The University Pension Plan

January 2019

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What is in the UPP for UTFA members?

- Historic opportunity to get ahead of pressure for negative change. Aims of the UPP are:
  - **NO** forced **conversion to target benefit plan** – i.e. a plan that does not guarantee a retirement benefit
  - **NO** legislated **reductions** in benefits
  - **NO** legislated **cap** on employer contributions
  - **NO** forced **conversion to alternative forms of cost, risk and governance sharing** on terms dictated by government

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What is in the UPP for UTFA members?

- Long-standing objective of UTFA is to achieve a jointly governed pension plan that has **control and voice over**:
  - Contribution holidays
  - Investment decisions (UTAM)

What is in the UPP for UTFA members?

- The UPP will **sever the current link** between pensions and the operating budget
  - Pension decisions will be based on the interests of the plan and plan members rather than on the operating budget

Types of Pension Plans

- **Defined benefit (DB) plans**
  - Define the benefit to be paid based on plan terms (e.g., % salary x years of service)
  - E.g., U of T Pension Plan
- **Defined contribution (DC) plans**
  - Define the contributions made to member accounts (e.g., 10% of employee compensation)
  - E.g., Western University
- Also **Hybrid plans**
  - Combines elements of DB and DC plans
  - E.g., Queen's University

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What is a jointly sponsored pension plan?

- **Defined Benefit**
  - All of the JSPPs in Ontario are defined benefit pension plans based on final average earnings
- **Jointly Sponsored**
  - The governing body – often called the sponsor board – is made up 50/50 of members appointed by employers and members appointed by unions and associations that represent plan members in labour relations
- **Cost sharing**
  - Ongoing costs are shared 50/50 between employers and plan members
- **Risk sharing**
  - Risks to plan funding are shared 50/50 between employers and plan members

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What is a jointly sponsored pension plan?

- Exempt from additional funding requirements – including solvency and enhanced going concern funding -- that apply to single-employer sponsored plans like the U of T plan

- Ongoing administration by a board or trustees
  - appointed by the sponsors
  - An independent fiduciary responsibility to plan members

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Understanding Pension Risk

Retirement income risks are common to all types of retirement savings

There are no new risks in a jointly sponsored pension plan

- Investment risk
- Longevity risk
- Funding / Regulatory risk

Retirement income risk management

- How risks are shared
- How explicitly risks are shared
- How risk decisions are made

Plan-type risks

- **In the private sector** – the disappearance of defined benefit pension plans
- **In the public sector** – the disappearance of defined benefit pension plans in the private sector and the politics of the pension coverage gap

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Explicit vs. Implicit Risk

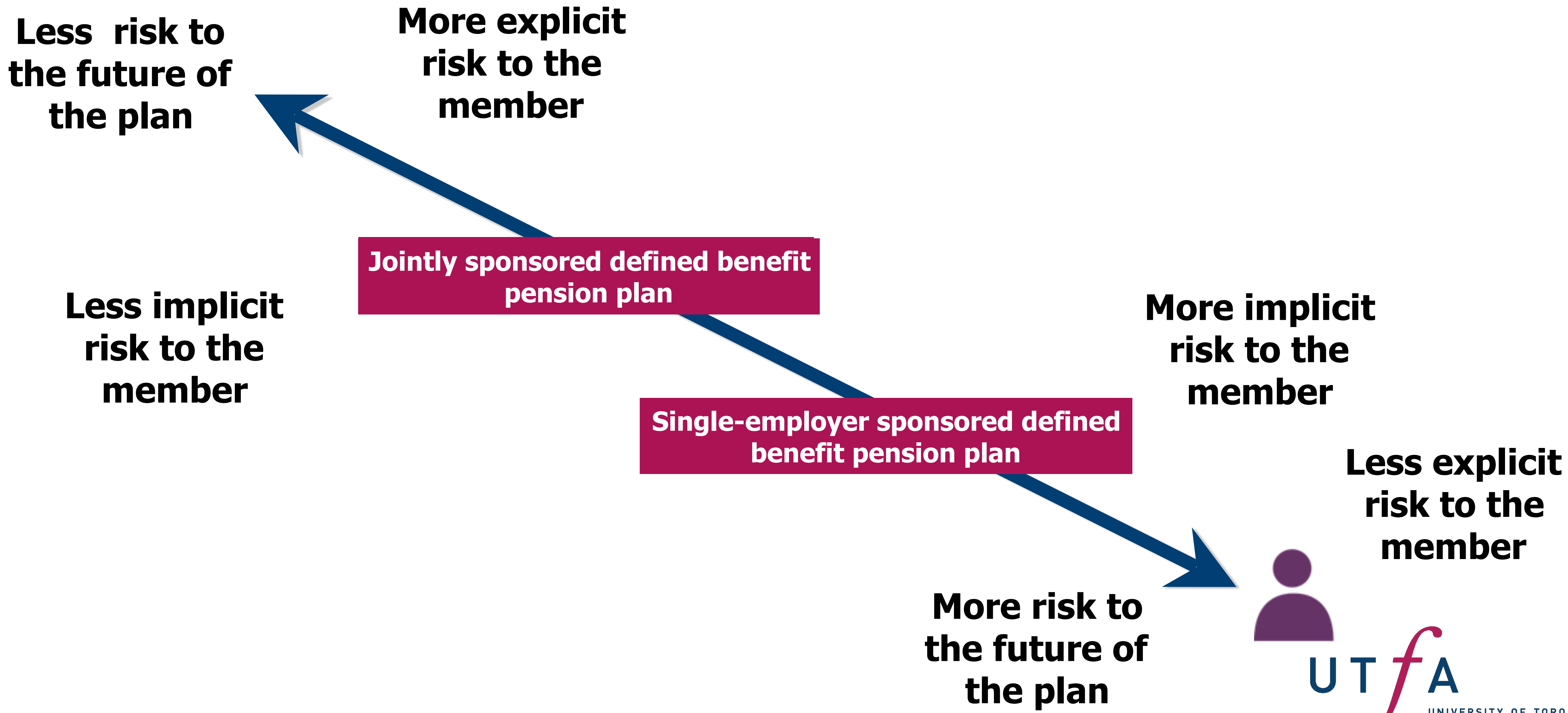
- **Explicit risk vs. implicit risk in a single-employer Defined Benefit plan**
  - In the U of T plan, the explicit risk – the risk that is spelled out in the plan document – is borne by the employer

    BUT

  - Risk is shared implicitly through the impact of the employer's funding decisions on the operating budget of the University; risk sharing decisions are made unilaterally by the employer and are not transparent.

- **Risk sharing in a jointly sponsored pension plan**
  - In a jointly sponsored pension plan, risk sharing is explicit; risk sharing decisions are made jointly by representatives of employers and representatives of plan members; risk sharing decisions are transparent

Risk sharing and Defined Benefit Plan Choices



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JSPPs in Ontario

The large public and broader public sector DB plans in Ontario are JSPPs, which are internationally recognized as model plans. In 2011, these seven were explicitly recognized as warranting different regulatory rules from other DB plans:

1. OPSEU staff plan
2. Ontario Teachers' Pension Plan (OTPP)
3. OMERS
4. HOOPP
5. CAAT (Colleges Plan)
6. OPSEU Pension Trust (unionized public service)
7. TTC Pension Plan

University sector in Ontario has the opportunity through the UPP project to become a JSPP and join these 7 plans.

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Unique Risks Facing Single-Employer Defined Benefit Plans

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Funding Requirements

Valuation = a test of the plan’s financial health

Going Concern Valuation

- Assumes plan will continue to operate for many years to come
- Based on long-term assumptions

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Funding Requirements

Solvency Valuation

- Assumes plan ends on valuation date
- Volatility in funding requirements
- Designed to protect members if employer goes bankrupt

***** JSPPs are EXEMPT from requirement to file solvency valuations***

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New rules don't help single-employer sponsored plans

1. Amortization period for going concern shortfalls reduced to 10 years from 15 years
   - Increases the short-term cost of addressing funding shortfalls
2. Required funding of a reserve referred to as a Provision for Adverse Deviation (PfAD)
   - Increases the total cost of single-employer sponsored DB plans – U of T plan costs would go up by about 10%
3. Must fund plan's solvency ratio to 85%
   - Must fund solvency shortfalls greater than 15% over 5 years
   - Does nothing to address the issue of volatility in funding requirements

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Single-employer DB model is under other pressures

- **Ontario government has raised the issue of pension funding in the broader public sector in every budget since 2010:**
  - Several reports have recommended consolidation and conversion to joint governance

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Single-employer DB model is under other pressures

- **Across Canada, provincial governments have been imposing changes on public sector employees' pension plans:**
  - Changes include unilateral limits on plan provisions, legislated limits on contributions, forced conversion to joint sponsorship with imposed terms, and, in some cases, fundamental changes to the pension promise

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Single-employer DB model is under other pressures

- **DB plan coverage low and continuing to shrink in private sector:**
  - The gap between public sector and private sector coverage leads to political pressure for change

The UPP:
A JSPP for the University Sector
(History and Development)

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Where did the UPP idea come from?

- **2010** -- Ontario Confederation of University Faculty Associations (OCUFA) pension forum to consider impact of 2008-09 financial collapse on university pension plans and operating budgets

- **2014** – OCUFA and university sector unions and the Council of Ontario Universities convened an in-depth study of options for change in university sector pensions

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Where did the UPP idea come from?

- **Spring 2015** – Joint meetings develop **important principles and guidelines** for a JSPP in the university sector
  - **Voluntary** – negotiated between the employer and member parties; not imposed by government
  - **DB plan**
  - **50/50** risk, cost and governance sharing
  - **Past service benefits wholly preserved** - no impact on accrued benefits - employees or retirees
  - **Full funding of past service** upon entry
    - i.e., universities would continue to be responsibility for the liabilities in their current plans
  - Plan design based on **best plans** in the sector – target cost of 20% of earnings

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From an idea to a proposed plan

- **Fall 2015** – mediated negotiations between a smaller group of 6 universities and their associated faculty associations and unions made significant progress towards a plan design

- **January 2017** – the University of Toronto, Queen's University and the University of Guelph invited their respective faculty associations and unions to work together towards the development of a new plan

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From an idea to a proposed plan

- **May to September 2017** – a mediated negotiating session resolved all but three key design issues. The remaining issues were resolved by the end of September in a milestones document that was endorsed by the three faculty associations and the three Steelworker locals

- **October 2017 to September 2018** – further work in direct and mediated negotiations to resolve details of plan design, and to revisit the questions of early retirement (age 62 vs. age 60) and integration with the proposed enhancements to the Canada Pension Plan (CPP).

The UPP – Main Features

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The UPP - Overview

- Very few plan design differences as compared to the existing U of T Plan.
- No negative impact on pensions already earned in current plans.
- No negative impact on monthly pensions of UTFA retirees.

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The UPP - Overview

- New pensions will be based on U of T plan before the effective date of the UPP and on the UPP after the effective date
  - Salaries after the effective date of the UPP will count in U of T benefit calculation
  - Service before the effective date will count for early retirement eligibility
- Formal inception date of the plan as of January 1, 2020 (registration of the UPP with Regulators), with assets and benefits transferred, and accrual of benefits anticipated to start **July 1, 2021,** the proposed effective date of the new plan**.**

The UPP – Main Design Features

- Contributions:

	Current U of T Plan	Proposed UPP
Aggregate cost	21%	20%
Employee contributions	7.15%/9.5% (8.1% blended)	9.2%/11.5% (10% blended)
Employer contributions	12.9%	9.2%/11.5%

- Rates are different above and below the Year's Maximum Pensionable Earnings (YMPE) (The CPP earnings maximum)
- UPP will replace the YMPE with the Year's Additional Maximum Pensionable Earnings (YAMPE), the new earnings breakpoint under the CPP, when it comes fully into effect in 2025 (YAMPE will be 114% of YMPE)
- Full salary increase offsets for increased member pension contributions

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The UPP – Main Design Features

- Benefit accrual formula:

  - **1.6%** of Average Earnings ***below*** the Average YMPE (YAMPE as of Jan 1, 2025), multiplied by credited service (up from 1.5%)

  PLUS

  - **2.0%** of Average Earnings ***above*** the Average YMPE (YAMPE as of Jan 1, 2025), multiplied by credited service

- Average Earnings will be based on average earnings during the best 48 months of eligible employment (increased from 36 months)
- Average Earnings will be capped in accordance with *Income Tax Act* limits

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The UPP – Main Design Features

Retirement Timing Options - Normal Retirement at age 65

- Early Retirement available as early as age 55
  - Pension ***reduced*** by 5% for each year before age 65, to take into account the additional years the member is expected to receive the pension.
- Early ***Unreduced*** Retirement (EUR) pension
  - Age 60 with 80 points (points = age + years of service)
  - "***Unreduced***" means you get your full pension based on your years of service and salary at the time of your retirement, with no actuarial reduction (even though the pension is expected to be paid over a longer period of time).
  - **Grandparenting:** If you are aged 52+ on transition, your EUR pension for UPP service will be determined based on the earlier of your EUR date under the UT Plan and your EUR date under the UPP.

The UPP – Main Design Features

Form of Pension: Pensions are payable for the lifetime of the member and if they have a spouse at retirement, they must by law leave a pension for the spouse in case the member dies first, unless waived. This is called a "survivor" pension.

- Member **With a Spouse** on the Date of Retirement:
  - UPP provides a survivor pension of 50% of the member's pension payable to the spouse for their lifetime;
  - U of T plan provides 60%

- Member **Without a Spouse** on the Date of Retirement:
  - UPP provides a pension guaranteed for 10 years; if the member dies within the guarantee period, the balance will be paid to member's beneficiary(ies) or estate.
  - U of T plan provides 5-year guarantee period

- Retiring UPP member will have variations on above options available.

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The UPP – Main Design Features

- **Funded Conditional indexing** at 75% of CPI
  - “Funded” means that contributions are sufficient to support indexing based on long-term actuarial assumptions
  - “Conditional” means that the indexing percentage can be reduced on agreement of the plan sponsors, depending on plan financial health
  - Sponsors have agreed that for the first 7 years, indexing will be paid at 75% of CPI, regardless of plan finances

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The UPP - Governance

- **Sponsor Board**
  - Responsible for plan design, contribution rates, funding policy, investment policy
  - Made up of 12 members – 6 appointed by employer sponsors, 6 by employee sponsors
    - Employee Appointments – 3 by faculty associations, 3 by other participating unions
    - UTFA has permanent seat on Sponsor board, other 2 FA seats rotate amongst eligible FAs

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The UPP - Governance

- **Board of Trustees**
  - Administration board responsible for all administrative aspects including implementing Sponsor Board policies
  - 14 members
    - 1 independent chair (appointed by Joint Sponsors) for first 7 years
    - 7 appointed by employees (3 by FAs; 3 by unions; 1 by non-union employees). The non-union appointee will not be able to create or break a tie. UTFA will always have the right to appoint one of the trustees.
    - 6 appointed by employers

UPP and U of T Plan Design Comparison

	U of T Plan for UTFA	UPP	Notes
Pension formula up to CPP maximum earnings	1.5% of average earnings	1.6% of average earnings	In 2018 dollars, increases pension by roughly $55 per year of service No impact on pensions above CRA max
Basis for CPP integration	YMPE	YMPE / YAMPE	UPP integrates with enhanced CPP in 2025; Not currently known how U of T Plan integration would change
Pension formula over CPP maximum earnings	2% of average earnings	2% of average earnings	Benefit capped at CRA maximum pension; earnings capped at corresponding salary
Basis for calculating average earnings	Best 36 months	Best 48 months	Reduces pension by half of late career salary increase – approximately 1.5% No impact on pensions above CRA max
Benefit above CRA maximum earnings	None	10% of pay over CRA maximum to an upper limit	Supplementary Account Plan (separate for U of T) 10% of pay between $165,000 and $250,000 (2018 dollars) plus interest Non-contributory for member

UPP and U of T Plan Design Comparison

	U of T Plan for UTFA	UPP	Comments
Death benefit – without spouse	5-year guarantee	10-year guarantee	If you die before reaching the guarantee limit, your estate or beneficiary receives the remaining payments from your pension
Death benefit – with spouse	60% survivor	50% survivor	Options on an equivalent cost basis; dependent children coverage; Default 60% would require reduction of about 1%-2% in retirement benefit
Spousal age differential	Up to 15 years	Up to 10 years	At higher differentials, pension must be cost-equivalent
Post-retirement indexing	75% of CPI up to 8%; 60% of CPI over 8%	Funded conditional at 75% of CPI	Funded means contributions are based on paying indexing at full rate; default in UPP is 75% indexing. Sponsors can reduce or suspend indexing adjustments based on plan funding. In other plans with conditional indexing (like the Ontario Teachers' plan), reduced indexing adjustments have been fully restored when plan funding improved.

UPP and U of T Plan Design Comparison

	U of T Plan for UTFA	UPP	Comments
Normal retirement	July 1 after age 65	1st of month after 65th	Average UTFA member has 6 month earlier normal retirement date
Early retirement	Age 55	Age 55	Reduced by 5% for each year retirement precedes normal retirement
Early retirement without reduction	Age 60 with 10 years of service	Age 60 with age + service >= 80	Age 52 or older on effective day of UPP may retire under U of T plan rules

Transition

- **Retirees as of the effective date (est. July 1, 2021) will continue to receive their pensions under the University of Toronto Plan provisions, unchanged**
  - The UPP will become the plan administrator, but nothing else will change
- **All benefits under the University of Toronto Plan prior to the effective date will continue to apply, and those benefits will be guaranteed**
  - When you retire, your pension will be determined under the current U of T plan provisions for your service before the effective date of the UPP and under the UPP provisions for service after the effective date
  - The benefits from these two sources will be combined in a single monthly pension cheque
- **Liabilities in the current U of T plan will be transferred on a fully-funded basis, with any shortfall paid off over a maximum of 15 years**
  - U of T will continue to be fully responsible for any losses related to U of T plan service for 10 years after the effective date of the UPP and partially responsible for a further 10 years after that.

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