OCUFA 50 YEARS 1964-2014

OCUFA Pension Bulletin

For members and friends of the Ontario Confederation of University Faculty Associations

A pension plan in the making

Pensions are complex and can be an emotional issue. After all, we're talking about retirement – and our reward for a lifetime of hard work and dedication. For that reason, we all have an interest in secure, high-quality pensions.

A lot of things going on in the Ontario university pension sector right now could have a direct and tangible impact on our constituents, both individually and collectively. In particular, interested stakeholders from across the province have come together to explore the feasibility of creating a new pension option for our membership. This collaborative process is founded on open, honest communication and information sharing—and it will succeed only to the extent that we are able to engage you, our members, and get your input on key issues that affect you.

To that end, this bulletin has been designed to offer some insight into the key issues driving the discussion, as well as an explanation of the jointly sponsored pension plan (JSPP) option being explored.

The Ontario Confederation of University Faculty Associations (OCUFA) has created a special website for its members at www.ocufapensionreview.ca. This project hub is your go-to resource for everything pension-related, and offers you a way to interact with OCUFA on this issue. Here, you'll find all of the project reports and related background material, as well as bulletins like this one. We'll use the hub to keep you posted on important dates and deadlines. Finally, the hub's Q&A facility allows you to submit any questions you might have on the project and process—and we'll post answers to those questions for the benefit of everyone interested in the pension project.

What's inside:

Stay up-to-date on the latest developments
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Feedback needed

The first three project reports have been distributed to the Plenary Body (see "How we got here" on page 2) and are available from your association or union pension rep. While we understand that you may prefer to leave the technical matters to the experts, we need your feedback on the issues raised in these reports. These key points, and our constituents' feedback, will help set the direction for the rest of the project.

How we got here

OCUFA has been active on university pensions since 2006 when the Arthurs Commission was announced. In 2008, Dr. Arthurs submitted his ***Report of the Expert Commission on Pensions***. Since then, we have been advocating actively for solvency relief and generating meaningful pension solutions for our members.

Early in 2014, as funding shortfalls posed real financial risks to our universities, with the approval of its Board, OCUFA reached an agreement with the Council of Ontario Universities (COU) to collaborate with all university sector stakeholders to explore the feasibility of building a multi-employer, multi-employee-stakeholder, JSPP framework. The goal of this model would be to provide a meaningful, equitable and secure pension option—comparable to existing defined benefit (DB) plans—for those groups interested in participating. A joint Project Oversight Committee was created, and funding was sought from the Ministry of Training, Colleges and Universities (MTCU) to retain the experts needed to move the project forward.

On October 17, 2014, the Oversight Committee hosted the first meeting of the University JSPP Plenary Body, composed of interested faculty associations, university administrations, and unions representing university staff. The Plenary Body was introduced to the Oversight Committee, and presentations were made by the experts (two lawyers and two actuaries) selected to represent labour and administration.

Plenary participants were invited to join several sub-committees, each with a mandate to explore a piece of the pension puzzle: plan design, funding, and governance (including sponsorship and fiduciary administration).

The legal and actuarial teams were asked to work together to produce preliminary reports identifying key issues in each of these areas. The reports will be presented and discussed at the next Plenary Body meeting on January 13, 2015. In the meantime, questions can be posted on the pension project web hub.

Ask questions or view
a list of the most common Q&As
ocufapensionreview.ca

Five things to know:

1. Any pension benefit you have already earned is fully protected under current provincial pension legislation. This applies whether you are an active, retired or deferred (meaning you have left the university but haven't transferred your benefits out of the plan) plan member.

2. The JSPP project is not about creating an option that works for government; it's about providing a high quality, secure pension option for interested employees and employers.

3. An approved JSPP would offer a DB pension (a pension based on a formula known by plan members), and participation in the JSPP would apply to future years of employment only.

4. Participation in the JSPP under construction would be voluntary, and open to all pension plan types and all employee groups in the university sector. It would be negotiated at the institutional level through normal processes, including collective bargaining.

5. The university JSPP initiative is separate from the recommendations in the 2012 report commissioned by the Ontario government on pooling asset management for all of the province's public-sector institutions—although assets would be pooled for those groups choosing to join the plan.

How JSPPs work

At a basic level, all pension plans work very much the same way. Money in, money invested, money out.

STEP 1

Regular contributions flow into a pension fund – basically a pot of money that is held in trust for plan members.

STEP 2

The contributions are invested in stocks, bonds and other securities.

STEP 3

At retirement, the funds in the pot are used to provide a retirement income (or pension) for plan members.

The jointly sponsored pension model differs from others in that both employers and employees share contributions (often, but not always, 50/50) and governance. They also share in both funding deficits and funding surpluses (see "Plan funding" on page 4).

It is assumed that a university JSPP—like other public sector JSPPs in Ontario—would involve a number of employers and a number of unions or employee groups. Existing JSPPs include the Ontario Teachers' Pension Plan (OTPP), the Colleges of Applied Arts and Technology (CAAT) Pension Plan, and the Ontario Municipal Employees Retirement System (OMERS)—to name just a few.

Ontario's university pension plan landscape

23 institutions sponsor a variety of plans and in some cases, multiple plans within the same institution, including:

- **Defined benefit (DB) plans**, in which pensions are calculated using a formula, usually involving salary and years of service. Pension amounts are guaranteed and the employer is responsible for pension deficits.
- **Defined contribution (DC) plans**, in which contributions are made to a personal pension account and the balance of the account is used to provide an income at retirement. Employers are responsible for making fixed contributions (typically a percentage of salary).
- **Hybrid plans**, in which employees receive the better of the DB pension provided by the plan formula and the retirement income provided by their DC account balance.

Three preliminary JSPP models

The actuarial team's preliminary report considers three JSPP models as a starting point for discussion purposes. These models would apply to pensions earned after a university decides to participate in the JSPP. The more generous the benefits, the higher the cost. From highest cost to lowest, they are:

Model A

Reflects the best of all plan provisions currently available in the university sector.

Model B

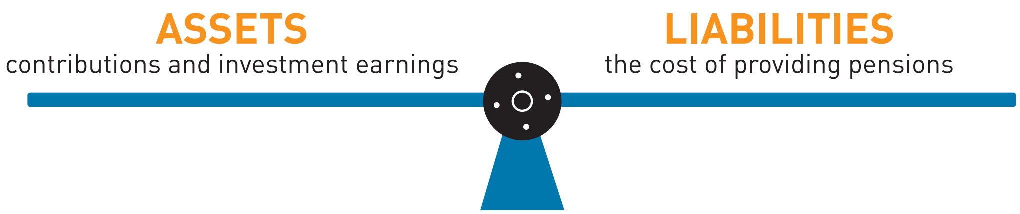
Illustrates the plan design that could be provided for a total combined employer and member contribution rate of approximately 18 per cent of salary.

CAAT

The Colleges of Applied Arts and Technology Pension Plan.

Plan funding

There are two sides to any defined benefit pension plan balance sheet (including JSPPs): assets and liabilities.



Actuaries conduct regular pension plan valuations to monitor the ratio of assets to liabilities. The methodology for these valuations is governed by provincial pension regulation and professional standards. For typical single-employer DB plans, three types of valuation are required:

Type of valuation	What it's for
Going concern	Measures the plan's health assuming that the future unfolds as expected in terms of contribution levels, investment returns and pension costs.
Wind-up	Compares the market value of the plan's assets on the date of the valuation to the total current value of all pensions earned to that date (to test the health of the plan in the event of plan termination). Wind-up valuation results are highly sensitive to current interest rates, because benefits are settled based on current annuity rates, which in turn are tied directly to interest rates. The lower the interest rate, the more expensive the annuity (the higher the current value of the pension).
Solvency	Like a wind-up valuation, except that certain benefits (such as pension indexing) can be excluded from the valuation.

Unlike single-employer DB plans, existing multi-employer JSPPs are not required to meet solvency funding requirements—largely because of the very low likelihood of all participating employers leaving the plan and forcing it to terminate. If a JSPP valuation shows a going-concern deficit, adjustments must to be made to future contributions rates or benefit provisions to bring assets and liabilities back into line. If the valuation shows a going-concern surplus, the excess funds may be used to improve benefits, reduce contributions, or provide a financial cushion in case of future adverse experience. For more details on how these decisions would be made, please ask your association or union pension rep for a copy of the legal team's preliminary report.

Due to its shared risk structure, JSPPs are typically not subject to the same solvency funding requirements as a single-employer pension plan.

Pension cost drivers

- Pension formula (e.g., annual pension = 2 per cent **x** average best five years earnings **x** years of service)
- "Normal" retirement age (e.g., age 65)
- Early retirement subsidies (e.g., unreduced early retirement at age 62)
- Post-retirement death benefits (e.g., 60 per cent surviving spouse's pension)

How costs are measured in a going-concern valuation

Key demographic assumptions

- Age and life expectancy
- Gender
- Marital status
- Termination, disability, and retirement rates

Key economic assumptions

- Interest (bond) rates
- Investment returns
- Salary growth
- Inflation

Why are so many DB plans facing funding deficits?

Volatile investment returns (including the crashes of 2002 and 2008 which reduced their asset base), lower expectations for future investment returns, improvements in life expectancy, and tax law that prohibits "excess" surplus (leading to contribution holidays) are largely to blame.

A one per cent increase/decrease in investment return assumptions can increase/decrease contributions by four per cent of salary, or more.

Growing pension costs

If you were saving for your pension on your own and you retired in 2014, you'd need to have saved about $1,200,000 to collect an annual pension of $70,000 at age 65 ($2,500 a month, with $1,500 a month continuing to your spouse after your death). Ten years ago, you'd need to have saved about $850,000 to collect that same pension.

SAVINGS **TODAY**

$1,200,000

VS

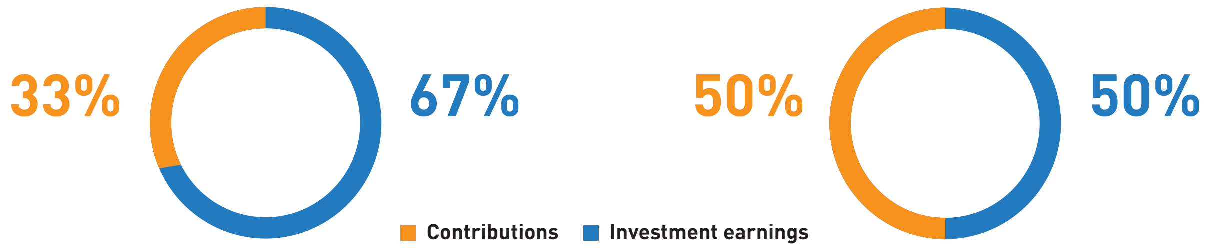
SAVINGS IN **2004**

$850,000

Role of investment income in paying pension costs

Traditionally, about two-thirds of pension cost is paid from investment income

Investment income is more likely to cover only 50 per cent of pension costs due to lower investment returns



What you can do

Collaboration is a key part of this project. We encourage you to follow the discussion, and to lend your voice. Here's how you can do just that:

- **Understand the issues:** Visit the pension project hub we've set up at www.ocufapensionreview.ca for background material and previous reports.
- **Lend your voice:** Your feedback on the issues will play an important part in how future discussions unfold. Use our online hub's Q&A facility to submit your questions about the project and process—and we'll answer them as best we can.
- **Stay up-to-date:** Below is a timeline of the next steps in our process. We'll keep you informed along the way, and will use the pension hub to present new information for your review.

January – prepare second drafts of reports (actuarial and legal teams)

February – review second drafts (Plenary Body)

March – prepare first draft of consolidated report (actuarial and legal teams)

April – review consolidated report (Plenary Body)

May – review draft Memorandum of Agreement; review revised consolidated report

June/August – review and consideration by stakeholders; draft transition plans; communications plans

September – finalize transition plans; communications plan

October – final report to MTCU

Who's who

Oversight Committee

- Jim Butler (Wilfrid Laurier University, COU)
- Lisa Krawiec (COU)
- Cathy Riggall (COU)
- Mark Rosenfeld (OCUFA)
- Sue Wurtele (Trent University, OCUFA)

Project Coordinator

- Cheryl Athersych

Actuarial Team

- Cameron Hunter, Eckler Ltd. (labour)
- Alan Shapira, Aon Hewitt (management)

Legal Team

- Elizabeth M. Brown, Hicks Morley Hamilton Stewart Storie LLP (management)
- Murray Gold, Koskie Minsky LLP (labour)

The Final Word

This bulletin is intended to provide a summary of certain pension concepts in simple terms. It is not intended to give advice or guidance. Every effort has been made to provide accurate information. Any errors should be reported to Cheryl Athersych at cherylathersych@yahoo.ca or 647-898-7445.