UPP3

Backgrounder #2
for Labour Leaders

This Backgrounder takes a closer look at the differences between single-employer DB plans and multi-employer JSPPs. See Backgrounder #1 for information on the key issues driving UPP3.

A closer look at the jointly-sponsored pension plan option

Defined benefit (DB) pension plans, like the current plans at Guelph, Queen's (where it's included as part of a hybrid plan), and U of T, are generally considered the highest standard in pension plans because they provide secure, lifetime pensions. But these plans are under threat due to growing and increasingly volatile costs that are creating budgeting challenges for employers with DB plans. The shift away from DB is most evident in the private sector, where less than 25% of employees now have any kind of pension plan, and of those, only 45% participate in a DB plan.

Continued government support for good DB pensions in public sector institutions like ours is far from certain, especially in light of the large pension deficits currently plaguing many plans.

Given the current pension environment and based on research to date, a jointly-sponsored pension plan (JSPP) framework has emerged as a strong option for preserving high-quality DB pensions while maintaining government support.

Many of Ontario's top public sector pension plans are JSPPs—names you probably know, like Teachers, OMERS and HOOPP. They enjoy an international reputation for delivering secure, sustainable retirement benefits. JSPPs are promoted by the Ontario Ministry of Finance over single-employer DB plans because they involve cost-sharing with employees, as well as:

- Greater transparency
- Better governance and
- More predictable costs.

A great deal of work has already been done on the development of a JSPP model for the university sector. Following two years of extensive research and consultation by the UPP, an essential framework for the new JSPP has already been established. We have reached the point where together, Guelph, Queen's and U of T need to determine much more precisely what a university JSPP would look like—and to begin educating our members to equip them to make an informed decision when the time comes.

With fading public support for the current provincial government and given the past positions taken by the official opposition, we believe there may be a limited window of opportunity to work through the details of a conversion to a JSPP that will work for all stakeholders. This is one reason why these discussions are happening now.

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Key differences between DB plans and JSPPs

Both DB plans and JSPPs provide defined benefit pensions, based on a formula tied to earnings and service. But there are four main differences between these two types of plans:

All pensions earned under the current plans would continue to be fully guaranteed for active, inactive and retired members, and their beneficiaries.

1. In a single-employer plan, the employer, as sole plan sponsor, is responsible for both governance and funding. A JSPP, on the other hand, is jointly sponsored by employees and employers, who share responsibility for governance and funding.
2. We expect that entering into a multi-employer JSPP would exempt the plan from solvency funding. This would eliminate the need to fund solvency shortfalls.
3. The pensions promised to members in DB plans and JSPPs cannot be reduced while these plans are ongoing. In a JSPP, however, pensions may be reduced, but only in the unlikely event the plan is wound up and has a solvency shortfall. For a multi-employer JSPP to wind-up, all employers must stop participating and the employee groups must give consent to the wind up—an extremely remote possibility. Any wind-up reduction would apply only to pensions earned after the conversion. All pensions earned under the current plans would not be reduced—these are fully guaranteed for active, inactive and retired members, and their beneficiaries.
4. JSPPs are not protected by Ontario's Pension Benefit Guaranteed Fund (PBGF), because its coverage applies only to privately-sponsored, single-employer DB plans (like your current plan). This fund currently protects the first $1,000 of monthly pension in the case of employer (university) bankruptcy. For example, if a plan that is 80% funded is wound up, the guarantee fund will cover the 20% shortfall reduction on the first $1,000 of monthly pension ($200 a month). The fact that multi-employer JSPPs are large, pool risk and are unlikely to wind up, reduces the risk for individual plan members.

Differences between plans

	Single-employer DB plan	Multi-employer JSPP
Governance	• Employer has full control and responsibility • Decision-making may be hidden and private	• Sponsor board with representation from both employees and employers • Decision-making is shared and public
Changes to future pension	• May be negotiated through collective bargaining process	• Sponsor board approves changes with agreement by both employees and employers (each acting as one group)
Contributions	• Employee contributions negotiated under collective agreement • Employer responsible for paying difference between employee contributions and pension costs	• Contributions negotiated by sponsor board based on funding need • Employee and employer both contribute (typically 50/50) to plan costs
Deficits/ surpluses	• Employer solely responsible for shortfall payments • Surpluses may revert to employer • Plan subject to both going-concern and solvency funding rules	• Shared responsibility for shortfalls—on a go forward basis contributions could be increased and/or future pension benefits could be decreased for active employees • Shared ownership of surpluses • Plan subject to going-concern funding rules, but expected to be exempt from solvency funding

Plan administration	• Employer responsible • May be delegated to a third party	• Sponsor board responsible • Usually delegated to a third party
Plan investments	• Overseen by employer • Defined long-term return objective with risk levels set by employer	• Overseen by administrative board based on investment policy developed by the sponsor board • Defined long-term return objective with risk levels set by sponsor board

What would happen to the current funding shortfall

It is expected that solvency funding would no longer apply on conversion to a JSPP, and the need to fund any solvency shortfalls would be eliminated.

Each of the participating universities' plans would undergo a going-concern valuation on a standard basis determined by the JSPP's actuaries. On conversion, any going-concern funding shortfall identified in this valuation would be the responsibility of that university, and would have to be fully paid down within a specified period, such as 15 years. Each university, in other words, would be responsible for its own shortfall.

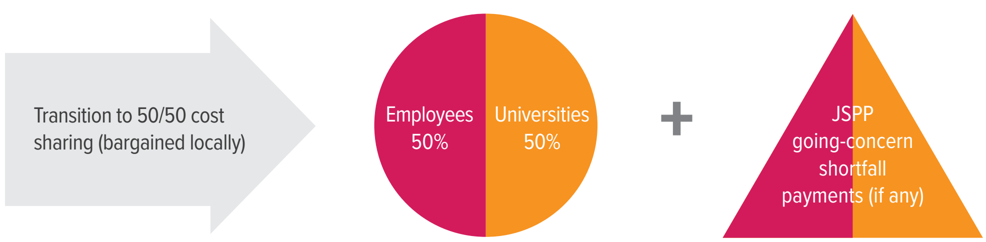
What moving to a JSPP would mean for your pension contributions

The province has indicated that it wants universities with DB plans to move to 50/50 sharing of pension costs between employers and employees. This means that employee pension contributions will likely continue to increase, whether we convert to a JSPP or not. **If we don't convert, we could end up paying 50% of the cost without an equal say in decision-making.**

How plans are funded now

Current range
*approximate

How funding would change after conversion to a JSPP



Estimated for JSPP members
8.6% x salary up to YMPE*
+
10.75% x salary above YMPE*

- Employees and universities share in new shortfalls and surpluses for pensions earned after conversion

*Year's Maximum Pensionable Earnings—the earnings amount used to calculate CPP contributions each year ($55,300 in 2017)

Each university must make up for any going-concern shortfall when it joins the JSPP.

No impact on pensions already earned in current plans

All pensions earned under the current plans would be fully transferred to the JSPP with no change. The JSPP cannot reduce pensions earned under the previous plan, and the universities must make up any shortfall related to pensions earned in their plans if the JSPP ends.

EXAMPLE: RETIREMENT AT AGE 65

- 20 years of service in current plan
- 10 years of service in the JSPP

Pension earned in current plan		Pension earned in JSPP
Current formula × earnings up to retirement date × 20 years = Annual pension *Indexed based on current plan rules*	+	JSPP formula × earnings up to retirement date × 10 years = Annual pension *Indexed based on JSPP rules*

(Retirement will also be available before/after age 65.)

No impact on current retirees

Anyone who retired before conversion to the JSPP would continue to be paid the same amount of pension after conversion. These retirees would not be affected by any contribution increases and would receive the same cost-of-living increases after conversion that they would under their current plans. In the unlikely event the JSPP was wound up, the universities would be required to pay into the JSPP any additional amount needed to ensure that retirees and their beneficiaries receive full payment of the pensions earned under their current plans.

NEXT STEPS

- Backgrounder #3 will review the pros and cons of converting to a JSPP, and outline the proposed ratification and consent process.
- 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.

This document describes highlights of various university sector pension plans in simple terms. It also provides general information about jointly sponsored pension plans. It is not intended to be relied upon as legal or financial advice. Every effort has been made to ensure the accuracy of this information, but if there are any errors or differences between the information given here and the legal plan documents or applicable legislation, the legal plan documents or applicable legislation will govern.