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A NEW PATH FOR ONTARIO UNIVERSITY PENSIONS

University administrations, faculty associations, unions and other staff groups at University of Toronto, University of Guelph and Queen's University have been working diligently to develop a new pension plan that would cover employees at all three universities. Once it is up and running, it will be available to other Ontario universities as well. This new pension plan, which would be a multi-employer jointly sponsored pension plan (JSPP), is a type of defined benefit (DB) plan, and it represents a unique opportunity to reshape and sustain the retirement income system in the Ontario university sector.

The current phase of this initiative kicked off last August with an agreement among the administrations, Steelworkers locals, faculty associations and non-represented employees at the University of Toronto, Queen's University, and the University of Guelph.

The goal is to develop a sector-wide plan – ***one that's open to any other Ontario university.*** A sector-wide, multi-employer JSPP would create a significant pool for sharing pension costs and risks.

WHAT IS A MULTI-EMPLOYER JSPP?

A multi-employer JSPP is a contributory DB pension plan in which the employers and pension plan members share responsibility for the plan's governance and funding. The proposed Ontario university sector JSPP would be jointly sponsored and governed by the participating universities and their plan members.

A key differentiator of the multi-employer JSPP model is its structure. Unlike the current university pension plans – in which a single employer bears the full risks and costs of funding shortfalls, and members have little or no say in plan decisions – in a multi-employer JSPP, plan governance, costs and risks are shared equally between employers and members.

ADVANTAGES OF THE JSPP MODEL

Jointly sponsored pension plans are an Ontario-developed innovation. These plans are both successful and sustainable. JSPPs like the Ontario Teachers' Pension Plan (Teachers'), Ontario Municipal Employees' Retirement System (OMERS), Healthcare of Ontario Pension Plan (HOOPP) and OPSEU Pension Trust (OPTrust) have gained worldwide acclaim for their strong plan governance, administrative effectiveness, and superior investment performance.

Moving to a JSPP model not only addresses many of the major challenges faced by university pension plans today, but it also offers many advantages, including the following:

- **Joint governance,** where university administrations, and the unions and faculty associations that represent plan members, have an equal say in plan design, funding, and administration.
- **Greater transparency** into plan operations, funding, and decision-making through joint governance and open information-sharing.

- **Clear and explicit sharing of risk** between employers and plan members.
- **More stable and predictable contributions** from employers and members.
- **Relief from some of the financial pressures** on universities caused by Ontario's current funding rules.
- **Efficiencies and economies of scale.** A much larger plan means greater efficiency in plan administration and access to higher-return investment opportunities, which will help address any increasing costs.

It's important to understand that ***there would be no negative impact on the monthly pensions of retirees already drawing pensions on the date of changeover to a JSPP. There would also be no negative impact on pension benefits earned by employees for service before the new plan's inception date.***

WHY ARE WE MOVING IN THIS DIRECTION?

In the current environment, pension plans in the university sector are vulnerable to financial and political pressures, some of which are outside the control of any individual university.

Decline of DB plans – DB pension coverage has declined sharply in the private sector due to rising costs and risks. For the same reasons, traditional single-employer DB plans in the public sector are being closely scrutinized.

Demographic and market forces – Pension plans grow through a combination of employer/employee contributions and investment returns. Years of lower interest rates and volatile investment markets have created challenges for many Ontario DB plans, particularly as member longevity continues to rise. It has become much more difficult for single-employer university plans to reliably earn the investment returns needed to pay the increased costs.

Legislative and regulatory pressures – Ontario's funding rules for single-employer DB plans are onerous for universities, because these rules make universities subject to most of the same obligations as businesses that are vulnerable to bankruptcy and plan termination. The financial stress that legislative and regulatory requirements have placed on university pension plans has sometimes led to budget cuts, with a negative impact on academic programs and all forms of university employment.

For several years now, the Ontario government has encouraged universities and staff groups to consider establishing a JSPP as a long-term pension solution for the sector. Adopting this model now will give us more control over the direction and outcomes of our pensions in the future.

THREE IMPORTANT REASONS TO MOVE TO A JSPP

1. Protect DB pensions, which provide secure and predictable retirement income.
2. Establish a more stable funding regime.
3. Give plan members an equal voice in plan management.

NEXT STEPS

Moving to a JSPP provides an opportunity to maintain sustainable pensions for the Ontario university sector. But the new JSPP, including conversion of the existing plans, requires a formal consent process (as set out in the provincial regulations). We will provide more details on the process in upcoming communications.

Communication and collaboration, including open and transparent dialogue with all stakeholders, are critical to the initiative's success. This update is the first in a series of joint communications, supplemented by information provided directly by the various stakeholders to their constituents.

We encourage you to read all materials provided and actively participate in the ongoing discussions. For more information or to ask questions, please visit the JSPP website at **www.universitypension.ca**.

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Updated October 5, 2018

Summary of Key Features of the Proposed UPP

The **Milestones and Key Terms Summary Agreement** ("Agreement") is an agreement between the University of Guelph, Queen's University and the University of Toronto and their faculty associations and the USW, and agreed to by an association of non-represented employees, to establish a jointly sponsored pension plan.

The Agreement sets out the history and context of the proposed University Pension Plan Ontario ("UPP"), the necessary steps to establish the UPP, and the fixed and agreed key design terms of the UPP, and it incorporates the background documents from which all agreed terms were derived.

This document describes the key features of the UPP. The UPP will become effective only if at least two-thirds of members consent, no more than one-third of former members, retired members, and other persons entitled to benefits under the existing plans object, and the necessary regulatory approvals are obtained. The consent process will be specific to each of the existing university pension plans. Information on the consent process is described here.

The UPP will be a defined benefit plan, which means that the pension will be based on a member's Best Average Earnings and the number of years of credited service earned after joining the UPP.

Joint Governance

The UPP will be overseen by two related entities:

- **The UPP Joint Sponsors**, which will set benefits, contributions, and overall policies for the UPP. The Joint Sponsors will have equal representation of the participating universities on the one hand, and the faculty associations and unions representing UPP members on the other hand.

- **The UPP Board of Trustees** will be responsible for making decisions about the day-to-day administration of the UPP. The Board of Trustees will be appointed by the Joint Sponsors and have representatives of the participating universities, the faculty associations and unions representing UPP members, and one additional representative of members who are not represented by a collective bargaining agent.

Pension Earned Before the UPP

Pension benefits earned under existing university pension plans will be preserved. This summary is about pension benefits to be earned for credited service after joining the UPP.

Benefit Formula

At inception, the UPP pension for credited service earned after joining the UPP will be based on the following formula:

1.6% of Average Earnings *below* the Average YMPE, multiplied by credited service

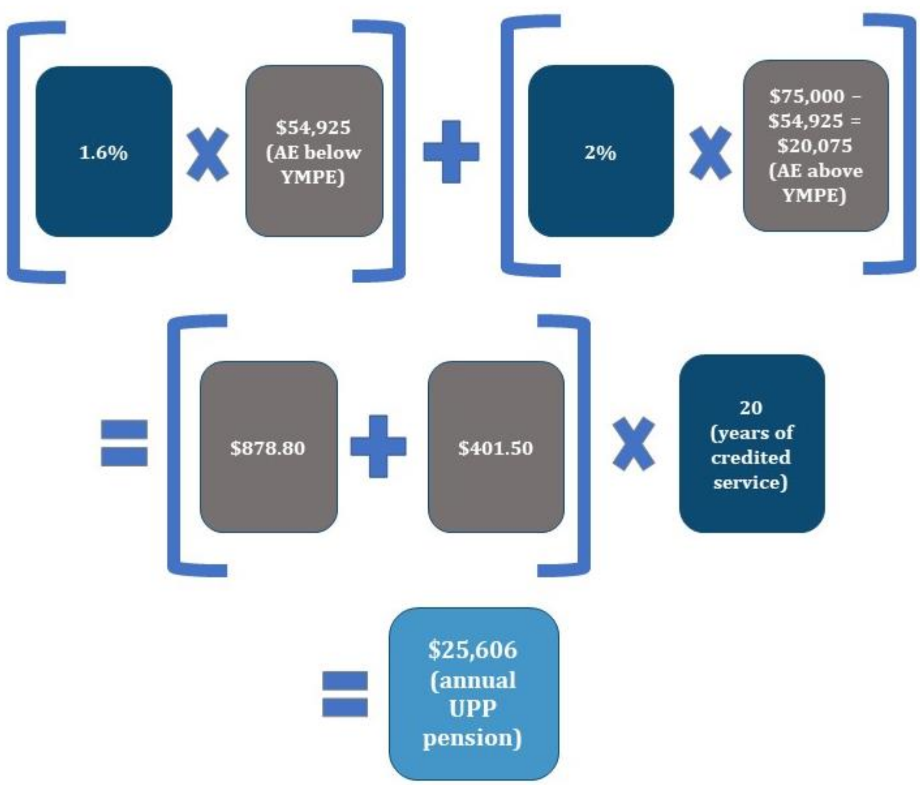
plus

2.0% of Average Earnings *above* the Average YMPE, multiplied by credited service.

Average Earnings will be based on average earnings during the best 48 months of eligible employment.

Average YMPE will be based on the average Year's Maximum Pensionable Earnings ("YMPE") for the last 48 months of eligible employment (for reference, the YMPE for 2018 is $55,900).

Example: Member "A" has Average Earnings in the last 48 months of eligible employment of $75,000, and 20 years of credited service earned after joining the UPP; the 48-month average YMPE is $54,925:



The UPP will implement the new earnings breakpoint under the Canada Pension Plan, the Year's Additional Maximum Pensionable Earnings (YAMPE), when it comes fully into effect in 2025.

As with all registered pension plans, the UPP pension benefit will be subject to the maximum pension limits under the Income Tax Act.

Retirement Dates and Eligibility for Unreduced Pension

Normal Retirement Date – the normal date upon which a member may retire with an unreduced pension under the UPP will be age 65.

Early Retirement Date – a member will be able to retire from the UPP after reaching age 55. If the member does not meet the eligibility requirements for an unreduced pension, the pension will be reduced by 5% for each year between pension start date and Normal Retirement Date.

Early Unreduced Retirement Date (EURD) – a member will be able to retire early with an unreduced pension under the UPP upon reaching age 60, provided that the sum of the member's age plus years of continuous service (including service under a predecessor pension plan) equals 80 or more.

Grandparenting of Early Unreduced Retirement

The current plans have many different EURDs for different groups which are being harmonized under the UPP for UPP service.

The early unreduced retirement provisions of your current pension plan will be applied to benefits earned for service up to the date you join and start accruing benefits under the UPP. The provisions of the UPP as described above will be applied to any benefits you earn under the UPP. However, for current members of the University of Toronto and University of Guelph pension plans, if you are age 52 or older on the date you join and start accruing benefits under the UPP (anticipated to be July 1, 2021), and your current EURD is better than the new UPP EURD, then your current EURD will apply to your entire pension.

The current Queen's University plan does not provide for an early unreduced pension under the defined benefit minimum guarantee before Normal Retirement Date.

Form of Pension

The normal form of pension for a member without a spouse on the date of a retirement is a pension for that member's lifetime, guaranteed for 10 years from the date it begins.

The normal form of pension for a member with a qualifying spouse on the date of retirement is a 50% joint and survivor pension. This means that upon the death of a member, a 50% joint and survivor pension will be paid to an eligible spouse at no cost.

As indicated above, the PBA requires that a 60% joint and survivor pension be provided. Other optional forms of pension, including an 80% and 100% pension for the spouse, will be available for an actuarial cost under the UPP.

Indexing

Indexation on pension benefits for UPP credited service will be funded conditional indexation equal to 75% of the annual increase in the Consumer Price Index (CPI). "Funded Conditional Indexation" means that the contribution rates have been set to fund indexation at 75% of the increase in CPI ("75% of CPI"), so if the actual financial and demographic experience of the UPP matches the assumptions underlying the contribution rates then the indexation will be granted. To the extent that the actual experience turns out to be less favourable than the assumptions, the indexation can be reduced below 75% of CPI, in accordance with the funding policy set by the Joint Sponsors.

Indexing on pension benefits for UPP credited service is guaranteed to be paid at 75% of CPI for the first 7 years.

Contribution Rates

Subject to certain transitional measures for UPP members, current service contributions at inception for both employers and UPP members will be 9.2%/11.5% of pensionable salary below and above the YMPE. Effective January 1, 2025, the YMPE will be replaced with the YAMPE.

This summary is intended to help explain the provisions of the UPP applicable to credited service after joining the UPP, but should not be considered an official UPP plan document. In the event of any inconsistency between this summary and the Agreement, or this summary and the official UPP plan documents, the Agreement or official UPP plan documents, as the case may be, will govern.

Frequently Asked Questions (FAQs)

Q1. What is a jointly sponsored pension plan (JSPP)?

A. A JSPP is a pension plan that offers defined benefits and is jointly sponsored, governed, and funded by the employers and plan members. A member's retirement benefit under a JSPP is based on a preset formula, typically with reference to years of pensionable service and earnings. There are several large Ontario pension plans which are JSPPs, including: the Ontario Teachers' Pension Plan, OPSEU Pension Plan, HOOPP (healthcare), OMERS (municipal), and CAAT (colleges).

Q2. Why change to a JSPP?

A. There are many reasons for stakeholders to explore the advantages to be gained by moving to a JSPP, including:

- joint plan governance by employers and employees, which will give pension plan members a greater voice in governance than in the past,
- contributions for both the employers and employees will be more stable and predictable, due to an exemption from solvency funding obligations;
- transparency into plan operations, funding and decision-making, due to a role for plan members in plan sponsorship and governance; and
- efficiencies and economies of scale that are achievable in a much larger plan, involving multiple universities rather than single university pension plans.

For further discussion on the reasons for and advantages of moving to a JSPP, please see www.universitypension.ca.

Q3. Which universities and employee groups would be eligible join the UPP?

A. Currently, Queen's University, University of Guelph, the University of Toronto, the faculty associations, USW, and other staff groups at those universities are working together toward being the first participants in the UPP. Other unions representing employees at the three universities are currently considering their participation. Once operating, the UPP would be open to other universities and employee groups as well.

Q4. What happens to pension benefits already earned under a current university plan, including the benefits of retirees, if the plan is converted to a JSPP?

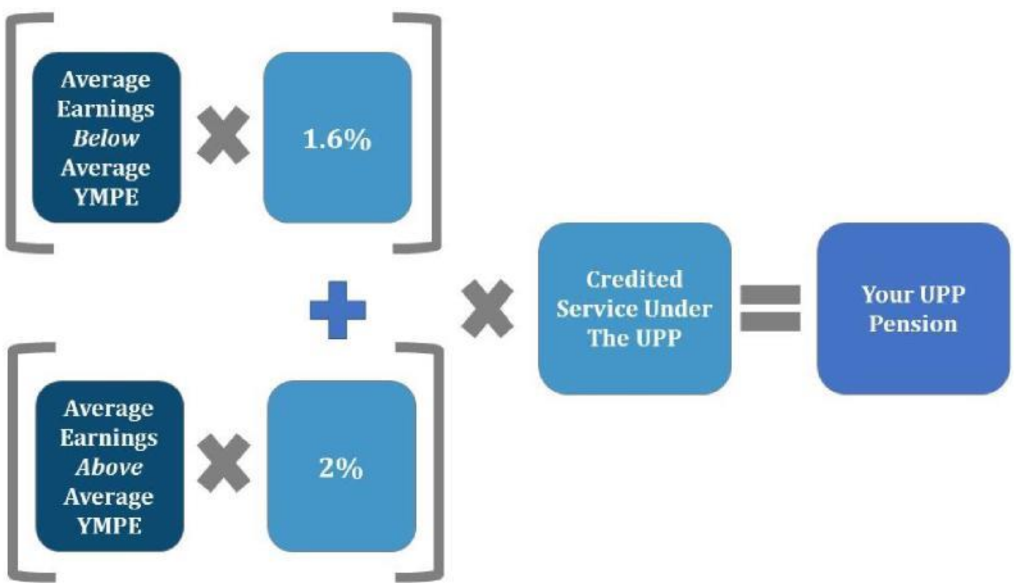
A. All pensions earned under a current university plan would be transferred to the JSPP and would be unchanged.

For anyone who is retired under a current university plan, there would be no impact on the amount of monthly pension due to the transition to a JSPP. 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 plan.

For active employees who have earned benefits under one of the current university plans, all benefits earned under those plans will be transferred to and administered by the Administrator of the UPP. Employees who retire under the UPP and have prior service in one of the university plans will receive a pension based on two parts: one based on the formula in their former plan and the service they accrued under that plan; and one based on the UPP formula and their service accrued under the UPP.

Q5. What is the pension benefit formula under the UPP?

A. For an active employee, at inception of the UPP, the pension earned after joining the UPP will be based on a new harmonized benefit formula:



"Average Earnings" for service under the UPP will be based on the member's average earnings during the best 48 months of eligible employment.

"Average YMPE" related to service under the UPP will be based on the average Year's Maximum Pensionable Earnings ("YMPE") for the last 48 months of eligible employment. (For reference, the YMPE for 2018 is $55,900).

The UPP will implement the new earnings breakpoint under the Canada Pension Plan, the Year's Additional Maximum Pensionable Earnings (YAMPE), when it comes fully into effect in 2025.

As with all registered pension plans, the UPP pension benefit will be subject to the maximum pension limits under the *Income Tax Act.*

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Q6. What are the proposed Normal Retirement Date and Early Unreduced Retirement Date (EURD) under the UPP?

A. **Normal Retirement Date –** the normal date upon which a member may retire with an unreduced pension under the UPP will be age 65.

Early Retirement Date – a member will be able to retire from the UPP after reaching age 55. If the member does not meet the eligibility requirements for an unreduced pension, the pension will be reduced by 5% for each year between the pension start date and Normal Retirement Date.

Early Unreduced Retirement Date (EURD) – a member will be able to retire early with an unreduced pension under the UPP upon reaching age 60, provided that the sum of the member's age plus years of continuous service (including service under a predecessor pension plan) equals 80 or more.

Grandparenting of Early Unreduced Retirement – the current plans have many different EURDs for different groups, which are being harmonized under the UPP for UPP service. The Early Unreduced Retirement provisions of your current pension plan will be applied to benefits you earned up until the effective date of the UPP, and the provisions of the UPP as described above will be applied to any benefits you earned under the UPP. However, for current members of the University of Toronto and University of Guelph pension plans, if you are age 52 or older on the date the UPP starts (anticipated to be July 1, 2021) and your current EURD is better than the new UPP EURD, then your current EURD will apply to your entire pension. The current Queen's University plan does not provide for an early unreduced pension under the defined benefit minimum guarantee before normal retirement date.

Q7. If a JSPP means shared governance but also shared risks, what does this mean practically?

A. Shared governance and shared risks (costs) are the two fundamental features of a JSPP and are two of the legal requirements for a plan to be considered a JSPP.

Shared governance means that decisions regarding plan design and funding are made by the two Joint Sponsors, which will be comprised of equal representation of (1) the employers and (2) faculty associations and unions representing plan members. Since those decisions impact the cost of the plan, that cost is also shared. Subject to certain transitional measures, costs will be shared 50%/50% between employers and UPP plan members.

Sharing costs starts with setting employee and employer contribution rates, which will be determined by the Joint Sponsors. Plan members and employers will also share any future surpluses or going-concern deficits that might arise related to the pensions earned under the UPP. Pension benefits earned before conversion to the UPP will be transferred into the UPP and will be unchanged. Going-concern deficits transferred from the existing pension plans will be funded by the universities over 15 years.

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Glossary of Pension Terms

Actuary – a professional responsible for, among other things, performing valuations of the assets and liabilities of pension plans and calculating the costs of providing pension benefits. In Canada, a person must be a Fellow of the Canadian Institute of Actuaries (CIA) to be recognized as an actuary.

Administrator or Board of Trustees– the fiduciary body responsible for managing the plan in accordance with plan terms and applicable legislation, including collecting contributions, investing plan assets, interpreting the provisions of the plan documents and paying pensions.

Assets – anything of monetary value that is owned by the pension plan, including cash, investments, property, etc.

Beneficiary – the spouse, estate or person(s) designated by a member to receive any death benefits payable from the plan after that member's death.

Canada Pension Plan (CPP) – a statutory pension plan in which all working Canadians are required to participate. The CPP provides a monthly benefit to eligible Canadians, normally beginning at age 65; the benefit is calculated based on age, years of participation and how much the individual and employer contributes.

CPP maximum salary – the Year's Maximum Pensionable Earnings at the beginning of a university year.

Commuted value (also called **transfer value** or **lump sum value**) **–** the estimated amount of money that would need to be put aside today to provide the pension that has been earned, calculated by an actuarial formula using prescribed assumptions.

Contribution rate – the amount employees and/or employers contribute to the plan, usually expressed as a percentage of earnings.

Current service cost–the cost of pension benefits earned by all plan members during a plan year.

Custodian–the organization (usually a bank or trust company) that holds the securities and other assets of a pension plan in safekeeping.

Death benefit – the amount payable (as a lump sum or monthly benefit) to the spouse, beneficiary or estate of a plan member who dies before or after retirement.

Deferred pension – a pension payable to an employee who no longer works for the employer but has chosen to leave his or her pension benefits in the plan to receive at a later date.

Defined benefit (DB) plan – a pension plan that pays a lifetime retirement benefit based on a preset formula. That formula is typically based on a member's earnings and years of pensionable service.

Defined contribution (DC) plan – a pension plan that defines the contributions made by the employer and, where applicable, the employees. Contributions are deposited in an account set up in the member's name and, typically, are invested by the member based on the investment options offered under the plan. At retirement, the money accumulated in the account is used to provide a pension.

Eligibility requirements – the conditions an employee must satisfy to participate in a plan.

Fiduciary – a legal relationship of trust where one person (the fiduciary) holds and/or controls property for the benefit of another person – for example, the relationship between a JSPP administrative board and the JSPP members.

Financial Services Commission of Ontario (FSCO) – the Ontario government body that regulates financial services, including pension plans. The Superintendent of Financial Services is CEO of FSCO and reports to the Minister of Finance.

Fully funded plan – a plan that has enough assets to provide for all pensions earned by members, as of a certain date.

Fund – plan assets held for the purpose of paying pension benefits.

Funding policy – a document addressing the allocation of contributions between employees and employers, treatment of gains/losses, conditions to withhold conditional indexing for retiree pensions, actuarial aspects of funding and thresholds to guide decisions related to contribution increases/decreases and benefit improvements/reductions.

Future service – years of pensionable service from the date a person enters a pension plan, or from the date of calculation, to eventual termination date, retirement date or death.

Going concern shortfall – when a plan has more liabilities (the cost of pensions earned by members) than assets, as determined by a going concern valuation. Currently, in Ontario, a going concern shortfall must be paid off over 15 years.

Going concern valuation – the value of plan assets and liabilities assuming the plan will continue to operate indefinitely into the future

Indexation – periodic adjustments to pension benefits to reflect increases in the cost of living (typically linked to Canada's Consumer Price Index), usually starting from the member's retirement date.

Jointly sponsored pension plan (JSPP) – a defined benefit pension plan in which the employees (often through their bargaining agents) and employers share responsibility for the plan's governance and funding. The employers and employees are jointly responsible for the governance of the pension plan, including all decisions about the terms and conditions of the plan, any plan amendments and the appointment of the plan administrator, among other things.

Liabilities – the value of pensions owed to members.

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Locking in (or locked-in) – a legislative requirement that pension benefits be used solely to provide a retirement income at or after eligible retirement age.

Members– the members of a pension plan are referred to as:

- *active,* if they are currently earning pensionable service in the plan and making contributions;
- *deferred members,* if they have stopped employment and are not eligible to earn future pensionable service but are entitled to pension benefits (also referred to as former members);
- *retired,* if they are receiving pension payments; and
- *beneficiaries,* if they are receiving pension payments as a surviving spouse or beneficiary following the member's death.

Multi-employer JSPP – a JSPP that involves two or more employers contributing to the plan.

Normal form of pension – the default manner in which a pension is paid to a retired member, including post-retirement death benefits payable to any surviving spouses or beneficiaries.

Pension – the monthly, annual or other periodic amounts paid to a member at retirement that continue for the rest of his or her life, or to a surviving spouse or beneficiary after the member's death.

Pension Benefits Act (PBA) – the Ontario legislation that establishes minimum standards for registered pension plans in Ontario.

Postponed retirement – members may retire at any age after normal retirement but must start pension payments by the end of the year they reach age 71.

Shortfall or deficit – the difference between the value of the pension fund's assets and its liabilities (the value of pensions) as determined by the going concern or solvency valuations.

Single employer pension plan (SEPP) – a pension plan sponsored by a single employer or a group of related employers.

Solvency shortfall – when a plan has more liabilities (the value of pensions earned by members) than assets, as calculated under a solvency valuation.

Solvency valuation – the value of plan assets and liabilities assuming the pension plan stops operating on the date of the valuation. It is meant to determine if a plan has sufficient assets to pay out all pensions that members have earned to date.

Special payments – the payments required to pay down an unfunded liability or shortfall.

Sponsor – in respect of a SEPP, this is typically the employer. In respect of a JSPP, a Sponsor Board is the organization of the employers and plan members that create the JSPP and who typically retain certain authority over the plan, relating to plan provisions, contribution rates, funding and policies, etc. Under a JSPP, employers and employees typically each have 50% control of the Sponsor Board.

Spouse – under Ontario pension law, your spouse is the person who, at the time of determination, is living with you and is:

a) married to you; or
b) not married to you but has been living with you in a:
- conjugal relationship continuously for at least three years; or
- a relationship of some permanence, if you are the parents of your own or an adopted child as set out in section 4 of the Children's Reform Act.

Year's Maximum Pensionable Earnings (YMPE) – the maximum earnings amount used to calculate CPP contributions each year.

Wind up – the termination or discontinuation of a pension plan, usually at the decision of the pension plan sponsor. This often results from bankruptcy, corporate restructuring or downsizing. For a multi-employer JSPP to wind up, the sponsor board must agree to the windup.