Pensions

Backgrounder #2 for UTFA Members

This Backgrounder takes a closer look at the differences between single-employer DB plans and multi-employer JSPPs. See Backgrounder #1 for information on the current financial status of the U of T plan and the key issues driving UTFA's pension discussion.

A closer look at the jointly-sponsored pension plan option

Defined benefit (DB) pension plans, like the U of T's current plan, are generally considered the gold standard in pension plans because they provide secure, lifetime pensions. But these plans are under threat due to growing and increasingly volatile costs that are making DB plans difficult for employers to budget for. The shift away from DB is most evident in the private sector, where less than 25% of employees now have any kind of pension plan, and of those, only 45% participate in a DB plan.

Continued government support for good DB pensions in public sector institutions like ours is far from certain, especially in light of the large pension deficits currently plaguing most plans. Given the current pension environment and based on research to date, a jointly-sponsored pension plan (JSPP) framework has emerged as a strong option for preserving high-quality DB pensions while maintaining government support.

Many of Ontario's top public sector pension plans are JSPPs—names you probably know like Teachers and HOOPP. They enjoy an international reputation for delivering secure, sustainable retirement benefits. JSPPs are promoted by the Ontario Ministry of Finance over single-employer DB plans because they involve cost-sharing with employees, as well as:

- Greater transparency
- Better governance and
- More predictable costs.

A great deal of work has already been done towards the development of a JSPP model for the university sector. Through UTFA's participation in the U of T Joint Working Committee (JWC), we have been considering the potential of a JSPP for our members for more than a year. We have reached the point where we need to know much more precisely what a university JSPP would look like. Our immediate goal is to gather the information UTFA Council needs to make an informed decision about authorizing the Ad Hoc Pensions Committee to explore the JSPP option with Queen's and Guelph more fully.

With fading public support for the current provincial government and given the past positions taken by the official opposition, we believe there may be a limited window of opportunity to work through the details of a conversion to a JSPP that will work for the U of T and which will give plan members greater control over our own future. This is one reason why these discussions are happening now.

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Key differences between DB plans and JSPPs

Both DB plans and JSPPs provide defined benefit pensions, based on a formula tied to earnings and service (years of eligible employment). But there are four main differences between these two types of plans:

All pensions earned under the current U of T plan would continue to be fully guaranteed for active, inactive and retired members, and their beneficiaries.

1. In a single-employer plan, the employer, as sole plan sponsor, is responsible for both governance and funding. A JSPP, on the other hand, is jointly sponsored by employees and employers, who share responsibility for governance and funding.
2. We expect that entering into a multi-employer JSPP with Queen's University and the University of Guelph would exempt the plan from solvency funding. For the U of T, this would eliminate the need to fund the $1.7 billion solvency shortfall (based on the most recent valuation).
3. The pensions promised to members in DB plans and JSPPs cannot be reduced while these plans are ongoing. In a JSPP, however, pensions may be reduced in the unlikely event the plan is wound up and has a solvency shortfall. In order for a multi-employer JSPP to wind-up, all employers must stop participating and the employee groups must give consent to the wind up. Any wind-up reduction would apply only to pensions earned after the conversion. All pensions earned under the current U of T plan would not be reduced—these are fully guaranteed for active, inactive and retired members, and their beneficiaries.
4. JSPPs are not protected by Ontario's Pension Benefit Guaranteed Fund (PBGF) because its coverage applies only to privately-sponsored, single-employer DB plans. The U of T plan is protected by the PBGF. This fund protects the first $1,000 of monthly pension in the case of employer (U of T) bankruptcy. For example, if a plan that is 80% funded is wound up, the guarantee fund provides a benefit of up to $200 per month to cover the shortfall (20% of $1,000).

Differences between plans

	Single-employer DB plan	Multi-employer JSPP
Governance	• Employer has full control and responsibility • Decision-making may be hidden and private	• Sponsor board with representation from both members and employers • Decision-making is shared and public
Changes to future pension	• Negotiated through collective bargaining process	• Sponsor board approves changes with agreement by both employees and employers (each acting as one group)
Contributions	• Employee contributions negotiated under collective agreement • Employer responsible for paying difference between employee contributions and pension costs	• Contributions negotiated by sponsor board based on funding need • Employee and employer both contribute (typically 50/50) to plan costs
Deficits/surpluses	• Employer solely responsible for shortfall payments • Surpluses may revert to employer • Plan subject to both going-concern and solvency funding rules	• Shared responsibility for shortfalls—future contributions could be increased for active employees and/or future pension benefits could be decreased for active employees • Shared ownership of surpluses • Plan subject to going-concern funding rules, but expected to be exempt from solvency funding

Plan administration	• Employer responsible • May be delegated to a third party	• Sponsor board responsible • Usually delegated to a third party
Plan investments	• Overseen by employer • Defined long-term return objective with risk levels appropriate to employer	• Overseen by administrative board based on investment policy developed by the sponsor board • Defined long-term return objective with risk levels appropriate to sponsor board

What would happen to the current funding shortfall

It is expected that solvency funding would no longer apply on conversion to a JSPP, and the need to fund any solvency shortfalls would be eliminated. We hope to have greater clarity on the criteria for solvency exemption following the release of David Marshall's report on Ontario's solvency funding framework. The report is expected to be released in spring/summer 2017.

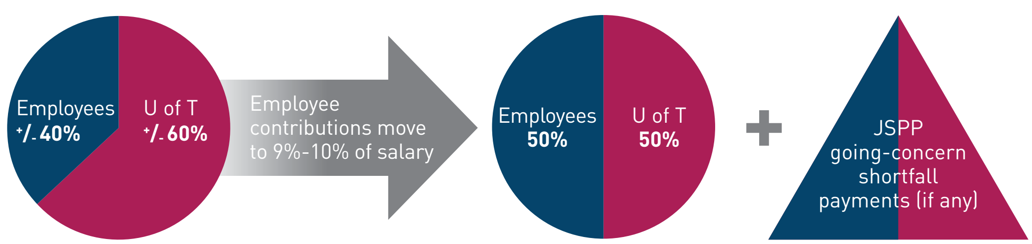
Each of the three universities' plans would undergo a going-concern valuation on a standard basis determined by the JSPP's actuaries. On conversion, any going-concern funding shortfall identified in this valuation would be the responsibility of that university, and would have to be fully paid down within a specified period, such as 15 years. Each university, in other words, would be responsible for its own shortfall.

What moving to a JSPP would mean for your pension contributions

The province has indicated that it wants universities with DB plans to move to 50/50 sharing of pension costs between employers and employees. This means that employee pension contributions will likely continue to increase, whether we convert to a JSPP or not. If we don't convert, we could end up paying 50% of the cost without an equal say in decision-making.

How the U of T plan is funded now
(based on 2016 valuation)

How funding would change after conversion to a JSPP
(based on 50/50 cost sharing preferred by province)



July 2017 UTFA members
7.15% x salary up to CPP max
+
9.5% x salary above CPP max

Proposed for U of T and JSPP members
- Range 9%-10% each
- Split above/below CPP max depends on final plan design

- Employees and employers share in new shortfalls and surpluses for pensions earned after conversion

U of T would be responsible for any going-concern shortfall identified at conversion.

No impact on pensions already earned in the U of T plan

All pensions earned under the U of T plan would be fully transferred to the JSPP with no change. The JSPP cannot reduce pensions while the plan is ongoing, and the U of T must make up any shortfall related to pensions earned in the U of T plan if the JSPP ends.

EXAMPLE: Retirement at age 65

- 20 years of service in the U of T plan
- 10 years of service in the JSPP
- Best salary (highest 36 months at retirement) = $140,000
- Average CPP max at retirement = $54,000

Pension earned in U of T plan

1.5% × $54,000 = $810

+

2% × ($140,000 - $54,000) = $1,720

=

$2,530 × 20 years

=

$50,600
annual pension

Indexed based on U of T plan rules

+

Pension earned during 10 years in JSPP

Indexed based on JSPP rules

No impact on current retirees

Anyone who retired under the U of T plan before conversion to the JSPP would continue to be paid the same amount of pension after conversion. These retirees would not be affected by any contribution increases and would receive the same cost-of-living increases after conversion that they would under the current U of T plan. In the unlikely event the JSPP was wound up, the U of T would be required to pay into the JSPP any additional amount required to ensure that retirees and their beneficiaries receive full payment of the pension earned under the U of T plan.

NEXT STEPS

- Backgrounder #3 will review the pros and cons of converting to a JSPP, and outline the proposed ratification process.
- UTFA will launch a pension website dedicated to the JSPP discussion.
- UTFA will continue to hold a series of meetings in preparation for the April 6 Council meeting, where UTFA Council will be asked to decide whether to give the Ad Hoc Pensions Committee authority to negotiate the terms of the JSPP alongside other JSPP stakeholders. A vote will take place at that meeting.
- Pending this decision, UTFA will launch a full-scale pension education program for all members, and will participate in discussions with unions and faculty associations at the U of T, Queen's University and the University of Guelph.