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UGFA Pension Primer 101
PART ONE of a THREE PART Series

PENSION BASICS – Getting to Know Your UG Pension Plan

This is the first newsletter in a three-part series of UGFA communications addressing our pension plan. The first communication will cover plan definitions and design. The second and third newsletters will cover plan history, the current crises and government legislative changes, and an examination of the risks and benefits of potential pension plan changes, respectively.

TYPES OF PENSION PLANS

There are many different permutations of pension plans in Ontario. The following briefly defines those plans that are relevant to our current situation at Guelph:

Defined Benefit or 'DB' Plans – Based on a 'pension promise', your pension is calculated based on a defined formula (see below) that determines your retirement income. Members pay a set contribution rate based on their salary. The governance - sponsorship and all associated financial risks of the plan are owned by the employer, though plans must have an advisory board of plan members for education and accountability purposes;

Defined Contribution or 'DC' Plans – These plans provide a pension based on a matching contribution formula with typically no guarantee of income on retirement.[1] The governance of DC plans is usually owned by the employer (including the requirement to educate members on risks and alternatives); however, actual financial risks are born primarily by the employee based on uncertainty of benefit upon retirement;

Jointly Sponsored or 'JSPP' Plans – Jointly Sponsored Plans (such as the Teachers Plan, HOOPP (Hospital Plan), and OMERS) are a specific type of DB plan that typically share both governance and associated risks equally between employer and employees through a joint board of trustees. Contribution rates are usually split 50/50. The Provincial Government has strongly encouraged post secondary institutions to examine these plans as viable alternatives to traditional DB plans, including taking the step of absolving JSPPs from Solvency calculations (see below).

UG PROFESSIONAL PLAN PENSION FORMULA

To determine what your individual pension will be, our plan uses the following formula:
(Years of Credited Service[2]) x (1.5% of your Best Average Earnings up to the average YMPE[3]) + (2% of your Best Average Earnings above the average YMPE)

[1] The exception to this rule are 'Hybrid' pension plans which operate like DC plans, but with minimum income guarantees that mimic DB plans.
[2] The maximum limit for years of service is 35, after which no further credit may be earned and contributions cease.
[3] YMPE - The Yearly Maximum Pensionable Earnings set by the Federal Government, which determines the maximum of amount of earnings on which you will contribute to CPP ($47,200 for 2010).

FUNDING YOUR DB PENSION

All Defined Benefit (DB) pension plans are funded through a combination of contributions and investment income returns. The 'normal' contribution rates for UGFA Members are: 4.8% (up to earnings of $47,200) and 6.5% thereafter, giving a blended average of 5.4% of total yearly earnings. The University is responsible for the remainder of the funding of both the current service costs (the expected level of current retirements and retirees) and any additional payments arising from Solvency Calculations (*see Plan Funding Valuations below*).

PLAN FUNDING VALUATIONS[4]

DB Pension plans are required by the Provincial regulations to ensure that the Plan Sponsor (the University) can meet its financial obligations by filing regular (maximum every three years) financial evaluations of its pension plans. These valuation reports determine whether a DB plan can meet its pension payment obligations as determined by the formula for *both:*

1) *CURRENT* levels of retirees (*Going Concern* Valuation), and;
2) *If EVERY* employee owed a pension had to be paid out at once (*Solvency* or *Wind-up* calculation).

The results of these two calculations determine the overall health of the plan and can result in pension holidays (if the pension plan is in surplus) or in special payments by the employer (if the plan is in deficit). Currently Guelph's pension plans are in deficit that is attributable mostly to the Solvency/Wind-up calculation.

HOW THE PENSION PLAN IS RUN (GOVERNANCE)

The Professional Pension Plan is one of two active pension plans maintained by the University (the other being for support staff represented by CUPE, USW and the Exempt Groups). The membership of the professional plan is comprised of UGFA Members, PSA Members, CARG (College Academic Research Group), CUPE 3913 (long-term sessional instructors) and ONA (Nurses). There is an advisory board to the Board of Governors which includes two plan member representatives. Currently, one seat is held by an UGFA Member. The UGFA is not guaranteed representation on the Pension Advisory Board under the current plan document.

CHANGES TO PENSIONS FOR UGFA MEMBERS ARE BARGAINED

In the past, non-binding negotiations were held with the employer, though major plan changes did not require the consent of the Association or Members. Since our first Collective Agreement, the UGFA now has the *right* to bargain changes and improvements to our pensions. Members are entitled to vote to ratify any changes made to the Agreement, including changes to pensions.

*****A special thank you to all the UGFA Members who responded to our recent Pension and Benefits survey! The response rate was a historic high. The information gathered from respondents will provide invaluable assistance to the Union to better represent your interests to the University as we enter into negotiations.**

[4] More information relevant to our current plan funding situation will be provided in the next Pension Primer currently being developed by the UGFA.