Queen's Pension Plan to University Pension Plan 3

Backgrounder to Queen's University Faculty Association members
Spring General Meeting
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QUFA
Queen's University Faculty Association

Presentation Outline

1. The UPP3 progress so far
    - What is a jointly-sponsored pension plan and why pension plan members might want to convert?
    - Who have been the players?
    - Where are we in the process?
2. What Will Change? - Comparison of QPP and UPP3 provisions
    - Settled elements
    - Elements yet to be settled
3. The Consent Process

Quick Pension Plan Definitions

- Defined Benefit (DB) Pension Plan

A set level of annual pension benefit is accrued each year based on income. The plan sponsor is the employer.

- Hybrid Pension Plan

The QPP has a set DB minimum benefit, but also may exceed the guaranteed DB pension if investment returns are strong. The plan sponsor is the employer.

Jointly Sponsored Pension Plans

- Defined Benefit only pension plans for which both employer(s) and plan members are the plan sponsors.
- Governance and administration of the plan are a joint responsibility.
- JSPPs are not allowed to remain in deficit and the cost of eliminating a plan's deficit may be borne by employer, current plan members and retirees in various ways that are agreed upon among the sponsors.
- The use of surpluses is jointly determined by employee and employer sponsors.

Why convert from Hybrid to a DB JSPP? Plan member perspective

- shared control over governance and administration leading to greater certainty that the pensions promised are the pension received
- greater DB benefits than the QPP
- no pension disputes in collective bargaining
- the handling of plan surpluses is determined jointly
- a larger plan may improve customer service, lower costs, and increase the range of investment options available.

Employer sponsor perspective

- sharing risk with plan members is a significant advantage
- funding rules for JSPPs in concert with shared risk means greater certainty and consistency in costs
- no pension disputes in collective bargaining
- in-house pension administration costs may decline
- pension liabilities, investment behavior and plan administration are a much smaller risk to the institution
- Multi-Employer JSPPs have reduced solvency funding requirements

Why not to convert?

- Plan member perspective
  - 50% of the financial risk of the JSPP from the point of conversion falls to plan members (QPP = 100% employer risk)
  - University is only 100% responsible for QPP Past Service liabilities for 15 years, thereafter the responsibility transitions over a further 15 years to 50/50 responsibility with Queen’s-employed plan members
  - There will be changes to some terms of the plan relative to the QPP going forward
- Employer perspective
  - lose sole control over the use of any surplus in the UPP

Timeline to present

2014-15

OCUFA, COU, CUPE, OPSEU, OSSTF, Unifor and USW with financial support from the Ministry of Training, Colleges and Universities develop and sign off on a UPP Design Framework

January 2017

Following a period of little progress, the UPP discussion continued with stakeholders from U of Toronto, Guelph and Queen's

July 2017

Conditional Agreement between employers and represented employees is signed after mediation. A role in governance is added for non-represented employees

February 2018

Milestones Agreement is signed outlining milestone events to be achieved, to consolidate provisions previously agreed to, to confirm Key Terms and their change only by Parties/UPP sponsors, and continuation of eligibility for pre-inception benefits.

March 2018

Meeting of Parties with the Financial Services Commission of Ontario (FSCO), the body that regulates pensions. FSCO generally supportive of conversion to JSPP, but notes consent and application process is complex. Also acknowledges hybrid pensions pose problems unaddressed by Regulations.

April 2018

Mediation on issues of governance (Sponsor Board composition) and Administration (Board of Trustee composition), as well as hybrid plan conversion

Possible timeline to conversion process

March to June 2019

Consent process

→

Application to the Superintendent’s for consent for conversion by end of December 2019

→

Transfer of assets from QPP to UPP 120 days after the Superintendent’s consent or effective date (maybe retroactive from consent)

QPP hybrid vs UPP3 defined benefit contribution levels and benefit accrual

	QPP	UPP		QPP	UPP
Employer contribution below YMPE	6%	9.1% (best estimate of below YMPE)	DB (minimum guarantee) accrual per year below YMPE	1.4%*	1.6%**
Employer contribution above YMPE	7.5%	11.3% (best estimate of above YPME)	DB (minimum guarantee) accrual per year above YMPE	1.8%*	2%**
Employee contribution below YMPE	7%	9.1% (best estimate of below YMPE)	DC (money purchase) value	?	N/A
Employee contribution above YMPE	9%	11.3% (best estimate of above YPME)			

*For service after Dec. 1, 1997. Please see Queen's HR website for rates prior to this date.

** Over time, CPP will cover a greater proportion of earnings and the value for YMPE will reflect this.

QPP hybrid vs UPP3 defined benefit pension provisions - 1

	QPP	UPP
Best average annual earnings	48 month period of highest earnings	48 months of highest earnings, need not be consecutive
Average annual YMPE	Same period as highest earnings	Final 48 month period
Normal form of pension	Without spouse: 10 year guarantee With spouse: 60% Joint & Survivor	w/o spouse: 10 year guarantee With spouse: 60% Joint & Survivor (actuarially equivalent to 50% J & S)
Reduced early retirement	MGB for service prior to September 1, 2012: 2% per year for first five years before your normal retirement date, and 6% for each additional year; MGB for service after August 31, 2012: 3% per year for first five years before your normal retirement date, and 6% for each additional year.	5% per year from Normal Retirement Date

QPP hybrid vs UPP3 defined benefit pension provisions - 2

	QPP	UPP
Unreduced early retirement benefit	No such benefit in QPP, nor for QPP transferred to UPP.	(Age + continuous service, including QPP years transferred to UPP) = 80 and at least age 62.
Post retirement indexation	Excess interest over 6% over previous 6-year average plan return applied to pre August 31, 2012 minimum guarantee pension supplements as well as all money purchase amounts. Post August 31, 2012 MG supplements are not indexed. Goal is to replicate this indexation for the QPP portion within the UPP.	Funded conditional at 75% of CPI, fixed for post-inception pensioners' UPP portion for 7 years. After 7 years, it becomes conditional on UPP funding performance and agreement by joint sponsors to change indexation level.

QPP hybrid vs UPP3 defined benefit Governance

	QPP	UPP
Governance	The University is the plan sponsor and administrator with advice from sponsor/plan member pension committee.	Sponsor board consisting of 50% employer representatives and 50% labour representatives. Board of trustees as UPP administrator with 50/50 representation as well.
Liabilities	University responsible for current service cost, going-concern deficit and solvency deficit (currently utilizing solvency relief option from government).	University responsible for pre-inception going concern deficit of QPP at the point of UPP inception for 15 years through fixed special payments. 50/50 sharing of post-inception deficits on pre-inception service phased in. Post-inception deficits on post-inception service shared 50/50.

UPP3 structures, elements and policies yet to be agreed upon

- Governance policy
- Investment policy
- Funding policy
- Administrative policies
- Conversion of hybrid pension plans
  - There is agreement that QPP accrued benefits will be replicated going forward

The Consent & Conversion Process

Where do the rules for consent come from?

- *The Pension Benefits Act*, R.S.O. 1990, c. P.8
  - The parties involved assume the conversion will take place under **Section 80.4: Transfers to jointly sponsored pension plan (conversion of single employer pension plan)**
  - ***PBA* Ontario Regulation 311/15: Conversions and Transfers Of Assets Under Section 80.4 of the Act and Conversions Under Section 81.0.1 of the Act**

Consent to convert from QPP to UPP

- Pension plan members or unions give consent (or not) for conversion and transfer.
- As the bargaining agent, Unions are empowered to consent on behalf their plan members.
- Non-unionized plan members each receive an individual consent form.
- QPP retirees (any plan member drawing a pension) receive an objection form.

Thresholds for consent

- For a sponsor of an existing pension plan to receive consent to convert and transfer assets from the existing plan to a JSPP
  - 2/3 of plan members give consent (non-unionized members consenting + the total of all members represented by unions that consent).
  - Not more than 1/3 of former members, retirees (persons receiving pension payments), and other persons entitled to benefits in the existing plan (survivors) object to the conversion and transfer.
- If consent is not achieved, the existing plan (the QPP) continues on unaffected.

PBA timelines and asking union members for consent - 1

Timing of FSCO Notices of Intended Decision and appeals of those notices cannot be known

- The information in the notices & statement and the consent/objection forms must be current/created no earlier than 6 months before they are sent out.
- All the persons and trade unions representing plan members eligible to give consent or to object have 90 days from having received the notice and forms to submit them.
- The application to FSCO for the Superintendent's consent to transfer assets must be received within 9 months of the notices and forms being sent.
- 120 days after the later of the effective date of the transfer or the date upon which the Superintendent consents to the transfer, the assets must be transferred from the QPP to the JSPP.

QUFA member consultation (next slide)

PBA timelines and asking union members for consent – 2 (Internal process)

90 days

QUFA determines member position on several hybrid transition issues, as well as how QUFA will determine member support for consent

Plan Sponsor (Queen's) sends notices and forms

QUFA determines the level of member support for consent

QUFA submits a consent form to Queen's or it does not

What the plan sponsor (employer) must do

- The plan sponsors/employers – Queen’s, Guelph and Toronto – must conform to the process as laid out in the PBA and the Regulations.
- Your plan sponsor must provide you with information relating to the two plans in general, as well as information tailored to your individual circumstance.
- The Schedules of required information about both pension plans may be found here:

https://www.ontario.ca/laws/regulation/150311#BK20 (current plan)

https://www.ontario.ca/laws/regulation/150311#BK21 (JSPP)

What the Plan Sponsor must Do

- The plan sponsor (the University) and the plan administrator (Pension Services) must take care not to say anything inaccurate outside of the required notice communications. You should be aware that this might mean your questions might take some time to be answered or that the questions cannot be answered.
- Failure to pass the close scrutiny of FSCO will lead to the denial of the application to convert.

What FSCO says re this process - 1

- Confirms that unions consent on behalf of their plan members.
- Plan sponsor requirements in the Regulations will be rigidly enforced.
- Anomalies in existing plans should be dealt with before the process starts.
- Past services benefits (i.e. the benefits of the existing plans) must be maintained for that past service within the JSPP and each employer sponsor must show that the money to pay for this is accounted for.
- Governance, funding policy and administrative policy must be finalized in the application.

What FSCO says re this process - 2

- FSCO is aware that the conversion and transfer of a hybrid plan is a complicated problem for which there are no regulations yet.
- The Superintendent will issue a Notice of Intended Decision and then interested persons may file an appeal. FSCO's experience in various types of conversion procedures is that appeals do arise and may cause delays.
- FSCO is supportive of the principle of JSPPs and is merely a regulator. Therefore, if the consent process and the application for approval for conversion and transfer is all correct, the Superintendent <u>must</u> approve.

The UPP website

- The parties to the UPP development have a joint employee-employer website under development.
- All settled issues, background, and Q&A will eventually be presented on this site.
- http://www.universitypension.ca/