OCUFA

Ontario Confederation of University Faculty Associations
Union des Associations des Professeurs des Universités de l'Ontario

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Solvency Exemption for New PBS Multi-Employer JSPPs
Broader Public Sector Pensions Branch
Ministry of Finance
7 Queen's Park Crescent, 1st Floor
Frost Building South
Toronto, ON M7A 1Y7

Attention: Hon. Charles Sousa, Minister of Finance

Dear Minister:

Re: Proposed Criteria for Exempting New Broader Public Sector (BPS) Multi-Employer JSPPs from Solvency Funding Requirements

I am writing on behalf of the Ontario Confederation of University Faculty Associations ("OCUFA"), which represents 28 faculty associations at Ontario's universities. While each faculty association is responsible for collective bargaining and pensions at its University, OCUFA provides central support on these issues across the sector.

OCUFA is currently working with employee stakeholder groups and with its employer counterpart (the Council of Ontario Universities) to develop a multi-employer pension arrangement for interested universities in the sector. The project intends to consolidate pension plans and to realize efficiencies in administration and investment, and has the active support of the Ministry of Training, Colleges and Universities ("MTCU"). Because decision-making in regard to pensions resides with the stakeholders at each University, participation of a University in a multi-employer pension arrangement will depend on the decisions to be taken by that University's administration and bargaining agents.

The university sector is a unique sector of Ontario's pension economy. Pension benefits are currently provided by each university to its own employees through single-employer sponsored pension plans. In some cases, universities sponsor one pension plan for their academic and non-academic staff together, while in other instances they sponsor two different plans for their academic and non-academic employees. In most instances, universities sponsor defined benefit plans, but in a significant number of cases they sponsor hybrid plans and in some instances they sponsor defined contribution plans. Most university pension plans are small in comparison with other plans in the PBS and have less than one billion dollars in assets and liabilities.

The multi-employer model under development would describe the key features of sponsorship level decision-making, the administrative governance of the plan, the plan benefits and the residual role of collective bargaining in regard to pensions. It would set out the contribution formula and define the basis upon which the plan would be funded. It is intended that the key governance, plan design, and funding elements of the new plan would be set out in a report or agreement that will be submitted for ratification on a university by university basis in the fall of 2015. Those universities indicating an interest in participation will then be tasked with the detailed development of plan documents.

The proposed multi-employer plan is one of several pension options also under active consideration in the sector. The Colleges of Applied Arts and Technology ("CAAT") Pension Plan is, for example, in discussion with several universities about the prospect of those university pension plans joining CAAT. Under *status quo* arrangements, university pension plans may be eligible for stage two solvency relief and, in addition to the multi-employer or sectorial plan under the CAAT option, this is a third pension possibility for university stakeholders. Finally, some stakeholders have been considering single-employer jointly sponsored pension plans, and are awaiting the Minister's views as to the appropriate funding treatment for them.

The complexity of the university pension environment, combined with the multiplicity of options and the possibility of change within each of those options, creates real decision-making challenges within this sector.

A pivotal consideration for university stakeholders concerns the funding requirements that apply to each available option. In order for stakeholders to make decisions about pension reform, university stakeholders must know the long-term financial consequences entailed by their choices. In the absence of certainty about the funding consequences of a pension option, university stakeholders will not commit themselves to that option but will rather focus their time and resources on options with funding certainty. It is important to reiterate, as Ministry representatives have said, that we are here discussing a permanent funding framework, rather than any type of temporary framework that would necessarily entail its own uncertainties.

The proposed university multi-employer plan is unique in a number of respects. Unlike existing jointly sponsored plans in Ontario, the proposed plan in is new and its membership, asset size and demographics are currently unknown and expressly contingent on decisions to be taken by stakeholders in the future. The plan will be voluntary, and so may begin with only a few participating universities, but the plan may grow, over time, into a much larger sector plan. Significantly, the plan could be an improvement over the status quo in terms of eliminating duplication, achieving efficiencies and promoting independent governance.

Necessarily, however, the trajectory of the proposed plan is unknown and unknowable – it is not possible to predict when it will achieve any particular asset or membership size.

It is a key objective of the project – and a key to the success of the project – that stakeholders be provided with certainty as to the basic elements of the plan, including its funding. Our considered view is that the university multi-employer pension project will fail unless stakeholders know, with certainty, at the outset, what funding rules will apply to the proposed pension plan. In the current context, no university will expend scarce resources on a pension project that does not have certainty about its funding rules.

In our view, it would be appropriate for guidelines relating to a solvency exemption for a multi-employer university sector JSPP to consider the uncertainties that are inherent in the plan's creation and development, and, in particular, the uncertainties concerning which universities will participate in the plan (and when), the plan's eventual membership (size and composition) and the plan's ultimate asset size. These are unavoidable uncertainties. Yet, the plan requires certainty as to its funding rules in order for any stakeholders to agree to participate in it.

We agree that consideration of an exemption from solvency funding should be based on an assessment of risk of failure, and of factors in the design and composition of a JSPP that might serve to mitigate that risk. We believe that risk assessment would be strengthened by the addition of a criterion based on the financial strength and stability of the sectoral group involved in the JSPP. While there is never a guarantee of stability for any BPS entity, there are differences among sectors that would bear directly on an assessment of risk. Looking at the issue from the perspective of the university sector in particular, it may be that the guidelines could be better applied to the university sector if the mechanics were adjusted in two respects. One, the guidelines could consider risk mitigation vis-à-vis the status quo ante – in other words, they could consider whether the proposed multi-employer plan would be less risky, in the terms set out in the criteria, than the predecessor plans. If the new pension platform is larger, better diversified, more cost-effective and better governed than its predecessors, this should, respectfully, weigh heavily in favour of solvency exemption. Two, the guidelines should consider not only the current reality of the plan, but its prospects for development and success. The reasonable prospects for continued growth in terms of number of participating employees and members and asset size, should, we submit, be more significant than the beginning state of the plan. On the other hand, if the prospects of the plan's success on these factors are dim, then this should weigh against a solvency exemption.

We are also concerned about enshrining specific thresholds for the number of participating employers, asset size or demography, in the guidelines. Firm numbers tend to undermine the comparative analysis and the judgement based approach that we believe more suitable to consideration of a solvency exemption, especially for a new plan. On the other hand, we appreciate that some quantitative metrics may help to clarify the government's intent with respect to the criteria to be applied in determining eligibility for exemption. One option might be to set out the threshold as a series of ranges rather than as a specific number, and to make it clear that the eligibility for exemption will be based on an evaluation of all the criteria together, rather than sequentially and independently. In addition, perhaps, for a new plan, quantitative metrics should be framed as reasonable targets over a 5 to 10 year period.

Finally, we reiterate that funding certainty, from the outset, is essential for the success of the university multi-employer project, and very much appreciate the Ministry's efforts to provide certainty with respect to permanent solvency relief within the project's time frame.

Sincerely,

Mark Rosenfeld, Ph.D
Executive Director
Ontario Confederation of University Faculty Associations