Frequently Asked Questions

February 2015

Background/Description of the Project:

The Council of Ontario Universities (COU) and the Ontario Confederation of University Faculty Associations (OCUFA) have brought together interested stakeholders from university administrations, faculty associations and unions (the "Plenary Body") to discuss the design of a framework for of a multi-employer Jointly Sponsored Pension Plan (JSPP) for Ontario universities. The goal of the University Pensions Project is to create a voluntary option that would provide a secure retirement future for members by providing a defined benefit pension, and also be a financially secure plan for the long-term. Over the next few months, interested parties will provide input and recommendations into four key areas of that framework: benefits and features; actuarial and finance; governance; and corporate structure. This is a voluntary process designed to gauge interest in a JSPP.

Q1: What is a JSPP?

A: A JSPP is a defined benefit pension plan in which the employer(s) or employer representatives and the member representatives share responsibility for the plan's governance, administration and funding. Pensions are determined by a formula, usually based on years of service and/or earnings. JSPPs can have all of the normal features of a defined benefit pension plan, such as early retirement subsidies, death benefits and inflation protection.

Unlike Single Employer Pension Plans (SEPPs), where employers are responsible for funding deficits, in a JSPP, both employers and employees are responsible for funding deficits. While SEPPs cannot reduce already earned benefits, JSPPs can reduce them in the rare event that the pension plan wound up and has insufficient assets. However if there is a surplus under a JSPP, members have a role in determining whether contributions should be reduced or benefits should be improved.

Q2: Why a JSPP?

A: In recent Budgets, the Ontario government has indicated its desire for pension plans in the broader public sector to move toward an equal cost-sharing model and pooled asset management. They have also stated a preference for increased risk sharing. A JSPP is one potential way of achieving these goals. The framework for a multi-employer

JSPP for Ontario universities is being drafted with the assumption that the Ontario government would grant it an exemption from current solvency funding valuation and payment requirements.

Proponents of the JSPP model view the JSPP's joint governance and decision-making attributes as providing greater transparency and accountability for plan beneficiaries. Because responsibility for funding is joint, both employers and members share in the benefit of any surplus and the risk of any shortfalls.

Q3: How will the JSPP be funded?

A: The financial health of a pension plan is determined by a funding valuation. The funding valuation determines the required contribution rate. The two types of valuations are:

1. "Going Concern:" compares the plan's assets and liabilities on the valuation date, assuming that the plan continues indefinitely. The plan's actuary can apply professional judgment in developing the actuarial basis (e.g. when employees will retire, how much the pension fund will earn); and

2. "Solvency:" compares the plan's assets and liabilities on the valuation date, assuming that the plan winds up on the valuation date. Solvency liabilities are based on actuarial assumptions set in the law and on the current market conditions, which are currently at historic lows.

At present, University SEPPs are required to fund on both a going concern and solvency basis. From a solvency valuation standpoint, some university plans will, in the coming years, have to make large payments to the plans; these solvency special payments will put pressure on financial resources. If institutions do not have to redirect financial resources to solvency payments, they will have more funds to deal with going-concern payments and for core activities.

In 2011, the Province permanently exempted certain JSPPs from the requirement to fund on a solvency basis. The framework for this project is being drafted with the understanding that the JSPP would be funded on a going concern basis only, and would be exempt from current solvency funding valuation and payment requirements. But it is important to note that no commitment regarding a potential exemption has been provided by the government at this point.

Q4: Is this a necessary exercise? Haven't stock markets rebounded to compensate for any losses plans experienced in the economic downturn?

A: Stock market returns have been improving since 2008-09, although they still haven't fully recovered. In addition to the slow recovery, interest rates have fallen in this period. Low interest rates are generally not good for pension plans because they cause plan solvency liabilities to be higher and future pension fund returns are subsequently expected to be lower. Pension plans around the world – even those that were thought to be secure – are still trying to recover from the downturn. Similarly, some university pension plans are still facing large going-concern and solvency payments that put a strain on university operating budgets. Canadians are also living longer, which places additional pressure on pension plans.

Q5: Why don't individual plans just join an existing JSPP, like CAAT?

A: Individual plans are free to explore all options, including joining existing JSPPs, such as CAAT, as well as any other options. The goal of this project is to provide a framework for an additional option – a JSPP for Ontario universities designed with the input of interested parties, including broad consultation with stakeholders through the sector.

Q6: Why are two organizations without a direct stake in collective bargaining discussing this rather than the employers and employee groups?

A: Employer and employee groups share common concerns about the future security of university pension plans in Ontario. COU and OCUFA's members have given their organizations a mandate to bring together interested representatives to explore options for a draft JSPP framework for Ontario universities. These representatives are from employer and employee groups that have early interests in this option and have joined a plenary body to provide input and feedback on design. The framework for an Ontario university plan would be available for the consideration of plan members and plan sponsors of existing pension plans through normal institutional processes, including collective bargaining.

Q7: How will this affect current collective bargaining?

A: All participants in the project respect the collective bargaining process. At the end of the process, institutions, unions, faculty associations and other employee groups would consider whether they are interested in moving forward with the JSPP framework. Entry into any plan developed through this process would be voluntary and need to be agreed to at the institutional level and negotiated through normal institutional processes, including collective bargaining. As well, there will be prescribed consent requirements under legislation/regulation.

Q8: Will employees be on the hook for past deficits if their union decides to join the plan?

A: Funding of existing deficits that are currently the responsibility of the university will remain the responsibility of the university.

One of the design principles of this project is that the JSPP will be fully funded on inception. As a separate project, COU is looking at ways to allow the universities to fund existing going concern deficits outside the new plan. Proposed draft regulations specify that in a JSPP, responsibility between plan sponsors (employees and employers) will be shared with regard to any future funding deficits, as well as any new deficits that may arise from past liabilities after the pension plan moves over to the new JSPP model. This has not yet been confirmed.

Q9: What will the plan look like?

A: That's what the project is designing. While straw models were explored in work conducted previously, over the next several months the group has committed to working through details of a benefits design for a plan yet to be drafted. Members of the project team are committed to developing an option that would provide a secure retirement future for members and also be a financially responsible system in the long term.

Q10: What will it cost? Am I going to pay more for less?

A: The goal is to create an attractive, affordable plan that provides a secure retirement future for all plan members. Once the design is put together it will be possible to cost the benefits. This is part of the project's work plan. The project team will use current university and public sector pension plans as a reference point. This is an open and collaborative process that has representatives from all sides of the table discussing and providing input into the specific features of the plan.

Q11: Will the benefits I've already earned in my current plan be reduced under a JSPP?

A: When a single-employer pension plan converts to a JSPP, the benefits you have already accrued in your past plan cannot be reduced under law. Once in a JSPP, the benefits that members earned in their old plan are guaranteed except in the unlikely event that the JSPP is wound up *and* the employers are unable to pay the additional amount required to fully fund the value of the original SEPP benefits – in this case, benefits earned in the SEPP would be reduced.

Q12. How does the project relate to the work being done to consolidate the management of pension plan assets for the broader public sector?

A: The two initiatives are proceeding independently at the present time. It is possible that at some future time, the entity created to manage pension assets could be available to manage the assets of the new plan, but work has not yet been completed by government.

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