ugFA

Representing Faculty, Librarians, Veterinarians & College Faculty

Negotiator #3

July 2017

University Pension Project History

As your negotiating team enters its third week of collective bargaining towards a Collective Agreement renewal, it seems appropriate to expand on the reference to the University Pension Project (UPP) in Negotiator #1.

As you will recall, in past rounds of bargaining, the Administration regularly sought pension concessions in the form of member contribution rate increases, and changes to, even elimination of, certain early retirement provisions. But maintaining the status quo of our current single-employer defined benefit (DB) pension plan has become untenable; the message on this front has been clear for a number of years.

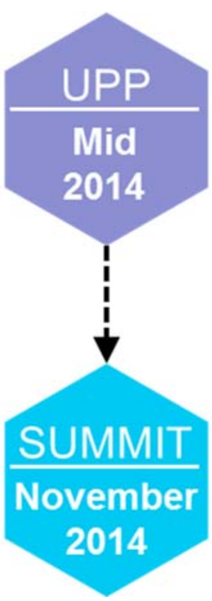
This Negotiator ends with a four-page “backgrounder” on the current state of university (DB) pension plans, produced by Eckler Ltd., a labour-side actuarial firm involved in the current pension plan process. This backgrounder is the first in a short series of documents produced by Eckler to help explain pension plans in general, and the current process in particular. Before getting to that document, though, we discuss the history of university pension-related events, including some Guelph-specific details. This Negotiator borrows from the pension presentation at the UGFA Annual General Meeting in late May; we also explain what has happened since May.

Ontario university pension plans are subject to two valuations at least every three years. Loosely, the Going Concern Valuation assesses whether the plan can pay the costs (i.e. accrued benefits) of the pension plan this year and in the short-term future, while the Solvency Valuation assesses whether the plan can pay all costs (i.e. partial and full pensions) if the university closes. The valuations typically determine the value the Going Concern Deficit and the Solvency Deficit for the plan. The government then expects the administration to clear the deficits by making yearly payments over an amortization window the government defines (15 years, in the recent past).

It is interesting to note that some provincial governments have exempted their universities from undergoing solvency valuations, with the idea being that they are not going to close. UGFA members who have been at the university for a sufficient number of years will recall the previous President, Alastair Summerlee, continuously lobbying the Ontario government hard to give the universities this exemption. At the same time**, money started being set aside in the "Internally Restricted" part of the Operating Fund, tagged as being used for such pension payments**. Over time, some money was shifted into the pension fund, but the balance of this set-aside pot has grown to exceed $70M. In the early days when the set-aside money was a mere $40M, **President Summerlee said** publicly that if he could secure a solvency exemption then **he could use that $40M for a spending spree to hire new faculty**.

The Ontario government never gave this exemption, but instead offered periods of "solvency relief," during which no or limited solvency deficit payments had to be made. Hand-in-hand with the relief came **a push from the government for a sector-wide all-employees multi-employer jointly-sponsored pension plan (JSPP)**. The promise was that such a plan would be **exempt from solvency valuations**. JSPPs are described briefly in the appended Eckler document and will be the focus of a subsequent backgrounder. The key points of a JSPP are that the employer and employees share the governance and the risk 50-50. In our current single-employer plan, the employer has sole governance and owns all of the risk.

The University of Guelph administers three pension plans. UGFA members are in the Professional Plan, which also includes Professional & Managerial Staff, Executive and "Excluded" Faculty (to whom we refer as the "non-unionized and unrepresented"), and members of the Ontario Nurses Association. In August 2013, the Professional Plan had around $800M in assets, with a going concern deficit of $163M and a solvency deficit of $263M (the "wind-up" deficit was $427, from which the projected value of post-retirement indexation gets deducted to reach the solvency deficit).



In mid-2014, discussions on moving towards a sector-wide "University Pension Plan" (UPP) began. UGFA's Pension Chair, Scott Gillies, was actively involved from the start. The process had many universities involved, with some being really interested and others being onlookers. The Government funded the initiative, splitting money between COU (money for the employers) and OCUFA (money for Faculty Associations and Trade Labour Unions).

The process built to a weekend summit in Toronto, with well-known mediators Bill Kaplan and Peter Simpson both present as facilitators. Scott and Herb Kunze, UGFA Salary Chair, represented UGFA. COU brought along the unrepresented, non-unionized employees, a group that includes members of the senior administration, presenting them as a third, separate group with interest in the plan. **The 2014 summit featured some progress, but raised many questions and challenges**. For example, the seats on the plan Sponsor Board will be allocated 50-50 to Employers and Employees, but how do we allocate the employee seats to faculty associations and trade unions?

SUMMIT November 2014 → **OANUE**

The unrepresented, non-unionized employees formed OANUE, the "Ontario Association for Non-unionized University Employees." **The faculty associations and trade unions do not see OANUE as an organized group**, since it is not unionized and, in fact, many of its members, like **senior administrators could never be in a labour union**.

UPP6 Mid 2015

By mid-2015, the Employer and Employee sides decided that the process should proceed with committed universities only, meaning "matched sets" of committed employer and employee groups from each involved university. The process was still called the UPP, but looking back we now say **UPP6, with** the six involved universities being **Guelph, Laurier, Nipissing, Queen's, Trent, and Toronto**.

OANUE received funding from the COU/Employer pot of government funding. **COU continued to push for OANUE to have a seat on the labour side of the plan Sponsor Board**, with a vote. The labour side said no way.

PLAN DESIGN

Plan design discussions progressed. There was agreement that **the plan will be funded by 20% of payroll**, 10% from employer and 10% from employees. The gaps in positions on plan design elements between the Employers and Employees narrowed, but Toronto, certainly UTFA, was absent from the process by late 2015.

SUMMIT November 2015

Another summit took place in November 2015, but the **OANUE issue**, pushed by COU, **remained a key stumbling block**.

OANUE

For all of 2016 (and part of 2015), **Peter Simpson tried to mediate the OANUE issue**, specifically its role or non-role in governance. It was a hopeless situation: three voices (COU, OANUE, and Employees) in the room, with two saying "put them there," while the people "there" (us) saying "no way."

MEDIATION 2016

The mediation failed. Peter Simpson moved on to a new role with the federal government. Our Scott Gillies also moved on to pursue a career opportunity at Wilfrid Laurier University.

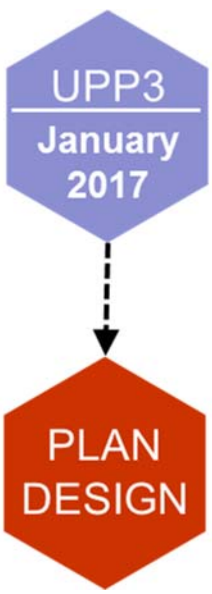
Late in 2016 or early in 2017, the Guelph Administration received the new valuation results as of **August 2016. The Professional Plan**, with close to $1B in assets, **had a Going Concern Deficit of**

$100M (down from $163M), but the Wind-up Deficit was $638M, which, after removing the cost of future indexation, gave **a Solvency Deficit of $452M (up from $263M)**. In addition, the Ontario government weakened its solvency relief regime: **Guelph would have to start making $62M yearly payments**. Instead of making the first such payment, **the Administration sought a letter of credit from the government, avoiding the use of the "Internally Restricted" set aside money**.

Governmental desire for a multi-employer/university JSPP, meeting an asset and member threshold, remained strong, with a promised solvency valuation exemption.

In J**anuary 2017, the University of Guelph, Queen's University, and University of Toronto Administrations** decided that they should try to **move forward with a tri-university multi-employer JSPP** (that other universities could choose to join after plan inception).

The Administrations met with each of their employee groups on campus to ask if there was willingness to proceed with this model. UGFA's Ed Carter, Bill Cormack, Herb Kunze, and Susan Hubers met with VP Finance Don O'Leary and AVP Tracey Jandrisits in late January. **We agreed to be part of this new process**, with Herb as the lead. It is important to note that the state of the pension fund is owned by the sponsors of the pension plan; **many UGFA members will remember the days of "pension holidays," when the Administration decided to forgo putting money into the plan fund**. We documented our commitment and expectation in a letter to the Administration the next day, noting that **we obviously would work to help save the University and that we expected that our help would be balanced by no extraordinary or punitive Administration proposals during this round of collective bargaining**. At the meeting, Don O'Leary explained that if the solvency deficit was ignored then the University would only have to make yearly payments on **the Going Concern Deficit, totaling, in Don's estimate, $125M**. At this point, it is perhaps important to remember again that there is $71M set aside for pension payments and that **there is a total of $260M in unallocated "Internally Restricted" money**.



All employee groups on all three campuses agreed to move forward: the faculty associations QUFA, UGFA, and UTFA; and the trade unions CUPE, OSSTF, and USWA, plus the smaller UNIFOR and OPSEU. The new process is named UPP3.

Plan design discussions continued. Subsequent backgrounders from Eckler will discuss elements of plan design, including giving a detailed look at the three current pension plans at Guelph. In this newsletter, **we will forgo discussing the various plan design provisions in detail, saving that discussion for the Fall** semester when we plan to run a pension education campaign, in the lead-up to an approval vote from our membership about entering into the UPP3 with our partner universities.

Recall, however, that the plan will be funded by 20% of payroll. The 2017 discussions accepted the previously agreed-upon design elements, which already accounted for 17.8% of payroll. In terms of cost, then, we only had a minor amount of the plan design to pin down, around 2% of payroll or 10% of plan cost, but the remaining issues were significant and included things beyond design: OANUE, the handling of future gains/losses due to pre-inception service, level of reserve funds, and so on.

The most recent summit occurred in May, 2017, featuring many moving parts:

- Three Faculty Associations: QUFA, UGFA, and UTFA.
- Three big trade unions: CUPE, OSSTF, USWA, some with many locals and with provincial or national leadership present.
- Two small trade unions: OPSEU and UNIFOR, also with provincial leadership present.
- Three employers: Queen's, Guelph, Toronto.
- Numerous lawyers, actuaries, and advisors.
- Two mediators: Bill Kaplan and Eli Gedalof.

We made significant progress at the 2017 Summit. In the weeks following the summit, working groups came to a reasonable agreement on the question of future gains/losses and the OANUE issue finally seems on the road to being resolved. **It is expected that the employer and employee groups committed** to moving forward to discussing lower-level design issues **will signal this intention before the end of July**.

While the ideal outcome is to have all three employers and all employee groups "in the tent," ready to move forward together, as you might expect given the timeline of this project as described in this newsletter, there are challenges involved with realizing that ideal. In particular, every employee group has had to face pension-related demands in recent (and perhaps not-so-recent) rounds of collective bargaining. There may well be hard-fought gains or highly-coveted provisions that a particular employee group has bargained or maintained that can't be captured in a new plan with the envisioned scope (multi-employer, all employee groups ideally). **A "best of" cherry-picking pension plan model cannot be achieved for 20% of payroll**. Guelph faces particular challenges in this regard, with 16 different employee groups all having 15 different contribution rates and four different unreduced early retirement provisions. At this point, **the realistic expectation is that all three employers, all three faculty associations, the other groups in the Guelph Professional Plan, and some of the trade unions at the different universities will move forward to the next design phase**.

We hope that the UPP3 process will end with an education campaign, presentations to members, an online pension calculator, and more, as lead up to an approval vote to enter the new plan. **If we do enter a multi-employer JSPP, our collective bargaining will no longer be clouded by pension-related concessions**. With that said, the UGFA Executive and your negotiating team (Ed Carter, Herb Kunze, Mary DeCoste, Ibrahim Deiab, Jonathan Ferris, Sue Hubers, and Denise Sanderson) see that this round of bargaining still has a pension shadow cast upon it: in particular,

1. **how does one see the $260M in "Internally Restricted" money when the pension plan shortfall is solvable with ten yearly amortization payments of $15M?**
2. **What should UGFA members reasonably expect from the Administration given our essential role in saving the University from having to make $62M yearly solvency payments?**

Your negotiating team needs your support!

UPP3

Backgrounder #1
for Labour Leaders

This backgrounder has been produced by the labour side of the University Pensions Project to introduce some of the key issues driving current pension discussions at Guelph, Queen's and U of T, and why a jointly sponsored pension plan (JSPP) is being explored. You will receive additional backgrounders in the coming weeks and months.

Current status of university pension plans

Under the defined benefit (DB) pension plan framework now in place at most Ontario universities, you receive a lifetime pension based on a formula tied to earnings and service. Your pension is paid from the pension fund, which is made up of employer and employee contributions, and investment earnings on these contributions. Employee contributions are set out in the plan text and may be modified through collective bargaining. The employer must make all necessary contributions to cover plan deficits to meet Ontario's funding requirements, and in good times, it controls any surplus.

Many pension plans in the Ontario university sector currently have significant funding shortfalls—in most cases initially triggered by the 2008 financial crisis. To pay down their shortfalls, each university administration makes large additional annual payments along with their regular pension contributions into their own plan or plans. Moreover, in the absence of major changes to their plans or to current provincial funding requirements (see page 2), or both, university administrations face hundreds of millions of dollars in additional shortfall payments. These payments have serious repercussions for operating budgets and are increasing pressure for concessions from employees, such as increasing contributions, reducing future pension benefits, or a combination of these. Indirect costs affecting negotiations could be job cuts, lower wage increases, and other austerity measures.

TWO SIDES OF A PENSION PLAN

Assets in pension fund	Liabilities
Contributions and investment earnings	Cost of pensions owed to active, inactive and retired members

Estimated cost of $30,000 annual pension paid for life with a 10-year guarantee, starting at age 65

10 years ago: **$444,000**

VS

Today: **$576,000**

Increase due to longer life expectancy (+80K) and low interest rates (+52K)

How we got here

Three factors contributing to the current pension funding challenges are:

1. low interest rates;
2. improvements in life expectancy, which translate into longer pension payouts (and costlier pensions); and
3. volatile investment markets, which are making it more difficult to achieve reasonable and predictable investment returns.

These challenges are compounded by current provincial funding requirements, which determine how the financial health of the plan is measured and what additional contributions must be made in the event of a shortfall.

Provincial funding requirements

Pension plans are required to file a formal valuation with the Ontario pension regulator at least once every three years. This valuation tests a plan's health based on two scenarios:

1. **going concern**, which assumes the plan will continue to operate as expected for many years to come; and
2. **solvency**, which assumes the plan ends on the date of the valuation, and is designed to protect plan members in the case of employer bankruptcy.

Most plans currently have both going concern and solvency shortfalls. In particular, most plans have experienced a significant deterioration in their solvency position. This is largely because the solvency valuation is required to use point-in-time interest rates to determine the money needed to provide pensions owed to members. When interest rates drop, more money is required to provide these pensions—and vice versa. Even minor changes in interest rates can have a dramatic impact on solvency funding results.

A drop in interest rates of

1%

increases solvency funding obligations by about

15-20%

In recognition of the dramatic impact current low interest rates have had on Ontario university plans' solvency results, the province has granted temporary solvency relief for universities that eliminates, or substantially reduces, any payments to address their solvency shortfall. The province has also been working toward developing a more permanent approach to pension funding. Information released on May 19, 2017 suggests that notwithstanding this new approach, university DB plans will likely continue to face funding challenges. Please refer to UPP3 Backgrounder #4.

SOLVENCY VALUATION

GOING CONCERN VALUATION

Valuation date

Solvency valuation:

- Tests plan's health assuming the university shuts down on the valuation date
- Compares market value of fund on date of valuation to current value of pensions earned by members
- Can exclude certain benefits (such as indexing)
- Tied to current interest rates and prescribed assumptions
- Additional deficits paid off over 5 years (under current regulations)

Going concern valuation:

- Measures plan's health assuming it continues to operate long past the valuation date
- Compares value of fund on date of valuation to value of benefits earned as of valuation date
- Uses reasonable long-term assumptions based on information available at valuation date including:
  - When members will retire
  - Future investment returns
- Deficits paid off over 15 years (under current regulations)

Valuations must currently be filed with the pension regulator at least every three years.

Solvency funding review

It is expected that solvency funding would no longer apply on conversion from a single employer pension plan to a multi-employer JSPP, and the need to fund any solvency shortfalls would be eliminated. Under the current funding regime, all multi-employer JSPPs are exempt from solvency funding. Given the success enjoyed by these plans and their collective lobbying power, the province has made no move to change JSPP funding rules.

We also know that managing the cost of funding and maintaining defined benefit pension plans in the university sector has been on the provincial government's agenda since its 2012 release of the Drummond report on the reform of Ontario's public services and subsequent budget.

The province wants equal sharing of pension costs between employers and employees—which naturally leads plan members to insist on equal participation in plan governance. The province also supports the consolidation of plans to achieve efficiencies of scale.

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Jointly sponsored pension plan (JSPP) option

JSPPs aren't new. Ontario's JSPPs currently make up six of the largest pension plans in the province, including the Ontario Teachers' Pension Plan (OTPP), the Ontario Municipal Employees Retirement System (OMERS) and the Healthcare of Ontario Pension Plan (HOOPP). These plans have a long history, and are internationally respected for their ability to provide secure, high-quality pensions.

JSPPs provide defined benefit pensions. However, whereas university administrations are responsible for governing current plans and ensuring they meet provincial funding requirements, management and labour sponsors in a JSPP share equally in plan governance and plan costs.

Three important drivers of UPP3:

1. *Protect defined benefit pensions, which provide a secure and predictable income at retirement;*
2. *Establish a prudent and stable funding regime; and*
3. *Give employees an equal voice in the management of the plan.*

UNIVERSITY PENSIONS PROJECT

To achieve exemption from solvency funding and the economies of scale desired by the province, stakeholders from the University of Guelph, Queen's University and the University of Toronto are working to design a JSPP option for Ontario's universities. The goal is to provide pension benefits that are at least as good as you have today. Once the design of this JSPP option is concluded, the plan will be open to all Ontario universities that want to join. You should note that under pension law all benefits earned to date will be protected, with the JSPP design covering future benefits only.

HOW THE TRANSITION TO THE NEW PLAN WOULD WORK

Each university would be responsible for funding its current deficit at the time of conversion to the new plan. With these deficit payments, the JSPP would be fully funded on a going concern basis at inception. Future gains and losses would be managed jointly by a sponsor board, with equal representation by employers and employees—and future contributions and benefits would be calculated on the same terms across all participating universities.

For existing employees, your final pension will be a combination of the secured benefits earned under your old plan and those earned under the new JSPP. Retirees would continue to receive their pensions as usual, but payments would be made by the new JSPP.

The decision to convert to the new plan requires a formal consent process (laid out in Regulation 311/15 of the Pension Benefits Act), and ratification by active, inactive, and retired members/beneficiaries.

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The process for moving forward

- UPP3 will work toward finalizing a "term sheet" by June 30th. This document will provide details on the provisions of the JSPP, its governance structure and the transition process.
- Working with stakeholder groups, UPP3 will embark on a broader education and consultation process.
- This will be followed by the necessary internal approval processes, union processes and member ratification processes.

WHAT YOU CAN DO

We encourage you to follow and become active in the discussions. Here's how you can do that:

- **Understand the issues:** In the weeks and months ahead, there will be presentations, question and answer documents, and a website set up as a focal point for all supporting materials.
- **Lend your voice:** Your feedback on the issues will play an important part in how the JSPP option unfolds.
- **Stay up to date:** We'll keep you informed along the way, and send notifications when new information is posted to the website.
- **Attend information sessions:** Your active participation will help promote meaningful discussion.