UNIVERSITY OF TORONTO *faculty* ASSOCIATION

Pensions

Newsletter #4 for UTFA Members

Questions and Answers about the Proposed UPP

Questions about Benefits and Contributions in the UPP:

1. **Would the benefits in the UPP be considered more or less valuable than the benefits under the existing U of T plan?**

   It depends. The total current cost of the benefits provided by the U of T plan is about 21% of pay. Under the UPP, the cost of the benefits will be 20% of pay.

   To individual employees, the relative value of the two plans will vary slightly, depending on their circumstances. That is because some of the differences will serve to increase benefits (for example, the increase in the benefit rate from 1.5% of pay to 1.6% of pay up to the new Canada Pension Plan maximum earnings) while others will serve to reduce benefits (the change in the earnings averaging period from best 36 months to best 48 months, for example).

2. **Is it true that employee contributions to the UPP would be higher than contributions to the current U of T plan?**

   Yes. UTFA members are currently contributing 7.15% on earnings up to the YMPE (the YMPE is the "Year's Maximum Pensionable Earnings" – the earnings cap set annually for purposes of CPP contributions and benefits) and 9.5% on earnings above the YMPE. This will be increased to 9.2%/11.5% below and above the YMPE respectively under the UPP. In 2025, that break point will change from the YMPE to the YAMPE ("Year's Additional Maximum Pensionable Earnings") – a second earnings threshold for CPP purposes which will be 114% of the YMPE). The effect of this change will be to reduce contributions on the range of earnings between the YMPE and the YAMPE from 11.5% to 9.2%.

   The University's contribution to the current Plan is 12.9% of earnings. UTFA is conscious of the very real government pressure on public and broader public sector pension plans in Ontario to move to equal cost sharing between employers and employees. UTFA expects the university sector to be impacted by this one way or another. Without the UPP, U of T employees could expect their contributions to increase by about 2.5% to be equal to those of the University, whereas the UPP will require a 2% increase in employee contributions.

   UTFA will be negotiating dollar for dollar increases to pay to offset the increase in employee pension contributions in the UPP. It was always UTFA's objective to ensure no reduction in the University's overall compensation costs through the move to the UPP.

3. **How do the proposed contribution rates under the UPP compare with other jointly sponsored pension plans in Ontario?**

   The 2018 member contribution rates are provided in the following table

	2018 Contribution Rate	
Pension Plan	**Below the YMPE**	**Above the YMPE**
Ontario Teachers' pension Plan	10.40%	12.00%
Ontario Municipal Employees' Retirement System (OMERS)	9.00%	14.60%
Colleges of Applied Arts & Technology (CAAT)	11.20%	14.80%
OPSEU Pension Trust	9.40%	11.00%
Healthcare of Ontario Pension Plan (HOOPP)	6.90%	9.20%
Proposed University Pension Plan (UPP)	9.3%	11.5%

   Please note that none of these plans has released any potential integration with the YAMPE.

4. **In the current U of T plan, best average earnings are calculated using the best 36 months of pay. In the proposed UPP, it is 48 months. How much difference will this change make?**

   This depends on both the member's salary level at retirement and potentially the rate of growth of the member's salary in the period immediately before retirement. For a member whose pension at retirement will be at the CRA maximum, regardless of the averaging period, the different averaging periods will make no difference to their UPP pension. For members whose pension entitlement at retirement will be below the CRA maximum, the impact of the change depends on the rate of growth of their salary in their best 48 months averaging period. The impact on pension will be roughly ½ of one year's of average earnings growth. So, for example, for a member whose salary increases at the rate of inflation (2%), the impact would be about 1%.

Questions about Retirement:

1. **I am retired. How will the move to the UPP affect my monthly pension and my indexing?**

   For anyone who is retired under the current U of T plan (that is, retired before the expected transition date of July 1, 2021), there would be no impact on the amount of monthly pension due to the transition to the UPP. 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 U of T plan.

2. **I am a faculty member on phased retirement. How will the proposed UPP affect phased retirement?**

   The UPP plan text will reflect existing phased retirement arrangements. Accordingly, anyone who is currently working under a phased retirement arrangement will not be impacted by the conversion to the UPP. If a member is approved for a phased retirement arrangement that carries over after the start of the UPP, then the pension earned for service after the start of the UPP will be based on the provisions of the UPP.

3. **The first 20 years of my eligible pensionable employment are in the current U of T plan; the last 10 years or so will be in the proposed UPP. Will the first 20 years be calculated under the current pension rules? How will the two parts of my service—the 20 years under one set of rules and the 10 under another—be put together to create my pension?**

   When you retire, the UPP will calculate the first 20 years of pension based on the current U of T formula. It will use all of your earnings under both the U of T plan and the UPP to determine the best 36 months of earnings. The 10 years of benefits earned under the UPP will be determined based on the UPP formula. It will use all of your earnings under the U of T plan and the UPP to determine the best 48 months of earnings.

   All of your service (i.e., 30 years) will be used for eligibility purposes for early retirement.

   Because the UPP will be the administrator of both the predecessor plans and the UPP itself, it will be able to perform the required entitlement calculations and combine the results in a single monthly pension payment. The same would be true of survivor benefits. The survivor benefits attributable to the current U of T plan and the UPP would be calculated in accordance with the rules of each plan, and combined in a single monthly payment.

Questions about Funding, Asset Transfers and Investment:

1. **Given that the U of T plan is not fully funded, how will the amount that is transferred by U of T, and every other university joining the UPP at the start, be determined?**

   The UPP will determine the value of pension promises under each predecessor pension plan and compare that amount to the value of assets transferred to the UPP by each University. Any shortfall in the assets needed to pay for benefits under the existing pension plans will be fully borne by the University. This process will be undertaken on a plan by plan basis. This approach ensures that all pension promises from all universities are determined in the same way.

2. **Since I assume that the current U of T plan assets are insufficient to support the existing pension promises, will the assets contributed exceed the current plan assets?**

   See #1 above. In the event that the value of the pension promises exceeds the value of the assets transferred, each university will be obligated to pay the amount of this shortfall over not more than 15 years. This set of payments will be fixed, and may not be reduced or eliminated until all amortization payments have been made, regardless of the financial experience of the UPP.

3. **Will the amount transferred be roughly equal to the current assets plus the going concern shortfall?**

   Yes, this is correct. See #2 above. The UPP will consider the University's obligation to eliminate the going concern shortfall as an asset upon transition to the UPP. **As a result, all plans will be fully funded upon joining the UPP.**

4. **Is the move to the JSPP a way to make the solvency shortfall go away?**

   Yes, this is correct. One of the central terms of the agreement to establish the UPP is the condition that solvency funding will not apply to it. This is consistent with all of the other Ontario jointly sponsored pension plans. The Ontario Government is aware of this condition and has not raised any concerns about it.

   This applies to both the current set of solvency rules and the enhanced funding rules that the provincial government has proposed as a replacement for the solvency rules. I.e. after the change, Ontario's jointly sponsored pension plans will continue to be funded on a normal going concern basis, and will be exempt from solvency payments or enhanced funding requirements.

5. **Does the multi-employer nature of the proposed UPP mean that the better-funded predecessor pension plans will effectively subsidize benefits of members accrued in the poorer funded predecessor plans?**

   One of the foundational terms of the agreement to establish the UPP is that the past service liabilities of the five predecessor plans must be transferred to the UPP on a fully funded basis, as described above. For further discussion on this, please read **here**.

6. **How are investing opportunities different in a multi-employer JSPP?**

   Investing opportunities are different because of the size of the asset base in a multi-employer JSPP. Larger plans have access to a much broader and more economically advantageous set of investment opportunities. For example, larger investment funds are able to own real estate directly, rather than indirectly through stock ownership or high-fee funds. Because larger plans have a larger membership and asset base over which to spread risk, they are able to make investment choices aimed at earning higher returns.

   In addition, larger plans enjoy economies of scale in the costs of investment management. Investment costs are much lower with a large pool of assets. While these savings seem fairly small when looked at on an annual basis, over a longer term these differences can have a meaningful impact on the asset base available to pay pensions. In general, between 70% and 80% of your pension comes from investment earnings on contributions rather than from the contributions themselves, so it is important to take advantage of any opportunity to optimize investment returns.

Questions about a Supplementary Retirement Plan:

1. **What is a supplementary plan?**

   The *Income Tax Act* (ITA) places a limit on the amount of pension that can be paid from a defined benefit registered pension plan. Many UTFA members will have average earnings at retirement that cause their UPP calculated pension to be constrained by this limit. A supplementary retirement plan is a contractual arrangement to compensate high-income employees whose retirement income planning is affected by the CRA limit.

2. **Will there be a supplementary plan for UTFA members?**

   It has been a condition of UTFA throughout the UPP negotiations that a companion, supplementary retirement benefit arrangement be established to accompany the new jointly sponsored pension plan. UTFA is in the process of negotiating terms of a supplementary plan to benefit members with earnings in excess of the maximum permitted under the UPP, and will provide details of the proposed terms as soon as possible.