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President's Blog

The history behind the University Pension Plan (UPP)

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UTFA Guest Blog
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For most people in the University of Toronto community, the idea of merging their pension plan into a jointly sponsored pension plan for the university sector in Ontario is a recent development. However, the outreach to the community that began after Thanksgiving Day this year is actually the culmination of many years of careful preparation and intense negotiations that have led UTFA to this point and have laid the foundation for the important decision that faces members of the pension plan over the next few months.

For several years, that work had been proceeding on two tracks – one in the university sector broadly across Ontario, and the other on the University of Toronto campus.

At the provincial level, the Ontario Confederation of University Faculty Associations (OCUFA) raised the question of the future of university pension plans in a November 2010 workshop at Sutton Place Hotel in Toronto. In combination, the global financial crisis, low interest rates and increasing concern expressed in provincial budgets about the viability of pension plans in the public sector sparked a series of conversations throughout the sector about available options to make pensions more secure, including the potential for a jointly sponsored pension plan (JSPP) in the university sector.

That work led, in 2014, to the establishment of a joint working group, funded by the provincial government, involving faculty associations led by OCUFA, unions representing university staff, and university administrations, led by the Council of Ontario Universities (COU). That large group consulted broadly both within and outside the sector to test for support for the JSPP idea among universities and labour organizations and to consider options for the design of a JSPP for the sector.

Beginning in the spring of 2015, COU and OCUFA convened a series of meetings to review and discuss background reports and draft ideas prepared by actuaries and legal counsel retained by each side. That phase of the work culminated in the presentation of detailed consensus reports from the expert advisors on both plan provisions and governance for a potential jointly sponsored pension plan for the university sector and the adoption of several key principles that should guide the creation of a sector JSPP:

- Voluntary participation
  - Agreements to participate would be established on labour relations principles through collective bargaining.
- Non-statutory – plan terms would be negotiated by the sponsoring partners, subject to general regulations, but not imposed by statute.
- The plan must be exempt from solvency valuation and funding requirements on the same basis as other JSPPs.
- The plan design must provide for a guaranteed defined benefit formula on the same basis as provided for in current defined benefit and hybrid plans in the university sector.
- 50/50 funding and 50/50 risk sharing, including the adoption of fully funded conditional post-retirement indexing as a potential contributor to the management of funding risks.
- Open sharing of data and analysis between the university administrations and faculty association / union groups.

Over the summer of 2015, a decision was made to shift to a discussion focused on six universities and their respective faculty associations, union locals and administrations to attempt to move beyond principles to a plan design and structure to which other universities could sign on in the future.

That group of six, along with a number of observers from other organizations, met in a complex two-day mediated negotiating session in November 2015. The parties in that meeting made significant progress on both plan design and structure. For example, it was agreed that the cost envelope for a sector-wide plan would be 20%. The group of six also reached consensus on the pre-inception liabilities: each university administration would be responsible for paying off its pre-existing unfunded liabilities. In addition, there was agreement in principle that each university would continue to be responsible for losses associated with pre-existing liabilities for an extended transitional period.

Those discussions broke down, however, over the question of governance, with the faculty association/union group insisting on a sponsorship structure that mirrored collective bargaining – i.e. with members' interests represented by faculty associations and unions – while the COU was insisting on a three-sponsor model in which non-represented employees would be one of the three sponsoring groups. More than a year went by, with no discernable progress.

In January, 2017, three of the six universities decided to take the initiative to break the log jam. The administrations at the University of Toronto, Queen's University, and the University of Guelph invited their respective faculty associations and union groups to carry the negotiation process to a conclusion. UTFA agreed to join the process along with all of the major unions at the University of Toronto.

At this point, the work on the JSPP dovetailed with work that had been ongoing at UTFA and between UTFA and the administration for a number of years. The operation and financing of the University of Toronto's pension plan had been an issue between UTFA and the administration for several years. The key issues included the past (rather than more recent) performance and governance of University of Toronto Asset Management (UTAM), repeated demands in provincial budgets for changes in public sector pension plan financing and risk sharing, requests for pension contribution increases in salaries and benefits bargaining, and the ongoing pressure on university operations created by regulated increases in required pension funding contributions.

At the same time as the multi-university, OCUFA-led process was formally getting under way in 2015, the Joint Working Committee (JWC) on the future of the pension plan was established at the University of Toronto. The JWC comprised UTFA, the Steelworkers, CUPE, other employee groups, and the U of T Administration. Over the next few months, while the U of T Administration sought an ongoing exemption from solvency funding from the provincial government, the JWC considered the following options: establish a University of Toronto only JSPP; participate in a sector-wide JSPP; or maintain the status quo – an employer-sponsored defined benefit plan subject to normal provincial pension regulations

Obtaining an exemption from solvency funding was determined to be unrealistic given the public position of the provincial government. The single-employer JSPP option was determined not to be available after a number of in-depth meetings with provincial government officials made it clear that the provincial government was not prepared, under any circumstances, to grant a solvency exemption to a single-employer JSPP at the University of Toronto.

With respect to the last option – the status quo – the working group identified substantial concerns about the ongoing viability of the U of T plan as is, given the economic and political environment for public sector employees' pension plans in Ontario.

Despite concerns about the slow progress in the COU/OCUFA JSPP process, conversion into a JSPP was identified as an important option that should be pursued.

Coincidentally, a similar process had been under way at both Queen's and Guelph in the period leading up to the January 2017 invitation from the three administrations to try to re-start the JSPP development process. That invitation effectively merged these processes into a single exercise.

The three-university process officially began in February 2017, and after several months of preparatory work and preliminary meetings at individual universities, the group convened for a mediation session in May of 2017. Substantial progress was made at that session with respect to plan design, and two mediators assisted the parties to resolve three key outstanding issues: grandparenting of the better early retirement provisions of some of the current plans; detailed provisions for continuing university responsibility for losses associated with the transferred liabilities for prior plans; and the role of unrepresented plan members in plan governance.

In August, 2017, the three faculty associations, the three Steelworker locals, and the three university administrations reached agreement crystallized in a milestones document. The formal participation of other campus unions in the process was suspended at that point.

Between August 2017 and October 2018, work continued. The faculty associations and unions and the administrations continued to negotiate on a group of subsidiary issues. The faculty associations and unions consulted with their constituencies, and the administrations held information sessions including non-represented employees. That consultation identified the original design's provision for unreduced early retirement at age 62 with age and service totaling 80 or more as a significant issue of concern to plan members. At the same time, both sides recognized that the approval of an expansion of the Canada Pension Plan, which took place while the process was ongoing, would eventually require changes in the design of the plan.

Those two factors came together in an agreement that improved the unreduced early retirement rule to age 60 from age 62 and accommodated the expansion of the CPP by changing the formula break point (where 1.6% accrual shifts to 2%) from the current Year’s Maximum Pensionable Earnings (YMPE) to the Year’s Additional Maximum Pensionable Earnings (YAMPE). The early retirement improvement would take effect on the inception date of the UPP; the break point change would take place only in the first full year of operation of the new CPP.

That is how we got to where we are – preparing to put the question of the future of pensions at the University of Toronto to a vote of active plan member faculty and librarians who are represented by UTFA.
