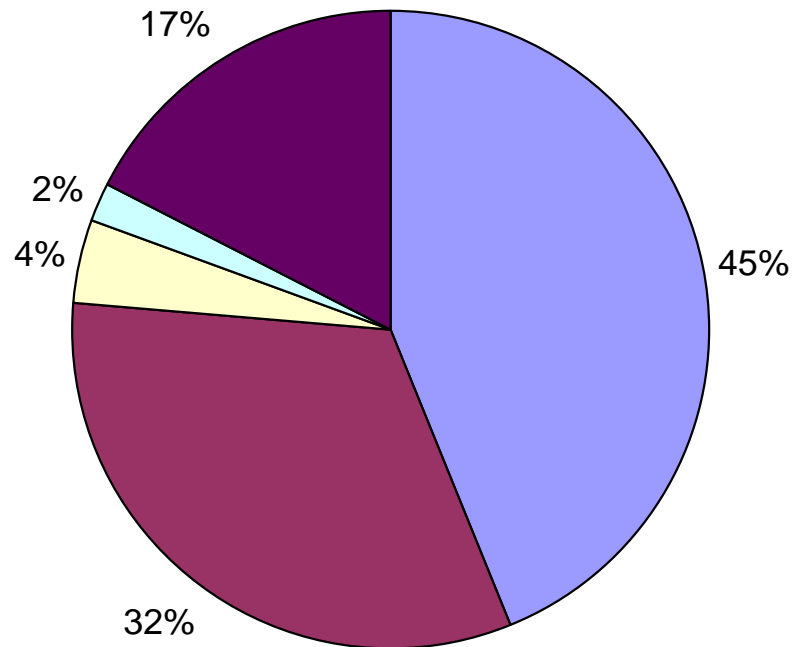
- **Uncertainty in Revenues**
 - *Provincial funding announcements*
 - *Tuition framework set by the Province*
 - *Slip-year funding was introduced to increase certainty*
- **Cost pressures -- Examples**
 - *Continuing volatility in financial markets*
 - *Weakened overall financial position over the last two years*
 - *Unfunded liabilities in pension and post-retirement benefit plans*
 - *Insufficient funding for indirect costs of research*
 - *Salary/benefits costs*

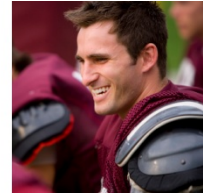
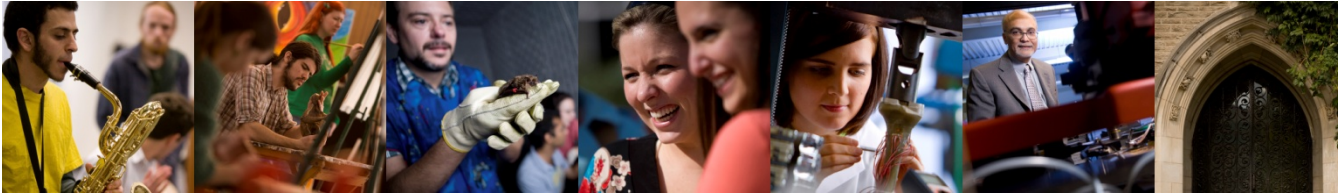


2010/11 Operating Revenue

- \$487.9 million, increase of 4.8%

Operating Fund Sources of Funding 2010/11 Budget

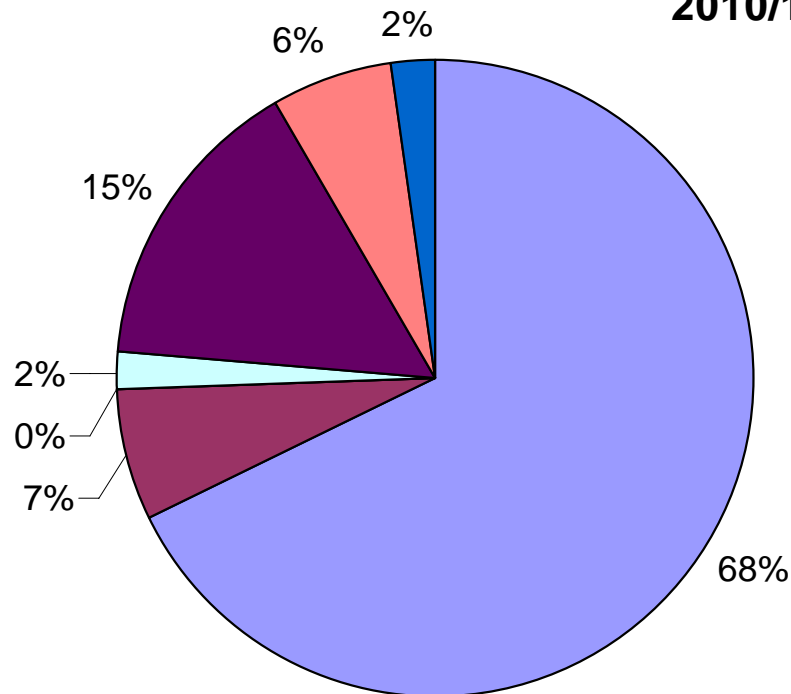




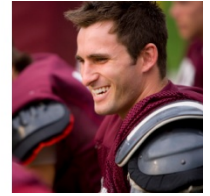
2010/11 Operating Expenditures

■ \$495.7 million, increase of 3.8%

Operating Fund Expenditures 2010/11 Budget




- Salaries, wages and benefits
- Utilities and maintenance
- Capital projects
- Library acquisitions
- Supplies and other expenditures
- Scholarships, bursaries and work study
- Debt and financing charges

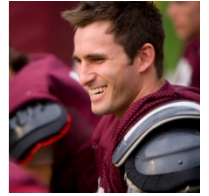


2010/11 Operating Budget Financial Plan

(\$ thousands)

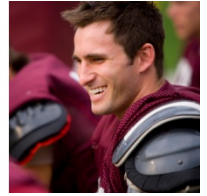
	<u>2009/10</u> <u>Projection</u>	<u>2010/11</u> <u>Budget</u>
<u>Ongoing:</u>		
Framework revenue	376,930	390,701
Other income	89,166	96,509
Total revenue	466,096	487,210
Expenditures	447,342	479,041
Surplus (deficit)*	18,754	8,169
<u>One-time:</u>		
Framework revenue	4,010	0
Other income	(10,813)	57
Total revenue	(6,803)	57
Expenditures	30,326	16,623
Surplus (deficit)	(37,129)	(16,566)
 Total surplus (deficit)*	(18,375)	(8,397)
Opening appropriations	67,381	49,006
Ending appropriations	49,006	40,609

*Including transfers to other funds



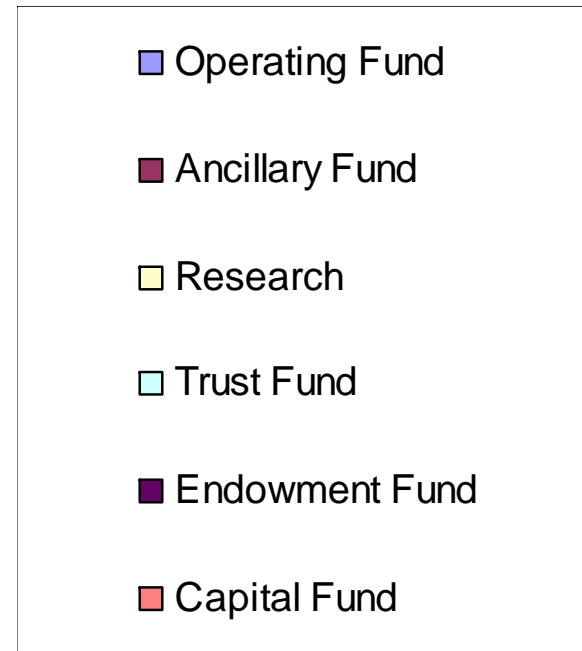
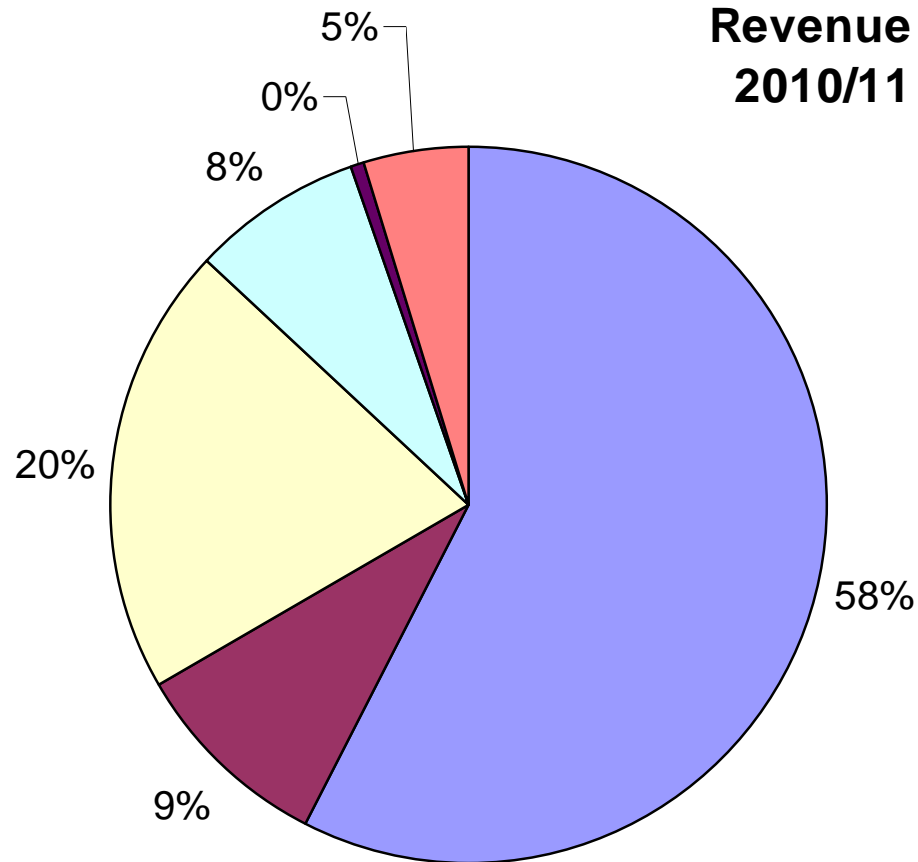
2010/11 Operating Budget One-time Costs \$16.6 million

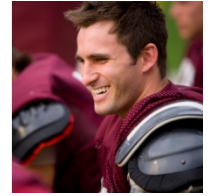
- \$7.6 million equipment and renovations
- \$5.1 million special projects/specifically funded accounts
- \$1.8 million final payment of undergraduate retention awards
- \$1.5 million business process renewal, system redesign and upgrades
- \$0.7 million graduate awards from one-time funding



2010/11 Consolidated Budget Other Funds

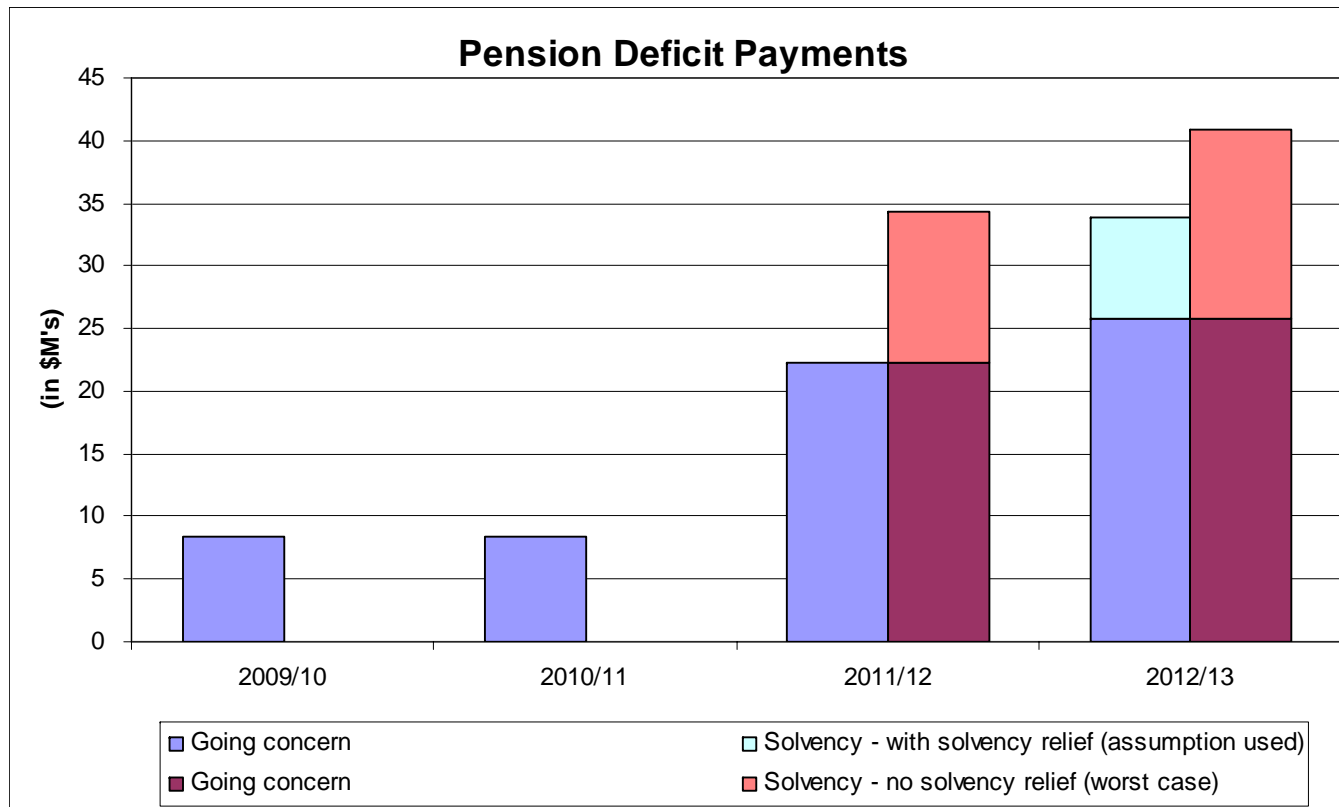
Revenue by Fund
2010/11 Budget

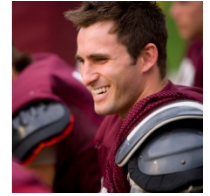




Looking forward - 2012 onward

- Pension deficits
- Pursue pension solvency relief measures

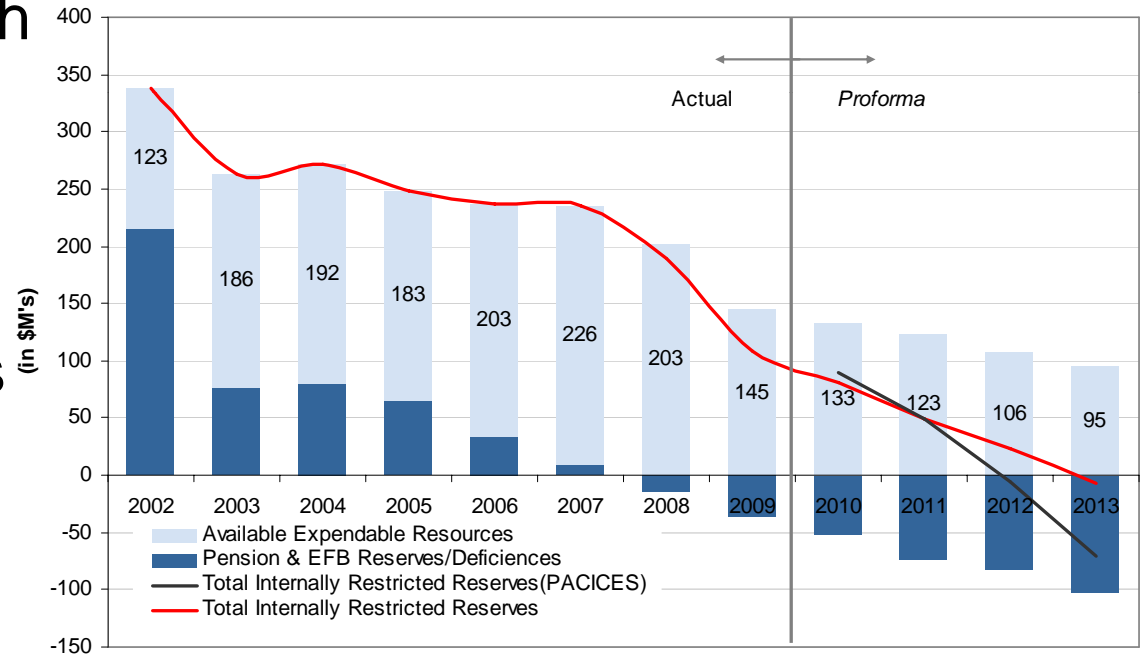


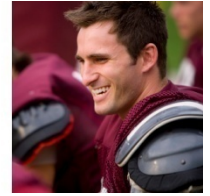


Looking forward - 2012 onward (Continued)

- Undergraduate growth
- Tuition framework
- Province's online University
- Strategic investments in technology
- Liquidity management/market volatility

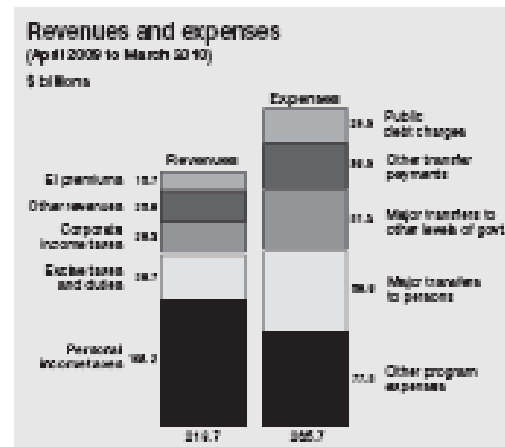
Available Expendable Resources and Reserves



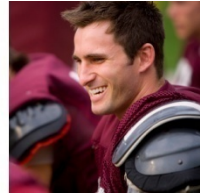


Financial Context - External

- Federal Government
 - Budgetary deficit of \$47.0 billion for the period April 2009 to March 2010 (source: <http://www.fin.gc.ca/n10/10-053-eng.asp>)

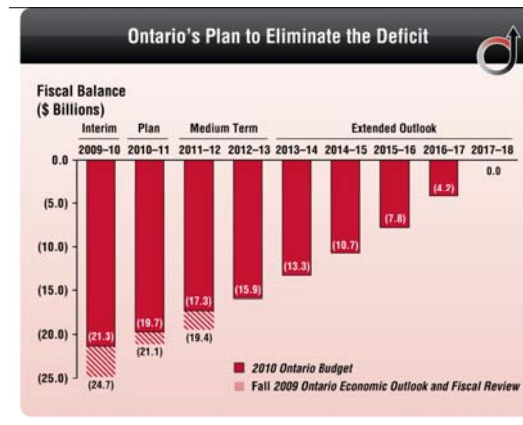


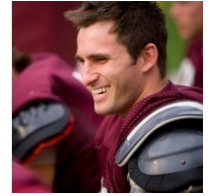
- Accumulated deficit of \$463.7 billion (March 2009)



Financial Context - External

- Provincial Government
 - Deficit projections:
 - 2009-2010 - \$21.3 billion
 - 2010-2011 – 19.7 billion
 - Accumulated deficit
 - 2008-2009 interim - \$109.5 billion

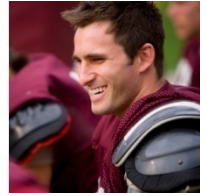




Financial Context

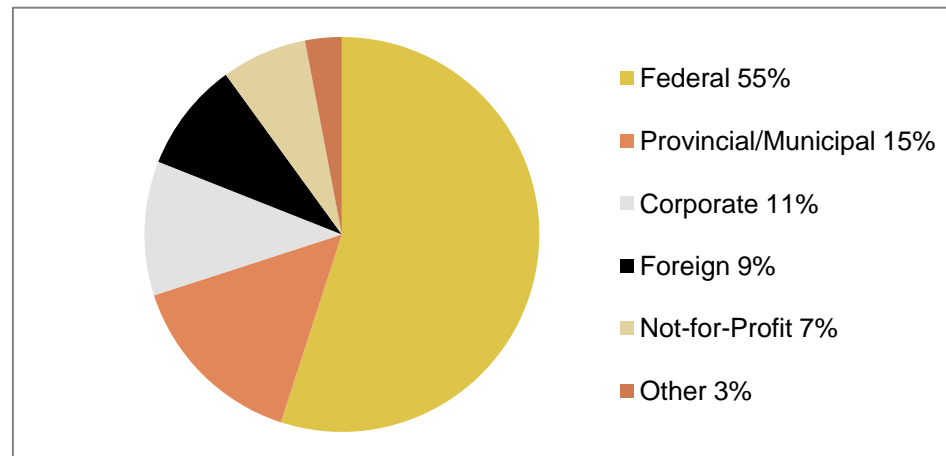
- Research Funding

Research Revenue Recognized	2007/2008 (\$ millions)	2008/2009 (\$ millions)
Federal Government	103.9	100.2
Province of Ontario	9.2	16.6
Other Sources	66.0	57.4
Total Research Funds Received	179.1	174.2
Less: Amount deferred to future	(38.5)	(19.5)
Total Research Revenue	140.6	154.7
Total Revenues	735.0	731.8
Total Research Funds Received as a % of Total Revenues:	24.4%	23.8%

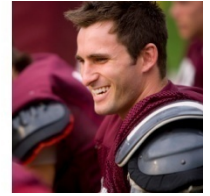


Financial Context

- Sponsored Research Income
 - 2007/2008:
 - \$377 million
 - \$194 million (excluding affiliated hospitals)



- Currently 2nd in Canada



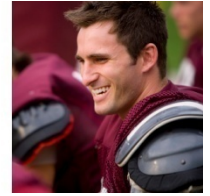
Asset Performance

- TSX:
 - The primary barometer of overall stock market performance is the S&P/TSX Composite Index (the TSX)
 - Performance:

2008:	-33%
2009:	+35.05%
2010:	3.14% (first quarter)
	-5.51% (second quarter)

A note about performance:

- If you start with a \$100 investment and you lose 33% in the first year, you're left with \$67.
- If, in the next year, the gain is 35.05%, your total is \$90.48.
- Overall, you have 9.52% less than your initial investment.



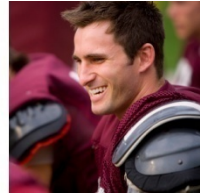
Asset Performance

- Pension Plan:

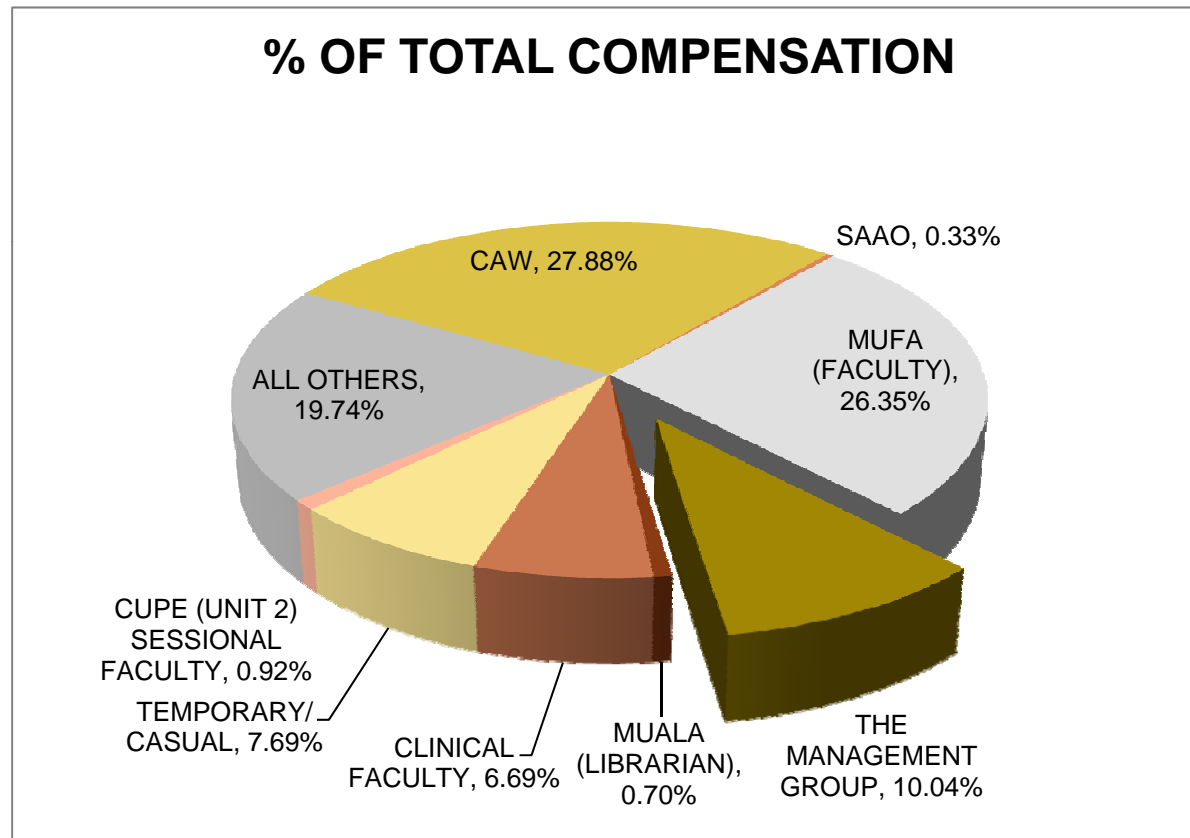
Total Fund Investment Performance and Structure (By Asset Class) Periods Ending December 31, 2009

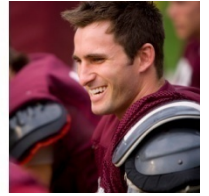
	<u>3 months</u>	<u>6 months</u>	<u>Annual Returns % (ending December 31)</u>				<u>4-Year Annualized Returns %</u>			
			<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total Fund	2.0	9.7	13.5	-17.1	1.8	13.1	2.0	1.4	8.9	12.0
Benchmark*	2.1	11.1	16.1	-21.6	1.6	13.5	1.2	0.0	8.8	12.4
Total Value Added	-0.1	-1.4	-2.6	4.5	0.2	-0.4	0.8	1.4	0.1	-0.4

Note: Time-weighted returns are presented.



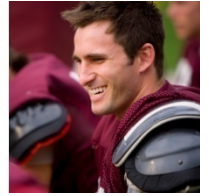
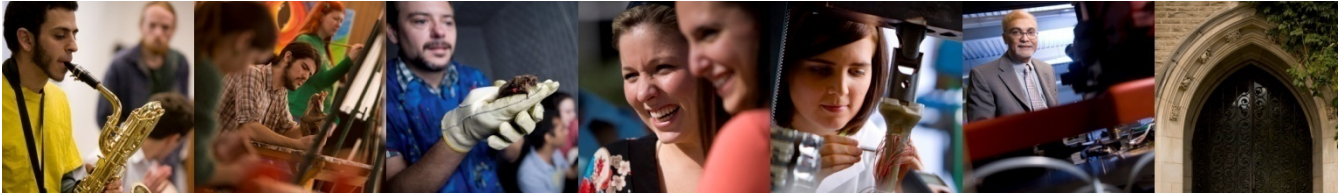
Total Compensation 2009





Public Sector Compensation Restraint to Protect Public Services Act, 2010

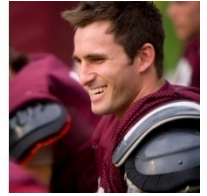
- Legislation came into effect March 24, 2010
- Applies to universities and other employers in the Broader Public Sector
- Impacts Public Sector Employees who are *not* part of a group that bargains collectively
 - At McMaster University, this includes:
 - Employees in TMG
 - The President, Vice-Presidents and other Senior Officers
 - Temporary and Casual Employees



Exceptions to Application of the Act

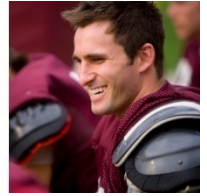
Letter From Deputy Minister, Ministry of Training, Colleges and Universities (March 26, 2010)

“For employees represented by a bargaining agent, the government will respect all current collective agreements. When these agreements expire and new ones are negotiated, the government will work with transfer payment partners and bargaining agents to see agreements of at least 2 years’ duration that do not include net compensation increases.”



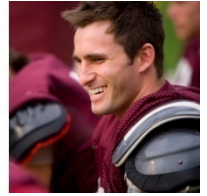
Public Sector Compensation Restraint to Protect Public Services Act, 2010

- Prohibits compensation increases for non-bargaining employees in the Broader Public Sector for two years
 - What does this mean for TMG?
 - The Pay Policy Line (salary ranges) are frozen for the next two years (to April 2012)
 - Across-the-Board (ATB) increases are not permitted
 - Performance-based increases from a merit pool are allowed



Public Sector Compensation Restraint to Protect Public Services Act, 2010

- The legislation allows increases to an employee's rate of pay if *all* of the following criteria are met:
 - The resulting salary falls within the current pay band
 - The increase is provided in recognition of performance/merit
 - The criterion being used to justify the increase was part of the employee's compensation plan prior to March 24, 2010

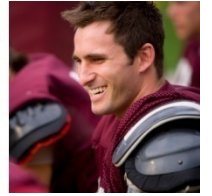


No Increase in Benefits, Perquisites and Payments

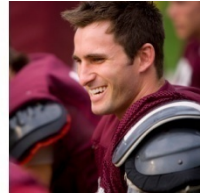
A **benefit, perquisite or payment** provided to an employee or office holder under the compensation plan **as it existed** on the applicable effective date **cannot be increased** before the beginning of April 2012, except as permitted.

No new or additional benefits, perquisites or payments may be provided to an employee or office holder before the beginning of April 2012, except as permitted.

A compensation plan cannot provide compensation after March 31, 2012 to an employee or office holder for compensation that he or she did not receive as a result of the restraint measures in the Act.

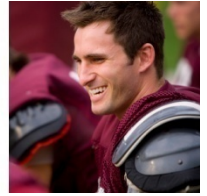


Process



Process

- Total Rewards Advisory Committee
- President and Vice-Presidents
- Remunerations Committee
- Executive Committee of the Board of Governors



TMG Total Rewards Advisory Committee

Co-Chairs:

- **Lisa Boniface**, Assistant Director, Centre for Continuing Education
- **Tony Cupido**, Assistant Vice-President, Facility Services

TMG:

- **Tracey Carr**, Director, Administration, School of Nursing
- **Lydia Duarte**, Budgeting Analyst/Programmer, Financial Services
- **Kathy Goodram**, Administrator, Chemical Engineering
- **Debbie Martin**, Executive Director, Corporate Services, Office of Dean & VP, HSC
- **Gay Yuyitung**, Manager, Industrial Liaison, MILO

Senior Management:

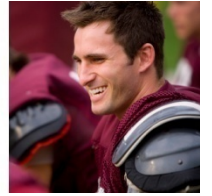
- **Peter Smith**, Associate Vice-President (Academic)
- **Lilian Scime**, Assistant Vice-President (Administration)
- **Phil Wood**, Associate Vice-President (Student Affairs and Dean of Students)

Advisors:

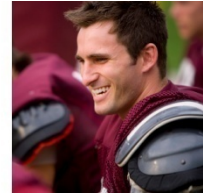
- **Andrea Farquhar**, Director, Government and Public Relations
- **Gord Arbeau**, Associate Director, Government and Public Relations

HRS Support:

- **Mark Haley**, Assistant Vice-President, Human Resources
- **Jason Cole**, Director, Human Resources Planning and Analysis
- **David Ryan**, Total Compensation Strategist
- **Nancy Vukelich**, Senior Manager, Total Compensation



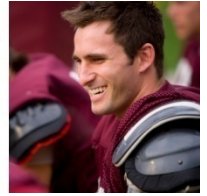
Approved Changes for 2010/2011



1: Pay Policy Line (Salary Ranges) for 2010/2011

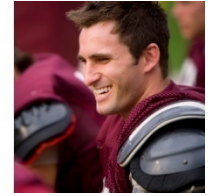
Approved Action	Why?	Impact
The Pay Policy Line is frozen for two years to April, 2012	To comply with the Compensation Restraint Act Legislation	<ul style="list-style-type: none"> • Pay Policy Line will not be maintained at P60 • Continue to be an above-average payor

- If the Compensation Restraint Act had not been introduced, salary ranges for TMG would likely have increased by an average of 2.64%
- CPI Information as at May 2010:
 - Canada – 1.4%
 - Ontario – 1.9%



2: Cash Compensation Provisions for 2010/2011

Approved Action	Why?	Impact
3% merit pool from which individual increases can be awarded based on performance	In line with market information which indicated that average increases ranged from 2.1% to 3.2%. (The 3% merit pool recommendation is at the higher end of the range.)	Maximum cost to the University of 3% of base salaries
Increases will be effective July 12, 2010 and will be applied retroactively	Deferral of increases to July 12 th helps to lower future pension liabilities	Increase in salaries will impact the July 1, 2011 pensionable salary
Increases are to be allocated based on the new "Framework for Merit Allocation for TMG"	Adherence to the pay for performance philosophy for TMG	Reinforces connection between pay, performance and position in the salary range

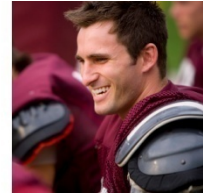


History of Pay Policy Line and Salary Increase Provisions

Plan Year	Pay Line Increase	ATB/Economic Revision	Merit Pool	Total Increase Provision
2001/2002	14.00%	3.00%	2.00%	5.00%
2002/2003	5.85%	2.00%	2.50%	4.50%
2003/2004	4.50%	1.50%	3.00%	4.50%
2004/2005	3.30%	1.00%	3.30%	4.30%
2005/2006	2.10%	0.60%	2.40%	3.00%
2006/2007	* 3.70%	1.50%	2.75%	4.25%
2007/2008	* 2.70%	1.45%	2.80%	4.25%
2008/2009	3.90%	0.80%	3.20%	4.00%
2009/2010	2.00%	0.00%	2.00%	2.00%
2010/2011	0.00%	0.00%	3.00%	3.00%
Simple Total:	42.05%	11.85%	26.95%	38.80%
Compounded Total:	50.1077%	12.4609%	30.4529%	46.2737%
Average:	4.21%	1.19%	2.70%	3.88%
** Average Excluding 2001/2002 to 2003/2004:	2.53%	0.76%	2.78%	3.54%

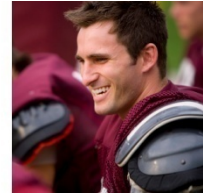
* The ATB/Economic Revision included .75% to offset the increased pension contributions

** Reasons for exclusions: 2001/2002 to 2003/2004 were years of 'catch-up' and transition to P60 on the pay line



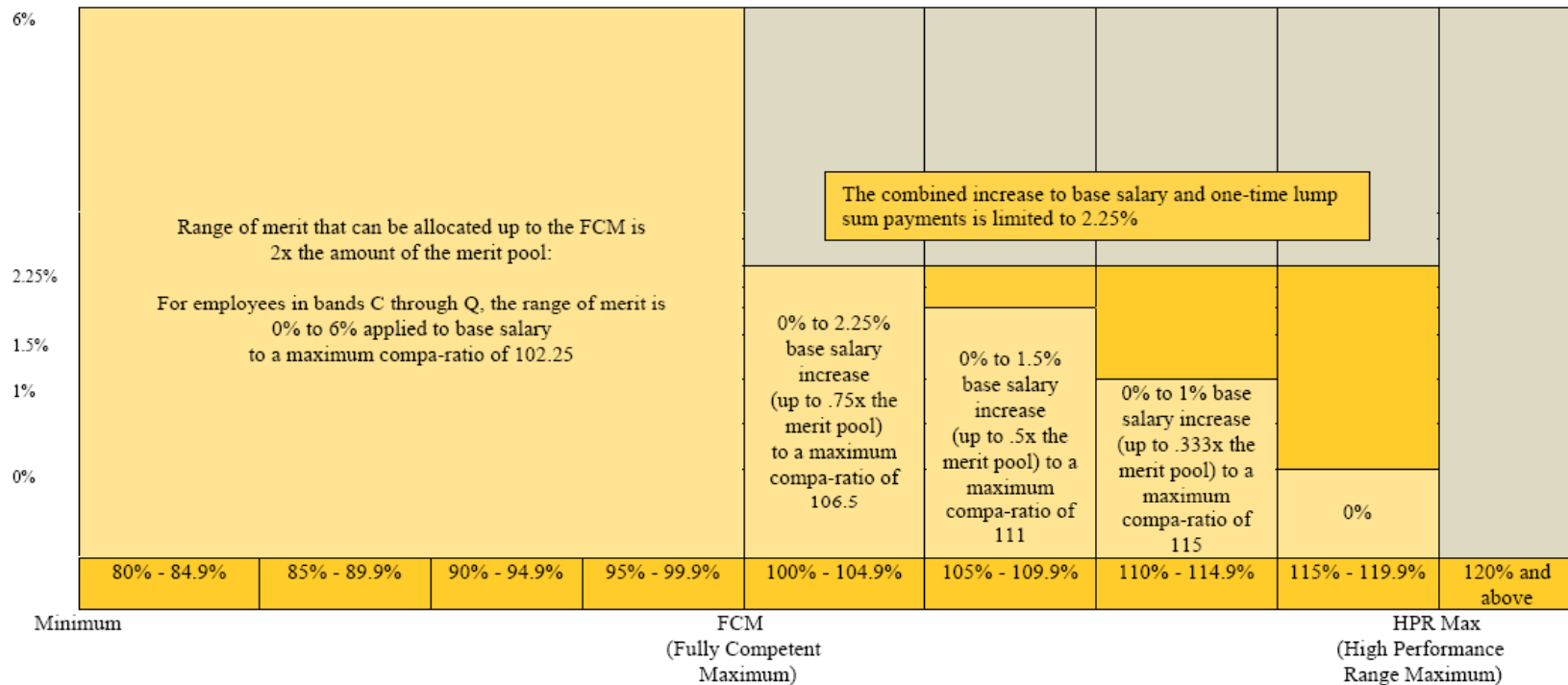
2: Cash Compensation Provisions for 2010/2011

Approved Action	Why?	Impact
<p>Completed performance reviews <i>and</i> objective setting documents are mandatory for an employee to receive an increase</p>	<p>To comply with the Compensation Restraint Act Legislation</p> <p>To comply with our pay for performance philosophy for TMG</p>	<p>Every employee in TMG will have an annual performance review and objectives documented for the coming year</p>
<p>Performance-based merit increases cannot increase compensation beyond the High Performance Range Maximum of the salary range</p>	<p>To comply with the Compensation Restraint Act Legislation</p>	<p>Reinforce administration within the salary range</p>

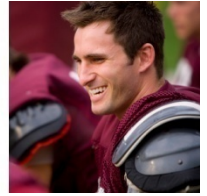


2: Cash Compensation Provisions for 2010/2011 – Framework for Merit Allocation for TMG

The following chart illustrates the range of merit that can be awarded based on performance and position in the salary range. The chart is to be read in conjunction with the 'Important Notes' included in the Framework for Merit Allocation for TMG document.

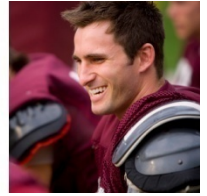


- Training sessions will be provided to supervisors



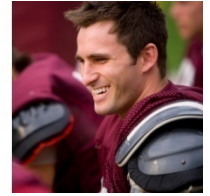
3A: Pension

Approved Action	Why?	Impact
No new changes	To comply with the Compensation Restraint Act Significant changes were introduced last year	None



3B: Pension

- Last year's changes:
 - For staff in TMG, the University's 'Salaried' Defined Benefit Pension Plan was closed to future enrolment effective June 16, 2009
 - Newly hired, eligible employees, in TMG positions on or after June 16, 2009 are instead entitled to participate in the University's Group RRSP
 - Employee contributions to the 'Salaried' Defined Benefit Pension Plan are being increased by .5% below the YMPE and by .75% above the YMPE beginning with the first full pay period in January 2010 for each of the next three (3) calendar years

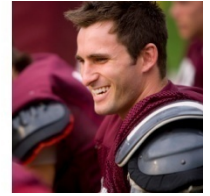


3B: Pension

- Last year's change:
 - Employee contribution rates increased by .5% below the YMPE and .75% above the YMPE for each of 3 years beginning with the first full pay period in January 2010

Effective Date	Rate Below YMPE	Rate Above YMPE
July 2007	5%	6.5%
January 2010	5.5%	7.25%
January 2011	6.0%	8.0%
January 2012	6.5%	8.75%

YMPE: Yearly Maximum Pensionable Earnings for 2010 are \$47,200



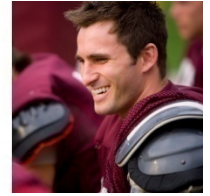
3B: Pension

- How does TMG compare?

Pension Contribution Rates:

	July 1, 2009		January 10, 2010		January 9, 2011		January 8, 2012	
	Up to YMPE	Above YMPE	Up to YMPE	Above YMPE	Up to YMPE	Above YMPE	Up to YMPE	Above YMPE
TMG & SAAO	5%	6.5%	5.5%	7.25%	6%	8%	6.5%	8.75%
CAW	5.5%	7%	5.75%	7.5%	6.25%	8.25%	6.5%	8.75%
MUFA	5%	6.5%	5%	6.5%	5%	6.5%	To be determined	
MUALA*	5%	6.5%	5.5%	7.25%	6%	8%	6.5%	8.75%

* Contribution rates effective January 10, 2010 for MUALA were implemented July 6, 2010, retroactive to January 10, 2010



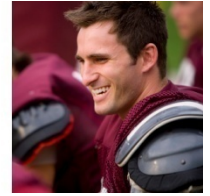
How do we compare?

External Employer Comparison (DB)

	McMaster University (TMG, SAAO & Librarians)	HOOPP (Hospitals of Ontario Pension Plan)	OMERS* (excluding Police & Firefighters)	TPP (Ontario Teachers Pension Plan)	CAAT (College of Applied Arts and Technology Pension Plan)
Employee Contribution	5.5% & 7.25% (6%/8% in 2011 & 6.5%/8.75% in 2012)	6.9% & 9.2%	6.4% & 9.7%	10.4% & 12%	12.1% to YBE**, 10.3% btw YBE & YMPE, and 11.1% above YMPE
Pension Formula	1.4% & 2% (1% & 1.6% for new CAW)	1.5% & 2%	1.325% & 2% (after age 65)	1.55% & 2% (after age 65)	1.3% & 2%
Early (unreduced) Retirement	Factor 85 by 2016 (CAW = 80 New CAW = 80 with Minimum age 60)	Age 60 with 30yrs of svc	Factor 90 or Age 55 with 30 years of service	Factor 85	Factor 85 or 60/20 Rule
Immediate Vesting					

* OMERS information excludes Police Officers & Fire Fighters

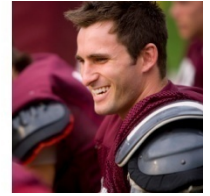
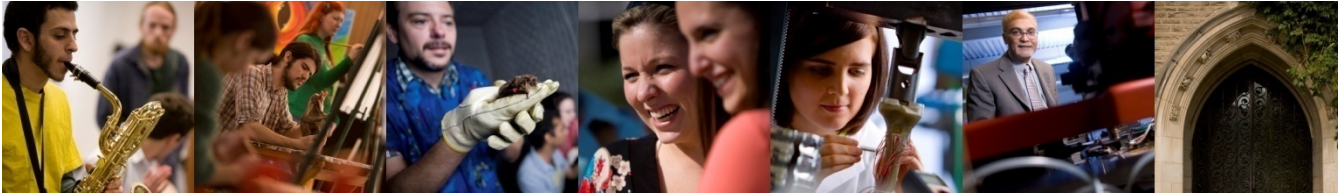
** YBE = Yearly Basic Exemption (2010 YBE = \$3,500)



3B: Pension

How do TMG New Hire provisions compare to CAW New Hire provisions?

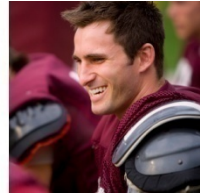
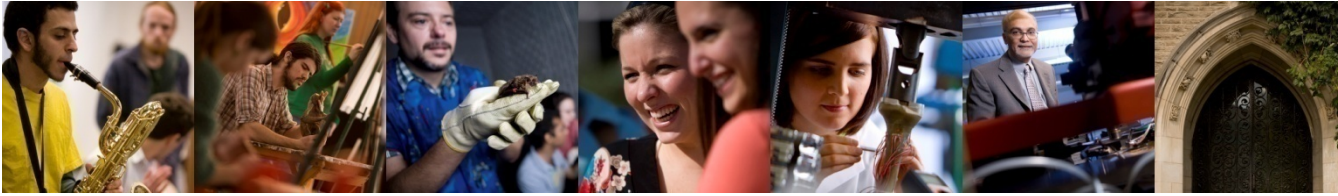
Provision	Existing DB Provisions (TMG and CAW)	New Hire DB Provisions Effective May 1, 2010 (CAW)	Provision	New Hire Group RRSP Effective June 16, 2009 (TMG and SAAO)
Benefit formula	1.4% up to AYMPE and 2% over AYMPE	1% up to AYMPE and 1.6% over AYMPE	Required contributions	Employee: 3.5% up to YMPE; 5% above YMPE Employer: Matches employee contributions
Best average earnings	Over 4 years	Over 5 years	Voluntary Contributions	Permitted
Indexing	Based on average fund earnings over 4.5%	Based on average fund earnings over 5%	Maximum Contributions	Income Tax Act Maximum Contribution Limit
Early Retirement	Rule of 80 (CAW) Transitioning to Rule of 85 (TMG and SAAO)	Rule of 80 with minimum age 60	Portability	Group RRSP balance may be transferred to another registered plan
Transfer option upon termination	Greater of commuted value or 2x contributions with interest available upon termination	Greater of commuted value or 1x contributions with interest available upon termination	Investment Options	Currently 8 options available



3B: Pension

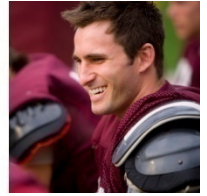
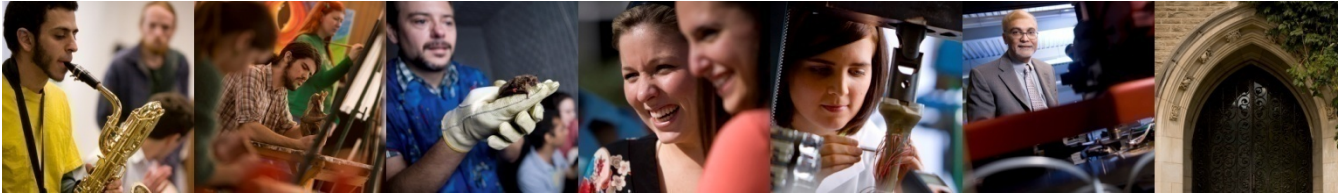
TMG: The Numbers (as at June 2010)

Number of TMG	535	
TMG Laid Off *	8	<ul style="list-style-type: none"> • Total layoffs is under 100
Group RRSP Participants (DB RPP closed to TMG June 16, 2009)	26	<ul style="list-style-type: none"> • 14 in the VP Admin area <ul style="list-style-type: none"> • 12 in HR • 10 in the VP Acad area • 1 in the VP Res area • 1 in the VP HSc area
Not Eligible for Post-Retirement Benefits (Closed to new hires to TMG June 16, 2006)	134	<ul style="list-style-type: none"> • 37 in the VP Admin area <ul style="list-style-type: none"> • 28 in HR • 53 in the VP Acad area • 26 in the VP HSC area • 9 in the VP Res area • 6 in the VP UA area • 3 in the President's area



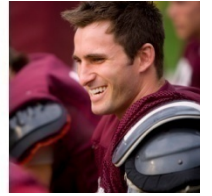
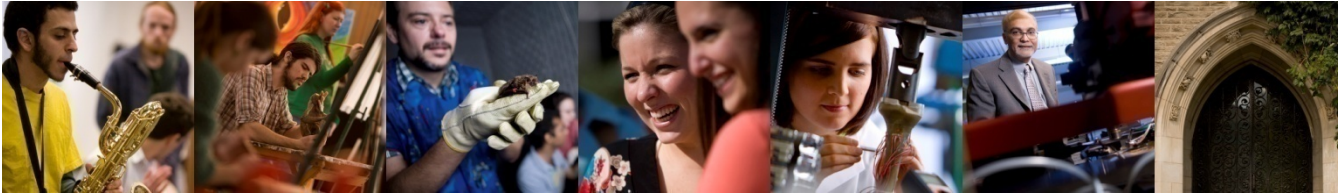
4: Benefits

Approved Action	Why?	Impact
No new changes	To comply with the Compensation Restraint Act	None



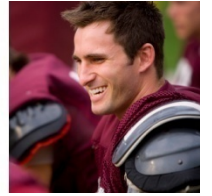
What's next?

- Training sessions for managers who make decisions about merit
 - Pay for performance
 - New performance rating system and definitions
 - Completing performance reviews
 - Writing objectives
 - Allocating merit using the new 'Framework for Merit Allocation for TMG'
- Performance review and objective setting deadline is August 27, 2010
- Salary review increases will appear in the September 24th pay deposit and will be retroactive to July 12, 2010



Resources

- Total Rewards Website
 - www.workingatmcmaster.ca/totalrewards/



Questions