Pensions

Newsletter #6 for UTFA Members
Pension change update: this piece first appeared in the December 2018 UTFA Executive Committee newsletter

A letter from UTFA's President

Pension Change

As most of you will know, over the past year UTFA has been focused on pension change. I am chief negotiator for UTFA on the University Pension Plan (UPP) initiative, which is a multi-employer jointly sponsored defined benefit (DB) pension plan.

Please see a **video on the proposed pension change here**. This video is sponsored jointly by the university administrations and the participating employees of the three founding universities in the UPP: U of T, Queen's, and Guelph.

The problem with the current plan model

Why is UTFA seeking to move to a new model for the pension plan?

The blunt answer is that the current model will not hold over the long term. In the current model, the University's pension costs are both high and volatile.

Funding rules require the University to contribute more to the plan than the benefits cost. And solvency funding is volatile because it varies with current interest rates. In addition, when investment returns do not reach their target and pension debt is incurred, the pension debt must be repaid to the plan over a short period.

Provincial government pension funding regulations determine the repayment protocol. The government's newest regulations continue to be onerous for institutions such as universities. These rules are to be lamented – but they are not going anywhere. The University administration must take the money to make pension debt payments from the operating budget, which includes taxpayer dollars. This is the part of the model that is not sustainable. All indications are that the provincial government and the U of T administration would like to see this cycle come to an end.

Securing the defined benefit pension plan

Defined benefit pension plans are disappearing, especially in the private sector. Employers are no longer willing to guarantee these plans and bear the risk associated with them.

UTFA is attempting to secure our defined benefit plan by moving to a more sustainable model of the DB plan. The most successful DB model in the province is the jointly sponsored one (JSPP), sometimes called the Canada Model. Ontario has produced some famous JSPPs: the Ontario Teachers' Pension Plan and the Healthcare of Ontario Pension Plan (HOOPP) are among the best known.

I want to be clear that I am advocating moving to the JSPP model – not because of the current financial status of our plan – but because I believe that the plan we have now will not be the plan in place ten or fifteen years from now, and it might not be recognizable in thirty years, when new hires will retire.

Joint governance and joint responsibility

The JSPP model offers joint governance. We don't have that now. In the proposed UPP, a sponsor board of twelve would feature six employer side reps and six employee side reps. Both sides would have to agree on matters related to the plan.

UTFA is the only faculty association that will have a permanent seat on the sponsor board. The other faculty associations will cycle on and off.

With joint governance comes joint responsibility. If a surplus occurs, the two sides of the UPP sponsor board (employee and employer) will together decide how to use surplus funds. Pension contribution holidays are a thing of the regrettable past. No responsible sponsor board would permit them.

- If a deficit occurs, the two sides of the sponsor board will have to agree on how to address it. Debt cannot be allowed simply to accumulate. Addressing debt in this plan model could mean temporarily lowering the index rate on a go-forward basis, or temporarily increasing contributions. Earned service (including earned indexing against inflation) may not be touched.
- The tie between pension debt and the University operating budget will be severed once the pre-inception debt is paid down by the University.

The UPP will begin life fully funded. Each university entering the UPP will have to pay down its debt over fifteen years.

Features of the proposed UPP

In the negotiations for the new UPP, UTFA, working alongside the Steelworkers and the faculty associations from Queen's and Guelph, sought to create a sustainable DB plan that would save money, create a financial buffer, and hold each university accountable for its own debt. We achieved each of these goals.

Some of the plan improvements we made are as follows:

- Our members would see an improvement to the "lower deck" (below the YMPE) percentage, from the current 1.5% to 1.6%. That increase would help lower UTFA earners achieve higher pensions.
- For higher earners, the newly negotiated Supplementary Account Plan (SAP) will provide additional retirement income. The SAP is not retroactive. It is tied to the UPP. It begins to accumulate employer contributions after the effective date of the UPP. Note that employees do not make contributions to the SAP. If the vote on the UPP does not succeed, then there will be no SAP.

What are the other main changes to the plan that members should know about?

- To create a more affordable plan, we agreed to 48-month averaging, which means that the best 48 months of salary are averaged in the pension calculation process. We currently have 36-month averaging. The Teachers' Plan uses five-year averaging.
- The UPP will feature increased contributions, but UTFA has negotiated the equivalent of full offsets in the form of salary increases. For UTFA's report on the SAP and the offsets, **click here**.

- The spousal death benefit will cost slightly more under the UPP. Approximately 1% to 2% – of the portion of the member's pension that is based on service under the UPP – will be deducted to pay for a pension of the spouse that is 60% of the member's pension. (No deduction on service under the current plan.) Any deduction is greater if the spouse is more than ten years younger than the plan member or if the spousal pension is greater than 60%. Remember that, in pension plans, members with spouses do not pay higher contribution rates as they do for health care benefits. Members with spouses and those without spouses pay the same contribution rates in both the current pension plan and the UPP. In the UPP, the extra contribution from those with spouses comes in the form of a slight reduction in the pension of the member (unless the member and the spouse sign a waiver in which the pension for the spouse is declined). The UPP does provide a partial subsidy for survivor benefits. It is just not quite as large as the subsidy under the current plan.
- In the UPP negotiations, we also agreed to save on plan costs on the early retirement provision. In the current plan, members may retire at 60 if they have at least ten years of pensionable earnings. Under the UPP, the years double to twenty. Very few UTFA members take early retirement, and therefore this seemed a reasonable area in which to reduce plan costs. Grandparenting provisions, however, mean that those who are 52 when the UPP begins may take early retirement under the current plan rules for UTFA members: age 60 and ten years of service. Early retirement is the only provision to be grandparented.

Earned service is protected

It is important to bear in mind that the law protects all earned service. This means that members who are already retired are not affected by the proposed changes.

- All years of service earned in the current plan will be credited based on the current plan's rules. Most of you reading this newsletter will have some years in the current plan and some in the new UPP.
- Two sets of rules will be applied to determine your pension when you retire. The two pensions will then be added together. Prorating will occur where necessary. For example, as mentioned above, the deduction for the spousal death benefit would be calculated based only on the years of service in the UPP.
- Only those hired after the UPP begins will have all of their service calculated under the new plan's rules.

A pension estimator tool

UTFA and the Steelworkers are developing an online pension estimator in which plan members will be able to enter their own numbers and estimate what their pension might be at a retirement date of their choosing. The tool is meant only to help members understand how the current pension and the UPP work to provide retirement benefits.

Ratification vote February 2 to February 8, 2019

UTFA will ask plan members to vote on the new UPP in an online ratification process that will begin at **9:00 a.m. on February 2 and end at 5:00 p.m. on February 8.**

If that vote fails, I anticipate a decade of concession bargaining on pensions. I am sorry to have to communicate this unwelcome news. Current plan benefits would be eroded over time. An example of a feature of the current plan that I believe would not survive: our 36-month earnings averaging. That could turn into what Teachers' and many other public sector pension plans in Ontario have – five-year averaging.

- When you vote in February, please bear in mind that UTFA does not believe that the current plan will remain the current plan. UTFA is urging members to vote in favour of the UPP because remaining in the current plan is just too risky.

Please visit these websites for more information:

- **UTFA's Pension Change website**
- **University Pension Plan (UPP) website**

With gratitude

I am indebted to Terezia Zoric for her crucial role in pension communications, and I am grateful to the UTFA Pension and SAP Negotiating Team for their dedicated service: Jody MacDonald, Marcin Peski, Kathleen Scheaffer, Harriet Sonne de Torrens, and Terezia Zoric.

Without the assistance of UTFA's pension experts – Goldblatt Partners, Eckler Ltd., and Hugh Mackenzie – UTFA would not have been able to undertake the complex UPP negotiation and the accompanying education campaign, and to all of them I offer heartfelt thanks.

Finally, I must warmly acknowledge Alex McKinnon, Department Leader, Research, Public Policy and Bargaining Support, for the United Steelworkers. Alex and I have worked closely as a team on the UPP, and the project could not have moved forward without him.

Sincerely,

Cynthia Messenger