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Date: August 13, 2009  
To: Retired or about to retire Faculty and Librarians  
From: George Luste, President, University of Toronto Faculty Association (UTFA)  
Re: **Your annual pension cost-of-living adjustment**

Every summer some retirees contact UTFA asking about various aspects of their annual pension cost-of-living increase in July. My purpose in this memo is to try and provide helpful information on this topic.

**Question #1. As a UofT retiree what annual cost-of-living adjustment am I guaranteed by our current pension plan?**

Both the percentage and dollar increase depend on what the Consumer Price Index (CPI) number for Canada was in the previous calendar year.

- (i) If the CPI increase is less than or equal to 8% (as it has been since 1982) you receive 75% (three-quarters) of the CPI number. To illustrate, if actual CPI was 4%, your pension would increase by 3% (three-quarters of 4%) or if CPI was 2%, your increase would be 1.5%
- (ii) If the CPI increase is between 8% and 13% (as it was in nine of the ten years between 1973 to 1982 - and let's hope that this never recurs) the cost-of-living adjustment increase is reduced from 75% to 60% of CPI (for the 8% to 13% interval only).
- (iii) If CPI should ever increase by more than 13% your maximum CPI loss is limited to 4%. To illustrate this with an extreme example, if CPI should be 20%, your cost-of living adjustment would be 16%. This means that the maximum loss of pension purchasing power in any one year is capped at 4%.

**Question #2.**

**Does this annual cost-of-living guarantee, of less than 100% of CPI, mean that the purchasing power of my UofT pension will diminish, year after year?**

It could but not necessarily. This is where UTFA comes in. In its negotiations with the Administration regarding salaries, benefits and pensions UTFA has placed a high priority in seeing that all UTFA retirees receive an additional pension increase, or “augmentation”, that reflects the portion of CPI that is missing in the pension guarantee.

In the recent past the Administration has been in strong opposition to this CPI augmentation but the UTFA view has prevailed, most notably in Judge Warren Winkler’s arbitration award for 2005-06 and 2006-07<sup>1</sup>.

This pension augmentation is done on a year-by-year basis and the details of its implementation depend on both the terms and date of the negotiated agreement. To illustrate, the pension augmentation for 2009-10 is still on the negotiating table and will stay there until there is a comprehensive final agreement for 2009-10.

To ensure that the interests of the retirees are represented at the negotiating table, at least one retired faculty member has been a member of the UTFA negotiating team for the last seven years.

Extreme loss of pension purchasing power can have devastating effects on elderly retirees or their surviving spouses. In 1997 UTFA negotiated an omnibus catch-up pension augmentation for all existing UTFA retirees, this agreement restored the purchasing power of existing pensions to their original purchasing value. This was a major achievement and represented a significant pension increases for the elderly. Some very elderly retirees saw their pensions increase by more than 50%. Unfortunately this means that prior to 1997 some elderly surviving spouses had been living on 25% of the original pension purchasing power at the time their faculty partner retired.

**Question #3.**

**What CPI number is used to calculate the annual UofT cost-of-living pension adjustment? Where can I view it?**

The short answer is that the Administration has been consistent in using the 12-month national “Total CPI” change for the previous calendar year. The Bank of Canada website at <http://www.bankofcanada.ca/en/cpi.html> lists these numbers and updates them regularly.

To illustrate, at the above website the December 2008 “total CPI” number for the prior 12 months is shown as 1.2%. This in turn means that your July 2009 pension

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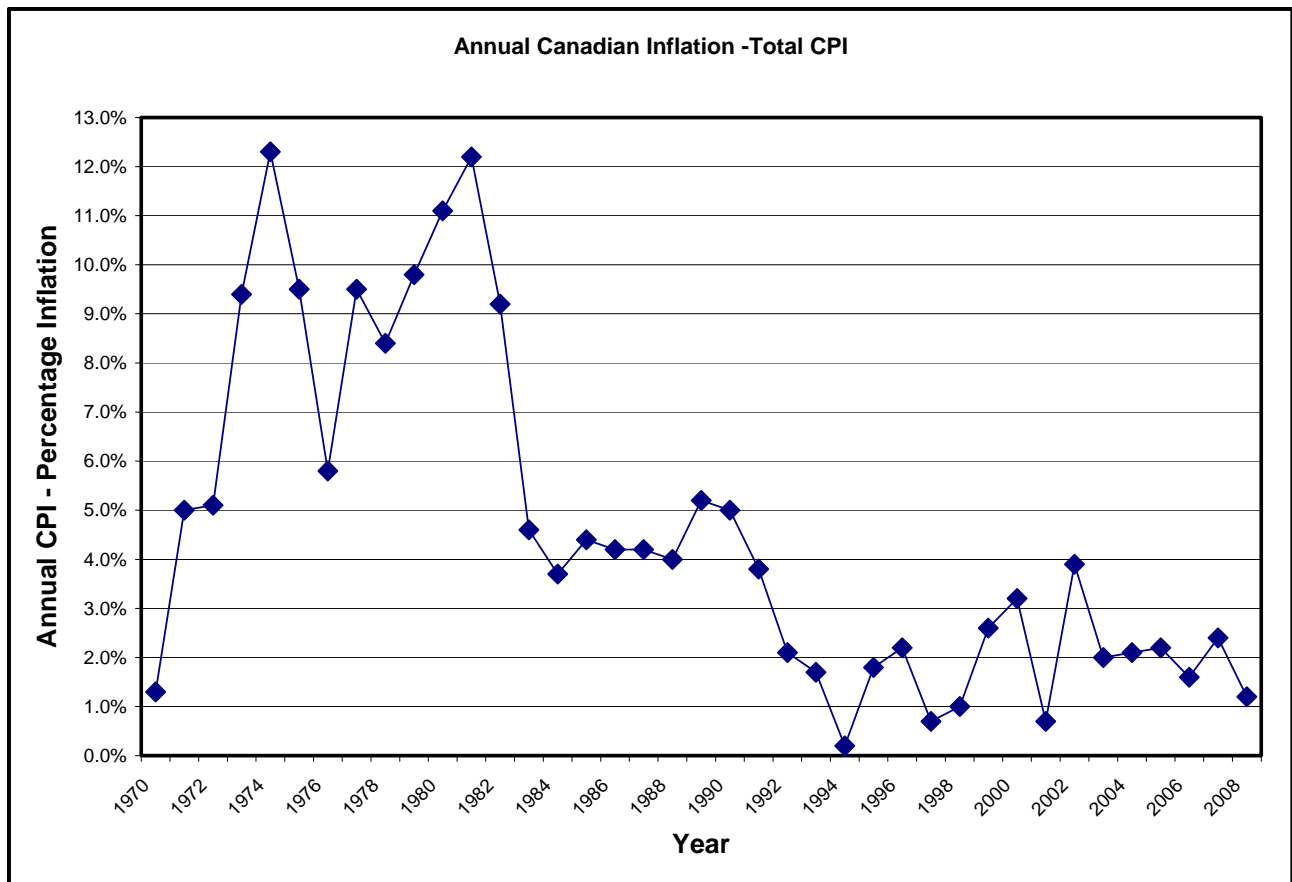
<sup>1</sup> For further details, please see the UTFA website at [http://utfa.org//index.php?option=com\\_content&task=view&id=88&Itemid=103](http://utfa.org//index.php?option=com_content&task=view&id=88&Itemid=103)

cheque should have seen a 0.9% (three quarters of 1.2%) cost-of-living increase. The remaining 0.3% is still to be decided at the UTFA-Administration negotiating table.

The previous December “Total CPI” numbers listed in the Bank of Canada table, going back from 2007 to 2002 were 2.4%, 1.7%, 2.1%, 2.1%, 2.1%, and 3.8%.

The following graph illustrates historical Total CPI numbers going back to 1970. The high inflationary period from 1971 to 1982 represents a significant loss of purchasing power for pensioners without a full 100% cost-of-living indexation provision in their pension plan.

One hopes we shall not see a repeat of such high inflation. But to be prudent one should keep in mind that there are never any absolute guarantees in this life.



**Question #4.**

**How does the UofT pension cost-of-living “Total CPI” number differ from other CPI numbers that are sometimes quoted?**

Several different issues warrant comment:

- (i) The UofT policy is to use the national CPI number, not the Toronto CPI number and not the Ontario CPI number. And to use the CPI for the preceding calendar year, not the preceding academic year.
- (ii) The CPI number used represents the inflation change over the prior year, from December to December – it does not represent the average of the twelve monthly CPIs in the year. This means that if prices should shoot up or shoot down in the last month of the year this will be reflected in the December to December CPI number – even if the other eleven months had a much different CPI behaviour. But over time this will average out and should not be a serious concern.
- (iii) The Bank of Canada website also lists a “Core CPI” number. How does this “Core CPI” differ from our “Total CPI”? This gets a bit technical.

*As the website notes: - “Core CPI excludes eight of the most volatile components (fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products) as well as the effect of changes in indirect taxes on the remaining components.”*

Thus one expects the Core CPI to be less volatile, or more steady, relative to the Total CPI. In December 2008, Core CPI was 2.4% while Total CPI was 1.2% - a substantial difference. How does one explain this difference? A possible explanation is that the cost of energy (gasoline, fuel oil, natural gas, etc.) or some of the other eight exclusions in the Core CPI decreased dramatically in December 2008.

In some months one CPI number will be bigger, other months the reverse will be true. Over an extended period the two CPIs should be the same, within the statistical uncertainty. However, from month to month one does expect Total CPI to be more volatile (more up or down) than Core CPI.

This is shown by the data. Using the Bank of Canada data table one can evaluate the averages for the two CPIs over the past 175 months (almost 15 years) as well as the volatility (standard deviation). The results are:

- Total CPI = 2.0% +/- 0.8% for the average and the standard deviation
- Core CPI = 1.8% +/- 0.4% for the average and the standard deviation

In summary there is no statistically significant difference in the two CPI averages over the 15 years but, as expected, the Total CPI is more volatile (has a larger standard deviation) than the Core CPI.