UNIVERSITY OF TORONTO faculty ASSOCIATION

Pensions

Newsletter #3 for UTFA Members

How risk is shared upon conversion to a Jointly Sponsored Pension Plan (JSPP): Funding the transition from the current single-employer pension plans to the University Pension Plan (UPP)

All the university pension plans coming into the UPP carry substantial funding deficits that their sponsors are currently paying off through special 15-year amortization payments.

Two key objectives

In negotiating the transition from the existing single-employer sponsored pension plans in the Ontario university sector to the UPP, the unions and faculty associations representing plan members had two key objectives:

1. To ensure that the creation of a university sector JSPP did not become an opportunity for universities to off-load the unfunded liabilities in their current plans onto the UPP; and
2. To protect the UPP in its early years from funding risks arising from the assets and liabilities the new plan inherited from the predecessor plans.

The transitional funding mechanisms designed to address these issues broke new ground in the creation of new JSPPs in Ontario.

Meeting the first objective

The agreement requires that the pre-existing plans be transferred to the UPP on a fully funded basis.

- Any unfunded liabilities in these plans at the time of transfer will have to be paid off by the originating university over a maximum amortization period of 15 years.
- These payments will continue to be made until the original amount is paid off, even if the plan earns a surplus during the transition period.

This is a path-breaking approach: in other JSPP transitions, payments ceased as soon as they were no longer "needed" to reduce a funding deficit.

Meeting the second objective

The second objective articulated is designed to address two basic particulars about the transition:

- The past-service benefits brought into the JSPP by the predecessor plans are fully guaranteed.
- In the early years of the UPP the value of the fully guaranteed past-service benefits brought into the UPP (attributable to pre-inception service) will dwarf the value of the newly accruing benefits under the UPP.

Negative experience in funding prior benefits would expose the UPP to an unacceptable and unmanageable level of risk.

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Responsibility for paying the unfunded liability

As mentioned in UTFA's Pension Newsletter #2, the unfunded liability will be paid off by the University over a maximum of 15 years in payments that will continue even if the JSPP is in a surplus position.

- For a period of 10 years, the originating universities will each continue to be fully responsible for experience losses arising from prior plan liabilities that were brought into the JSPP upon its inception. Losses will have to be paid-off by the originating university; gains will be available to offset future losses but will not go back to the originating university.
- Each year after the 10^{th} year, and for another 10-year period, responsibility for losses will transition from the originating universities to the UPP (where responsibility is shared 50/50).

  For example, in the 11^{th} year, the UPP would be responsible for 10% and the originating universities would be responsible for 90%. Or, to look through the funding of the plan, the universities would be responsible for 95% and the members for 5%.

  In each year, gains and losses would be allocated to the universities and the UPP in the same proportion as the sharing in that year, with gains available to offset future losses.

Any losses for which the originating universities are responsible that remain outstanding at the end of the 20-year period will have to be paid-off via further payments. However, any surplus assets arising from the universities' responsibility will stay in the plan.