

# The University Pension Plan

February 2019

# Why the UPP?

- 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

# 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

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

# 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

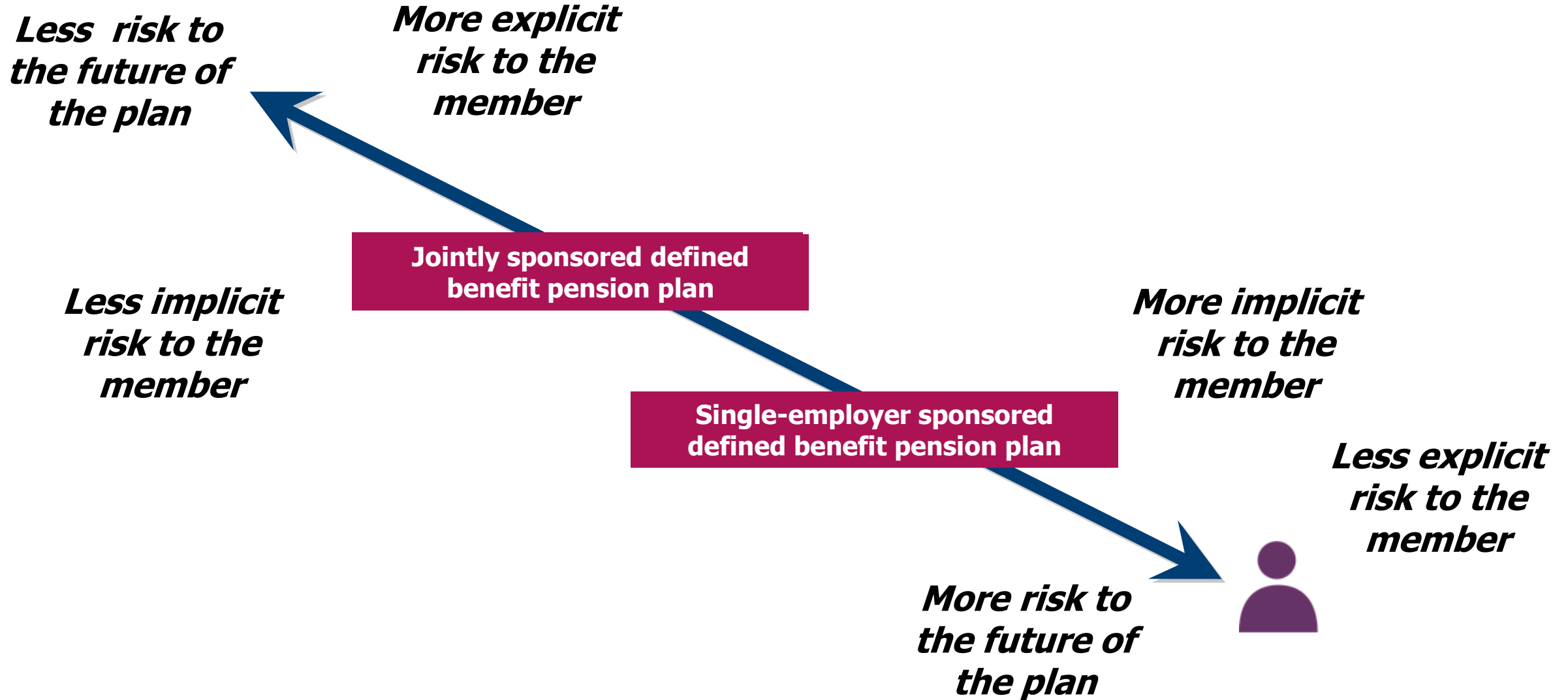
How risk decisions are made

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

# Risk sharing and Defined Benefit Plan Choices



# JSPPs in Ontario



*The large public and broader public sector DB plans in Ontario are JSPPs, which are internationally recognized as model plans and are explicitly recognized as warranting different regulatory rules from other DB plans:*

1. Ontario Teachers' Pension Plan (OTPP)
2. OMERS
3. HOOPP
4. OPSEU Pension Trust (unionized public service)



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



# The UPP – Main Features



# The UPP - Overview

- No negative impact on monthly pensions of current retirees

# The UPP - Overview

- New pensions will be based on QPP 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 QPP 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
- Post inception, all benefits payable from UPP

# The UPP – Main Design Features

- Contributions:

	Current QPP	Proposed UPP
Aggregate cost	15.6%	20%
Employee contributions	7.0%/9.0% (MPP) (7.6% blended)	9.2%/11.5% (10% blended)
Employer contributions	6.0%/7.5% (MPP) Plus 1.62% (DB)	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) in 2025 (YAMPE will be 114% of YMPE)
- Salary increase offsets for increased member pension contributions

# 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
  - USW has permanent seat on Sponsor board, other 2 non-faculty union seats allocated based on size of membership

# 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.
  - 6 appointed by employers

# QPP and UPP Design Comparison

	QPP	UPP	Comments
Pension formula up to CPP maximum earnings	1.4% of average earnings	1.6% of average earnings	<ul style="list-style-type: none"> <li>In 2019 dollars, UPP formula increases QPP pension by roughly \$115</li> <li>No impact on pensions above CRA max</li> </ul>
Basis for CPP integration	YMPE (same 48 month period as earnings)	YMPE / YAMPE (48 final months)	<ul style="list-style-type: none"> <li>UPP integrates with enhanced CPP in 2025; Not currently known how QPP integration would change</li> </ul>
Pension formula over CPP maximum earnings	1.8% of average earnings	2% of average earnings	<ul style="list-style-type: none"> <li>Benefit capped at CRA maximum pension; earnings capped at corresponding salary</li> </ul>
Basis for calculating average earnings	Best 48 consecutive months	Best 48 months	<ul style="list-style-type: none"> <li>No impact on pensions above CRA max</li> </ul>

QPP provisions represent minimum guarantee benefit and terms of Pension MOA dated December 2018, assuming the UPP is implemented.

# QPP and UPP Design Comparison

	Queen's	UPP	Comments
Death benefit – <i>without spouse</i>	10-year guarantee	10-year guarantee	<ul style="list-style-type: none"> <li>If you die before reaching the guarantee limit, your estate or beneficiary receives the remaining payments from your pension</li> </ul>
Death benefit – <i>with spouse</i>	60% survivor (actuarially reduced from 10-year guarantee)	50% survivor	<ul style="list-style-type: none"> <li>Options on an equivalent cost basis</li> </ul>
Spousal age differential	Not applicable	Up to 10 years	<ul style="list-style-type: none"> <li>Actuarial adjustment if age difference greater than 10 years</li> </ul>
Post-retirement indexing	Excess interest over 6% over previous 6-year average plan return	Funded conditional at 75% of CPI	<ul style="list-style-type: none"> <li>Funded means contributions based on paying indexing at full rate</li> <li>Default in UPP is 75% indexing</li> <li>Sponsors can suspend indexing adjustments based on plan funding</li> <li>QPP indexing only applies to guaranteed pension, with a prorated portion applicable to minimum DB only based on ratio of MGB accrued to Sept. 1, 2012 over MGB accrued at retirement date</li> </ul>

QPP provisions represent minimum guarantee benefit and terms of Pension MOA dated December 2018 , assuming the UPP is implemented.

# QPP and UPP Design Comparison

	Queen's	UPP	Comments
Normal retirement	Last day of the of month after attaining age 65	1 <sup>st</sup> of month after 65 <sup>th</sup>	<ul style="list-style-type: none"> <li>Essentially no difference</li> </ul>
Early retirement	Any age prior to normal retirement	Age 55	<ul style="list-style-type: none"> <li>UPP: reduced by 5% for each year retirement precedes normal retirement</li> <li>QPP :               <ul style="list-style-type: none"> <li>MGB for service prior to September 1, 2012: 2% per year for first five years before normal retirement date, and 6% for each additional year;</li> <li>MGB for service after August 31, 2012: 3% per year for first five years before normal retirement date, and 6% for each additional year</li> </ul> </li> </ul>
Early retirement without reduction	Age 60 with age + service $\geq$ 80	Age 60 with age + service $\geq$ 80	<ul style="list-style-type: none"> <li>Age 52 or older on effective day of UPP may retire under Guelph plan rules</li> </ul>

QPP provisions represent minimum guarantee benefit and terms of Pension MOA dated December 2018, assuming the UPP is implemented.



# Transition

- **Retirees as of the inception date will continue to receive their pensions under the QPP provisions, unchanged**
  - The UPP will become the plan administrator, but nothing else will change
- **Liabilities in the current QPP will be transferred on a fully-funded basis, with any shortfall paid off over a maximum of 15 years**
  - Queen's will continue to be fully responsible for any losses related to QPP service for 10 years after the effective date of the UPP and partially responsible for a further 10 years after that.

# Post age 65 pensions in pay while employed

- Government requirement to cease practice of receiving and working in covered employment at the same time
- If you are in receipt of pension and are working on the effective date of the UPP, this arrangement will continue. You will be treated as retired under the UPP
- If you have attained Normal Retirement Age at UPP effective date, you will be eligible to continue to have the option to cease accrual and commence a pension under the UPP while remaining employed (for both UPP and QPP service)
- If you have not attained Normal Retirement Age at UPP effective date, you will only be entitled to commence receipt of your pension after terminating your employment or at December 1<sup>st</sup> of the year in which you attain age 71, if earlier

# Portability

- **UPP will not permit commuted value option for a member who is eligible for an immediate (reduced or unreduced) pension (i.e., after age 55)**
- **3 step transitional to UPP**
  1. For the first 3 years after the UPP effective date, QPP portability options apply for QPP and UPP service
  2. From 4<sup>th</sup> to 10<sup>th</sup> years following UPP effective date, QPP portability options apply to QPP service and UPP portability options apply to UPP service
  3. After 10 years following UPP effective date, UPP portability options apply for QPP and UPP service