UTfA
UNIVERSITY OF TORONTO
faculty ASSOCIATION

Pensions

Newsletter #1 for UTFA Members

On October 1, 2018, we issued our ***first communication to UTFA pension plan members*** *via email this fall.*

Almost concurrent with its release, ***U of T administration also issued an update*** *on October 2, 2018.*

Recent news

Through a mediation on October 3, UTFA, the Queen's and Guelph faculty associations, the three USW campus locals, and the administrations for the three universities successfully negotiated adjustments to early retirement provisions in the proposed UPP. We also made progress on the structure of one of the governing boards in the UPP, the Trustee Board.

Click here for a more detailed report on these recent changes to the UPP design.

1. **Safeguarding our future through a sustainable defined benefit pension plan design**

   The creation of the UPP represents a once-in-a-generation opportunity to sustain the defined benefit (DB) pension system within the Ontario university sector. The move to the UPP would enable us to maintain a DB pension plan while addressing the significant financial challenges that exist under the current plan.

2. **Moving to a Jointly Sponsored Pension Plan (JSPP) model means securing our defined benefit pension plan.**

   Under Ontario pension law, **a JSPP** must be a defined benefit pension plan, where your benefit on retirement is determined by a set formula based on your earnings and years of plan service (eligible university employment). The pension is paid for your entire lifetime (and your spouse's lifetime as well, should you have one when you retire).

   Single-employer DB pension plans, like the current U of T pension plan, must satisfy onerous funding requirements that are intended to protect pensions in the event of employer bankruptcy when the pension plan is not fully funded. The likelihood of this event for the U of T (and other universities) is extremely remote. While single-employer, DB plan funding pressures are perceived to be a significant risk to the employer, they also create risk for plan members. Currently, special payments to the U of T pension plan, toward pension debt, come out of operating funds, that is, academic units. Pension debt may also threaten employment among some employee groups.

3. **A multi-employer, jointly sponsored pension plan (JSPP), like the proposed UPP, is a defined benefit pension plan.**

   In a JSPP, the participating universities and pension plan members share responsibility for governance and funding. Pension debt may not accumulate in this plan model; it must be dealt with by the joint sponsors: the employers and the employees. To learn more about the key features of the multi-employer JSPP model, click on any of the active links within this document, or visit **The University Pension website**.

4. **Joint governance, where university administrations and employees (faculty associations and the unions) have an equal say in plan design, funding and administration.**

   JSPPs are jointly governed, and only the JSPP model would give faculty association members a voice in pension governance. This model offers greater transparency in terms of plan operations, funding, and decision-making through joint governance and open information-sharing.

   There is also clear and explicit sharing of risk between employers and plan members. If there are surplus assets in the UPP, we will have say, through pension governance, on the use of those assets. Similarly, if there is a shortfall, we will have to participate in any corrective action necessary to address it, including increasing contributions to the plan or temporarily lowering indexing on pensions in pay.

5. **Efficiencies, economies of scale and the UPP plan design – a much larger plan means greater efficiency in plan administration and access to more efficient, higher-return investment opportunities.**

   The UPP would initially include the U of T, Queen's and Guelph pension plans (assuming all plan members support the move to the UPP). Once up and running, however, the UPP would be open to all Ontario university pension plans.

6. **The UPP is designed to cost not more than 20% of payroll.**

   As a matter of prudence, we have built in a funding cushion of 0.5% of pay, paid equally by employers and employees. The current U of T pension plan costs closer to 21%. The reduction in the cost envelope toward ensuring long-term sustainability of the pension plan meant making changes to plan design. However, in so doing we have stayed as close as possible to U of T's current plan terms.

All the terms of your pension earned before the conversion to the UPP would remain unchanged. The differences noted apply only to future pensions earned under the UPP.

7. **Key differences between the current plan and the proposed UPP.**

UPP Pension provision	Details of the change
The UPP pension formula	The UPP pension – a defined benefit pension plan – would be calculated according to a formula based on your best four years of non-consecutive earnings, not the best three years of pensionable earnings, as is currently the case for the U of T pension plan. The UPP benefit formula will be 1.6% of your highest average salary up to the average Year's Maximum Pensionable Earnings (YMPE), plus 2% of your highest average salary above the average YMPE. Currently, the lower pension accrual rate is 1.5% of earnings. For some of our plan members (e.g., librarians), this difference will mean an increase in their pensions. The impact of this change will not be as significant for our members who are higher earners.

UPP Pension provision	Details of the change
The UPP pension formula *(continued)*	As explained above, the current U of T plan benefit rates – are a function of the Canada Pension Plan (CPP) earnings maximum, known as the YMPE. The UPP is structured similarly, except that in 2025 the UPP integrates with the implementation of enhancements being made to the Canada Pension Plan. Effective January 1, 2025, the plan formula will then be calculated using the Year's Additional Maximum Pensionable Earnings (YAMPE). For additional details related to these changes, refer to the recent **UPP update**. To learn more about the CPP and the changes that come into effect on January 1, 2025, visit the **Dept. of Finance website**.
Survivor benefits	When you retire, you will choose a 'form' of pension – i.e., how you would like your pension paid for your lifetime, and that of your spouse, should you have a spouse / partner when you retire. Both the U of T plan and the UPP provide protection should your spouse outlive you. Under the UPP, the standard form of pension (funded by the plan) continuing to your surviving spouse is 50%. If you choose a 60% spousal pension at retirement, then your pension would be actuarially reduced to fund the 10% difference. However, it would also be possible to arrange to have your spouse receive 80% or 100% of your pension – but the actuarial reduction would, of course, be greater. These actuarial reductions to your pension while you are alive take into account the age of your spouse and are intended to deliver a combination of member and survivor benefits that is the same estimated value as the 50% survivor benefit.
Early retirement benefits	Under the current U of T pension plan, if an UTFA member has reached age 60 and has 10 years of service with U of T, the member may retire and begin receiving their full pension. Despite this generous early retirement benefit, few UTFA members retire before age 65. Under the UPP, unreduced early retirement is available after a member has reached at least age 60, and whose age plus years of service total 80. Since few UTFA members choose to retire early, this difference is not expected to have any meaningful impact on our members.
Grandparenting	The early unreduced retirement (EUR) provisions of the U of T pension plan would be applied to benefits earned for service up to the date you join and start accruing benefits under the UPP. The UPP EUR provisions would be applied to benefits earned under the UPP. However, if you are age 52 or older on the date you join and start accruing benefits under the UPP (anticipated to be July 1, 2021), and your current EUR is better than the new UPP EUR, then your current EUR would apply to your entire pension.
Indexing	The UPP will provide the same level of indexing as the U of T plan, which is 75% of changes in the Consumer Price Index. However, this will be granted only if there are sufficient funds to do so (thus it is referred to as conditional indexing). The indexing will be automatically implemented unless both the employer sponsors and the employee sponsors agree otherwise. This is a necessary feature to provide flexibility in the financial management of the UPP. We were able to include a requirement that indexing will be guaranteed for the first 7 years of the UPP.

8. **In support of the achievement of a sustainable pension plan model**

At its inception (sometime in 2021, should the UPP be implemented), the UPP would begin life as a fully funded plan. The employer would be solely responsible for paying down the historical debt that exists, under the predecessor pension plans.

The UPP would not be subject to solvency funding requirements. **Solvency funding** measures a plan's costs, assuming that the plan is terminated on a given date and that all pension benefits earned must be paid out to members. For the current U of T pension plan, solvency funding requirements have become burdensome for the employer who, when the plan is in a deficit position, must make special payments to the plan to ensure the health of the pension plan. This often means using funds previously allocated to departmental operating budgets.

9. **Funding requirements and the Pension Benefits Guarantee Fund (PBGF)**

The UPP would not be covered by the Pension Benefits Guarantee Fund (PBGF), an insurance fund established by the Ontario Government to protect members and beneficiaries of privately sponsored single-employer defined benefit pension plans in the event of plan sponsor insolvency. U of T pays substantial PBGF premiums with no return on the investment, and for an eventuality that is extremely unlikely to occur given U of T's strength, size and success.

10. **More to come**

This is the first in a newsletter series designed to provide you with foundational information about the UPP, and to supplement resources available at **www.universitypension.ca**. Subsequent newsletters will explore specific aspects of the UPP.

The following provides some guidance regarding the timing of our broader communication initiative, including anticipated efforts from the U of T Administration.

Date	Communication
September 27, October 11, November 1, November 22	U of T communications
October through February	UTFA Newsletter series
October	UTFA Town halls and small-group information sessions Dates and times to be communicated
Mid-November	UTFA & U of T joint Town Hall sessions Dates and times to be communicated

We encourage you to learn all you can about both our current U of T pension plan, and the proposed UPP by accessing the available resources, attending a learning session when possible, and asking questions.