



# University Pensions Project

Plenary Body Meeting

June 22, 2015

# Welcome & Agenda

Time	Item
10:00-10:45am	Welcome and Project Overview (Jim & Sue) Government update
10:45-12:30pm	UPP JSPP Plan Framework UPP Next Steps: discussion of the path forward
12:30-1:00pm	<b><i>Lunch Break</i></b>
1:00-2:00pm	CAAT: Presentation by Derek Dobson
2:00-2:15pm	<b><i>Health Break</i></b>
2:15-3:15pm	Q&A with Plenary participants
3:15-4:00pm	Concluding remarks and wrap up

# Four Phases of the UPP

1. Research
2. Design
3. Build
4. Transition

# Research Phase

- Work conducted through 2013-14
- Environmental scan of Canadian pension landscape
- Study of Ontario university pension sustainability
- Identification of key challenges
- Established joint principles

# Research Phase: Principles

1. Voluntary participation  
(collective bargaining remains legitimate forum for pension decisions)
2. Non-statutory
3. Exemption from solvency valuations and funding
4. Guaranteed formula pension
5. Fully funded on going concern basis at inception
6. Open data sharing

# Design Phase: Overview

- Summer of 2014 to present
- Aim to produce a framework for a JSPP
- Wide engagement of representatives from faculty, union and administration
- 3 Plenary sessions from October to February to get feedback
- Discussions with MTCU, Finance ongoing

# Design: October Plenary

- Introduced the concept of a university jointly sponsored pension plan (JSPP)
- Outlined the collaborative process established by OCUFA and COU
- Asked for initial feedback about the process
- Explained how stakeholders can share knowledge and participate in the process

# Design: A Complex Starting Point

- Different plan designs
  - Defined benefit, defined contribution, hybrid
- Multiple bargaining agents
  - Faculty, USW, CUPE, OSSTF, UNIFOR, OPSEU
  - Other participating union and employee groups
- One plan or multiple plans at same university
- Different plan provisions at different institutions



# Complex Governance Issues...

- Sponsor group (size, qualifications, responsibilities, appointment to the group)
- Plan Administrator (size, qualifications)
- Dispute resolution mechanisms
- Role of retirees, non-unionized members, collective bargaining
- Legal and regulatory issues

# ...and Actuarial Issues

- Benefits Design
- Actuarial assumptions to
  - Set financial management framework
  - Achieve long-term sustainability
  - Provide appropriate level of benefit security
  - Minimize intergenerational transfers
- Salary growth
- Benefit replication
- Many others...

# Design: Plenary Continues

- Plenary members rose to the challenge and committed to addressing the complex challenges at the January and February Plenary sessions
- Feedback was sought from all participating representatives and their members

# Design: More Focused Input

- POC identified several campuses with early interest in JSPPs
- Universities with broad local processes for discussing JSPP options (unions, faculty associations, administrations)
- Goal to seek input on outstanding issues

# Design: Where are we now?

- Agreement on many issues; narrowed the gap on many others
  - These decisions will assist in finalizing plan design
- Additional background and research conducted will assist those parties interested in actually building a plan
- Design Framework outlines agreement, narrow range of options, and identifies “open” issues

# Government Update

- Strong support from government for this project
- Feedback submitted to Finance from OCUFA and COU on merger/conversion regulations
  - Finance currently reviewing submissions
  - Draft expected by end of June
  - 45-day review period over the summer
  - Tentative target date of January 1, 2016

# Solvency Exemption Criteria

- Draft criteria issued by Finance this spring
- Submissions made by OCUFA and COU
- POC will continue to seek a provisional solvency exemption for any new JSPP
  - Solvency exemption would be recommended by Finance to Cabinet, who would approve it



# University Pensions Project

UPP JSPP Plan  
Framework



# Preamble and Introduction

- Explains background and process, which reflects broad and deep consultation
- Recommendations intended to form the basis of the next phase
  - Some decisions will, by necessity, be made by initial participants
- Outlines a process to complete the Design phase

# Governance

- 2-Sponsor model with 6 representatives from the employer and 6 from the employee groups
- Traditional sponsorship duties and responsibilities (as laid out in the December document)
- There will be an Employee and an Employer vote; the table must agree to plan changes

# Governance: Administration

- 12-member Board of Trustees, appointed by Employer and Employee Sponsors
  - To serve any number of 3-year terms, staggered
  - Sponsors to agree on qualifications
  - Chair and Vice-Chair (3-year terms, rotating between Employer and Employee Sponsors)
  - Responsible for investment of funds
  - Dispute resolution mechanism

# Governance (cont'd)

- Plan Design
  - Defined benefit, jointly sponsored
  - Withdrawal provisions
- Funding Policy
  - Decided by sponsors
- Transition
  - Outlines transitional sponsor scenario

# Funding and Risk Management

- Final decision required in the next stage on the following:
  1. Sharing of initial contribution rates for future service
  2. Sharing of funding risk for future service
  3. Risk management levers
  4. Full funding

# Full Funding

- COU researched issues and options, including PBA and CRA issues
- Key considerations:
  - Fulfill the principle of full funding
  - Don't convert GC payments to debts
- Two main options identified

# Option 1: Deficit Funding Trust

- Deficit Trust borrows full amount of deficit owed by universities joining plan
- Universities make payment to Pension Trust; trigger a repayment from deficit trust
- Needs approval to include deficit trust assets as part of plan assets for valuation
- Complicated solution, with risks

# Option 2: Amortization Method

- Scheduled employer special contributions counted as an asset
- Present value of special contributions would be equal to the difference between liabilities and investible assets
- Allowed under PBA
- Amortization period of 15 years
- Commitment to pay would be firm and would not reduce, even if conditions reduce
- Easier to structure and less expensive



# Plan Provisions

- Summary of Illustrative Plan Provisions provided on following slides
- Illustrates plan provisions that would achieve a total contribution rate in the order of 18% or 20%

# Plan Provisions

Plan Provisions	18% Plan	20% Plan
Averaging period for earnings and YMPE	60 months	
Benefit rate per Year of Service on FAE up to AYMPE	1.50%	1.65%
Benefit rate per Year of Service on FAE in excess of AYMPE	2.00%	
Bridge Benefit per Year of Service	0.50% of FAE up to AYMPE	0.35% of FAE up to AYMPE
Maximum Pension	Indexed Income Tax Act maximum pension (applied before early retirement reductions)	

# Plan Provisions (cont'd)

Plan Provisions	18% Plan	20% Plan
Subsidized form of payment – without spouse	Life guaranteed 10 years	60% survivor benefit
Subsidized form of payment – with spouse	Life guaranteed 10 years	
Eligibility for unreduced early retirement	Age 60 + 80 points (age + continuous service)	85 points (age + continuous service)
Reduced early retirement	5% per year from unreduced early retirement rate	Without 85 points, 5% penalty per year from age 65
Indexation in the deferral period	None	

# Plan Provisions (cont'd)

Plan Provisions	18% Plan	20% Plan
Indexation after pension commencement – rate of indexation	75% of increase in CPI	
Indexation after pension commencement – maximum increase	Maximum increase in CPI of 5%	None
Indexation after pension commencement – conditional or guaranteed indexing	Funded, but conditional	Guaranteed
Disability benefits	Continued accrual, employee contributions not required	
Interest rate on member contributions	CANSIM rates per PBA	

# Plan Provisions: Open Issues

Plan Provisions	Open Issues
<b>Eligibility</b>	<ul style="list-style-type: none"><li>• Proposed plan includes all current members</li><li>• Plan designed to permit expansion of coverage to employees not currently participating</li><li>• POC research underway</li></ul>
<b>Cost sharing</b>	<ul style="list-style-type: none"><li>• Agreement on cost sharing for future accruals</li><li>• No agreement on allocation (e.g. 50/50 or 45/55)</li><li>• COU may consider transition from 45/55 to 50/50</li></ul>
<b>Risk sharing</b>	<ul style="list-style-type: none"><li>• Agreement on risk-sharing</li><li>• Tied to discussion on cost-sharing</li></ul>

# Plan Provisions: Open Issues

Plan Provisions	Open Issues
<b>Responsibility of future experience on past service liabilities and assets</b>	<ul style="list-style-type: none"><li>• In SEPPs, employers responsible; in JSPPs, responsibility generally shared</li><li>• No agreement on ownership of future experience gains and losses on past service</li><li>• If gains and losses eventually shared, should be a transition period</li></ul>
<b>Early retirement benefits</b>	<ul style="list-style-type: none"><li>• Agreement to provide subsidized early retirement</li><li>• COU does not support unreduced pension with 85 points without minimum retirement age</li></ul>
<b>Indexing</b>	<ul style="list-style-type: none"><li>• Agreement on funded indexation</li><li>• No agreement on whether conditional or a cap</li><li>• Under conditional, pensions will be indexed provided no negative experience; indexing is not ad hoc</li></ul>

# Open Issue: Hybrid Plans

- Each hybrid is different
- CRA approval would be needed for any actions
- Work and research underway to explore options and feasibility that will inform the next phase

# Open Issue: DC Plans

- In principle, no impediments to sponsors designing plan to allow buy-backs using DC account balances for past service, subject to tax limitations
- Initial plan sponsors should determine whether buy-backs of service using DC plan assets should be permitted
- Issues to be addressed:
  - Basis on which buy-backs would be permitted from DC plans
  - How subsequent gains and losses would be addressed in order to determine who bears the risk



# Other Open Issues

- While these issues will be dealt with by parties in the next step, significant discussion has been had on:
  - Non-union employee representation on the Sponsor
  - Risk tolerance and contribution rate stability
  - Grow-in benefits
- Preliminary research and consideration on the participation of contract faculty in the JSPP



# University Pensions Project

## UPP Next Steps

# Next Steps: Finalizing the Design

- Plan design must be finalized by interested universities and members
- **Goal:** To develop a formal process for determining at which universities there is serious joint employer/union interest in participating in the design finalization phase

# Finalizing the Design: Process

- Criteria to identify participants
- Timeframe: early fall for a 2-day session to work through the outstanding issues
  - Guided by a neutral third-party
  - Based on the research and development work done in this phase of the project
- Framework would be finalized, sent to the sector to consider whether they wish to join the Build phase

# Build Phase

- Identification of a transitional sponsor table to develop the final plan documents and provisions for the JSPP
- Confirmation of solvency exemption
- Preparation for consent process
- Practical decisions and steps
  - Investment principles, hiring of staff, decisions on lawyers, actuaries, investment managers etc.

# Transition Phase

- Includes voluntary consent process that would take place on every interested campus – both regulatory and contractual
- As the single employer plans reach the necessary consent bars, they would transition into the JSPP
- Conduct valuations
- Transfer assets



# University Pensions Project

Presentation by Derek  
Dobson, CEO and Plan  
Manager, CAAT

1:00-2:00pm



# University Pensions Project

Q&A with Plenary  
Participants



# Wrap up

- Next steps
  - Work over the summer
  - Looking to the fall: finalizing the plan design
- Plenary members encouraged to contact their POC representatives for detailed discussion
- Ongoing communication with government