AGM Report
University Pension Plan (UPP)
Format: Q & A
With Appendices

April 20, 2021

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Appendices:
Appendix A: UPP Timeline: 2017 - 2021
Appendix B: Graphic on the UPP Governance Structure; names of board members
Appendix C: Graphic from the Board of Trustees on planned member consultations

1. History, Central Documents, Governance, and Timelines:

Q. How is the University Pension Plan (UPP) constituted?
A. It is a trust, constituted through a series of agreements between the founding labour/faculty association sponsors and the university administration sponsors. Because of the way the UPP was established, the administrative structure is complex. The UPP is actually an amalgamation of five different pension plans: three at the University of Guelph and one each at the University of Toronto and Queen's University. Pensions arising from service before July 1, 2021, are determined by the individual university plan provisions; pensions arising from service after July 1, 2021, are determined by the provisions of the UPP.

Q. What are the titles of the formal UPP documents that describe the plan, its governance, and its provisions?
A. They are together referred to as the constating documents. They are the Sponsors Agreement, the University Pension Plan Ontario (plan text), and the Trust Agreement. Through those agreements, the sponsors determine the design of the UPP, participation by employers and employee groups in the plan, and the administrative structure of the plan as set out in the Trust Agreement.

Q. What is the funding policy?
A. The Sponsors Agreement establishes a funding policy for the UPP. That policy sets out the responsibility of participating employers for any funding shortfall they bring

into the plan when they join as well as for funding shortfalls that develop related to the past service benefits they bring into the plan for an initial 20-year period.

The funding policy also sets out rules that will govern funding decisions required in the event that deficits or surpluses arise in the course of the plan's operation, including decisions to increase or reduce contributions or suspend or limit pension indexing. (Note: indexing of pensions is set at 75% for the first seven years of the plan. Members who are already retired are subject to the indexing rules of the old plan only—and not to those of the UPP.)

Q. When will the UPP begin to issue pension payments?
A. July 1, 2021.

Q. When did the U of T administration and UTFA start negotiating the UPP, and when will it be formally up and running?
A. See **Appendix A** for key dates in the progress of the UPP. The UPP will launch formally on July 1, 2021.

Q. Which parties can make changes to the UPP?
A. Because the plan agreements are between the labour/faculty association sponsors and university administration sponsors, together called the Joint Sponsors, only the Joint Sponsors can amend the plan. See **Appendix B** for a graphic on the board structure of the UPP, for the duties of the boards, and for the names of the members of the UPP boards.

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2. The Main Functions of the Joint Sponsors and the Board of Trustees

Q. Which committees or bodies comprise the Joint Sponsors?
A. The plan sponsors are organized through two committees: the Employer Sponsor Committee (ERSC) and the Employee Sponsor Committee (ESC). Each of these committees has the power of veto. Because the labour or employee side of the Joint Sponsors may vote "No" to any proposal, the role of labour is considerably strengthened in this type of pension plan, called a jointly sponsored plan. On the ESC, decisions are made by consensus or, when necessary, by majority vote of the six employee representatives. See **Appendix B** for the roles and responsibilities of the boards and committees.

Q. What are some of the main duties of the Joint Sponsors?

A. The Joint Sponsors determine contribution rates and benefits formula; develop the funding policy; approve any changes to constating documents; appoint the Board of Trustees; approve new university entrants to the plan; develop protocols for the governance of the Joint Sponsors; review BoT studies of assets and liabilities; decide on when actuarial evaluations will be filed (except for required filings); convey messages, concerns, and positions from the appointing bodies and members.

Q. How often do the Joint Sponsors meet?

A. At least four times per year. They met (virtually) on the following dates since they were established: March 26, June 22, Sept 22, and November 30 in 2020, and March 22, in 2021. The annual meeting is in November each year.

Q. How often does the Employee Sponsor Committee (ESC) meet?

A. In the ongoing build phase of the UPP, which began in January 2020 (and will continue until July 1, 2021), the ESC met approximately sixty times, including meetings with the Joint Sponsors. The detail-oriented nature of even minor decisions means a lot of discussion and extensive exchange of documents. The ESC has undertaken a wide array of tasks, including conducting a search for legal and actuarial professional advisors; finalizing the Transfer and Participation Agreements; developing protocols for the smooth functioning of the ESC; negotiating logos and branding for the Joint Sponsors; negotiating funding support with the employer and the BoT; meeting with unions without representation on the ESC; meeting with unrepresented members (university admin staff) of the plan; answering queries about the plan; approving the entry of Trent University to the plan; negotiating the release of documents; providing advice on pension calculators; developing policies for affiliate employers; receiving updates from the Chair and CEO of the BoT; and meeting and corresponding with labour-appointed trustees.

Q. What issues are in front of the ESC that are of particular importance?

A. The ESC is currently assessing the BoT assets and liabilities (A/L) studies; negotiating communication protocols with the employer sponsor; working with the employer sponsor on the principles that will guide approval of new entrants to the plan; and re-visiting its protocols for the appointments of trustees. All of these issues will be taken up by the UTFA Pension Committee and UTFA Executive and Council, possibly in special meetings.

Q. What does the Board of Trustees (BoT) do?

A. The BoT administers the plan through a trust established by the sponsors in the Trust Agreement. That agreement sets out the composition and responsibilities of the trustees. The trustees are responsible, for example, for the investment of the plan's assets; actuarial evaluations; member engagement; the enrolment and participation of active plan members; processing of member queries; and the payment of pensions to retirees and their survivors.

Q. Who appoints the trustees?
A. The fourteen trustees on the BoT are appointed by the Joint Sponsors under terms and conditions established in the Trust Agreement and the Sponsors Agreement. Six are appointed by the employers in the UPP; six are appointed by the Employee Sponsor Committee (ESC); and one is appointed by the ESC but selected by unrepresented plan members, who are administrative staff. An independent BoT chair is chosen jointly by the sponsors. Although the trustees are appointed by the sponsors, under Ontario law, as the Administrators of the plan, the trustees have a fiduciary responsibility to act in the interests of plan members.

Q. Has the BoT begun to hire staff?
A. In its first 15 months of operation, the board of trustees has hired a CEO, Barbara Zvan, who most recently was responsible for asset mix and risk at the Ontario Teachers' Pension Plan (OTPP), and a chief administrative officer, Henry Kim, who established the operating financial structure of the Canada Pension Plan. The hiring of a staff team is well under way, with key positions identified and searches for candidates either in progress or about to start.

Q. Do the trustees work in groups or on committees?
A. The trustees are organized into committees responsible for oversight of various aspects of the plan's operations: an investment committee, responsible for the investment of the plan's assets; a pension services committee, responsible for the administration of pension benefits; an audit and actuarial committee, responsible for oversight of the plan's financial and funding position; a governance committee, responsible for the policies that govern the internal operation of the board of trustees; and a human resources committee.

Q. What are agency agreements, and who negotiates them?
A. The UPP is both a start-up organization and an amalgamation of pre-existing pension plans. The primary focus of the BoT in the lead-up to the "go live" date of July 1, 2021, has been to ensure a smooth transition to the new plan for the pre-existing plans and their members. Central to that task has been the negotiation of what are called "agency agreements" between the universities of the pre-UPP plans and the UPP for the continuation of various administrative functions during a transitional period only. These agreements cover both the administration of plan benefits (member services) and the investment of plan assets. The agreements will vary with the individual circumstances. For example, in the case of Queen's and

Guelph, the third-party investment management agreements under which they manage their pension assets will simply be transferred to the UPP and become the UPP's responsibility. For the University of Toronto, however, there will be a transitional period during which U of T will continue to be responsible for the investment of the assets it brought into the plan, but under the supervision and oversight of the UPP. The agency agreements are negotiated between each employer and the Board of Trustees.

Q. Will each university pension office and the staff members at each office (Guelph, Queen's, and U of T) remain in place for the time being?
A. Yes, each of the three participating pension offices will continue to process members' pensions until the UPP has finished hiring its pension staff.

3. The Statement of Investing Policies and Procedures (SIPP); ESG; IPCC

Q. What is the SIPP?
A. A key part of getting ready to assume the UPP Board's fiduciary responsibilities on July 1, 2021, is the development of the high-level policies that will govern the administration of the plan and the investment of its assets. The Statement of Investment Policies and Procedures (SIPP) is a key document, both because it must be filed with the provincial regulator as a requirement under the Ontario Pension Benefits Act and because it will set out at a high level the approach of the UPP to issues of Responsible Investment (RI), which are of keen interest among pension plan members generally and in particular among pension plan members in the university sector.

Q. What kinds of investing issues does a SIPP cover?
A. Most SIPPs focus on setting out, for example, the extent to which investing is active or passive, what kinds of fixed income the plan may invest in, the types of equities that are acceptable, examples of real assets that are permissible, and generally what the approved array of investments is. SIPPs explain the goals of portfolio diversification, and they articulate the risk parameters or tolerance, and strategies for avoiding undue losses. The SIPP may set out how authority is delegated, the protocol for review and approval of the SIPP, and the principles of valuation of assets and liabilities.

Articulating ESG (environmental, social, and governance) principles in SIPPs has grown rapidly in importance in recent years. Indeed, the Pension Benefits Act (PBA) requires that every SIPP disclose whether a pension plan takes ESG factors into account or not and, if it does, how it does so. ESG considerations engage many issues, but one of them is the avoidance of losses. Climate change, in particular, is a significant concern for banks (which are curtailing their lending to some oil and gas firms), insurers (some of whom will no longer insure oil and gas facilities), and pension funds (which do not want to lose money in a sector that is under considerable stress). The UPP's Board of Trustees will create the SIPP for the UPP.

Q. Will the BoT consult will plan members about the SIPP?
A. On May 12 the UPP Board of Trustees will conduct consultations through Zoom with U of T plan members, including faculty, librarians, and staff. They will ask for members' thoughts on the principles of investment. Please see **Appendix C** for a graphic on that consultation. Many UTFA plan members have expressed a deep interest in what is broadly called responsible investing (RI) or ESG, that is, investing undergirded by principles related to the role of environmental, social, and governance factors, broadly defined. As many of UTFA's members will realize, the ESG landscape is changing rapidly, RI has become its own industry, with the rapid growth of firms that specialize in the assessment of pension plans and endowment funds based on ESG principles and their carbon footprint. These kinds of assessments are controversial, however, and there is little agreement on the best means for measuring a company's ESG performance.

Q. What is the IPCC?
A. ESG principles have become associated most closely with climate change, for which the UN's Intergovernmental Panel on Climate Change (IPCC) is a recognized authority through its reporting. Quoting from its website: "The IPCC prepares comprehensive Assessment Reports about the state of scientific, technical and socio-economic knowledge on climate change, its impacts and future risks, and options for reducing the rate at which climate change is taking place." Report authors are drawn from around the world. The Canadian authors for the Working Group I Sixth Report, due in July 2021, are from Environment and Climate Change Canada.

Q. What prompted the setting of target dates for net zero emissions, and what is Canada's net zero target date?
A. As most of our members know, it was The Paris Agreement, the UN's legally binding international treaty on climate change, which went into force in November 2016, that prompted countries to set zero emission target dates. In February 2021, Canada appointed a net-zero advisory panel, and Canada's target remains 2050. Finland's target is 2035, and Sweden's and Scotland's targets are 2045.

Q. Will UTFA provide more information on ESG and pensions?

A. Yes, the UTFA Pension Committee will work on education pieces on this important and complex topic.