QUFA PENSION NEWS
Queen's University Faculty Association Pension News

Pension Terms and Acronyms

A compendium of pension-related terms and acronyms to assist QUFA Members

Types of Pensions

Defined-benefit (DB) pension: A defined amount of pension is promised based on a formula. Types of formulas include flat benefit (set benefit not dependent on earnings or years of service), career average (a percentage of earnings for each year in the plan accrued), and final average (length of service and average earnings for a set number of years before retirement, or the highest average earnings of a set number of years at any point in the plan).

Defined contribution (DC) pension: Employer and employee contributions to the plan are defined. The amount of the final pension depends on the market performance of the pension fund and is therefore unknown until retirement. Types of DC plans include money purchase (employer-paid or employer and employee contributions) and profit-sharing (subject to a minimum of 1% of employee earnings, and employer contributions are based on a formula related to company profits).

Hybrid pension: A pension plan with both DB and DC components that usually provides the greater of the DB or DC pension. Think of it as a DC plan that guarantees a minimum DB level of pension income. There are also combination plans that provide a pension that is the sum of a DB portion and a DC portion.

Jointly-sponsored pension plan (JSPP): In Ontario, under current legislation, JSPPs are defined-benefit plans that must meet the following criteria:

- employees must make pension contributions,
- the pension plan must require members of the plan to make contributions in respect of any going-concern unfunded liability and solvency deficiency, and
- any additional criteria that may be prescribed.

The employer(s) and the members are jointly responsible for the governance of the pension plan, including all decisions about the terms and conditions of the plan, any amendments to the plan, and the appointment of the administrator of the plan (often called the board of trustees).

General Terms

Accrual rates: The rate at which a person builds up pension benefits when they are an active member of a defined benefit plan, expressed as a percentage. In the University Pension Plan (UPP), the accrual rate would be 1.6% below YMPE and 2.0% above YMPE (see YMPE below).

Commuted value: The amount of a lump-sum payment payable today estimated to be equal in value to a future series of pension payments.

Contribution rates: The percentage of the nominal salary that is contributed to the plan. Under the UPP, contribution rates would be 9.2% under YMPE and 11.5% over YMPE for both employer and employees (see YMPE below).

Conversion: Occurs when two or more pension plans of the same participating employer are merged together. The members cease to accrue benefits under one pension plan and begin to accrue benefits under the other plan. All of the assets of the terminating plan are transferred to the continuing plan. Conversions may involve two or more plans being transferred into one continuing plan.

Current service: Benefits in pension plans are earned in respect of service being provided by a member to the employer. Current service refers to service that is rendered on a present basis and does not include any service that is purchased on a retroactive basis. Money purchase provisions are designed to accept contributions determined from current service only, plus earnings on the balance in the member's account. DB provisions can allow for benefits to be provided based on current service and past service.

Indexing: Some type of arrangement to allow for pension increases after a person begins to receive the pension. Indexing is designed to mitigate the effects of inflation and in many plans is linked to some proportion of the annual increase in the consumer price index (CPI). In the Queen's Pension Plan (QPP), increases are linked to what is referred to as “excess interest” (i.e., the increase in a given year is the positive difference between the average return on the pension fund over the previous 6 years and 6%). If the difference is negative, then there is no increase in the pension. A non-reduction reserve is also kept to maintain pension payments to pensioners. In the past, the employer contributed 1.5% of employer and employee money-purchase contributions to a non-reduction fund. As of 1 January 2012, this contribution has been replaced by a phased-in 4.5% (by 1 September 2014) charge against *all* money-purchase balances at retirement (additional voluntary contributions, past service accounts, and special vested accounts).

Plan sponsor: The body that establishes and maintains a registered pension plan. A present, Queen's University is the sponsor of the QPP. Queen’s is also the plan administrator. The UPP would be jointly sponsored, meaning that the participating universities, faculty associations, and unions will share responsibility for the plan’s governance and funding.

Solvency funding relief: In 2012, the Ontario government imposed special solvency payments on universities. In 2014, the Ontario Confederation of University Faculty Associations (OCUFA) got Ministry of Training, Colleges and Universities (MTCU) support for a JSPP project. The successful conversion into a JSPP would relieve Queen’s from having to make solvency payments.

Solvency liability: The liability of a pension plan for all defined benefits if the plan is wound up, and benefits are paid out to current plan members and pensioners immediately.

Yearly additional maximum pensionable earnings (YAMPE): In 2025, the breakpoint for income pensioned by the Canada Pension Plan (CPP) will change from the YMPE to the YAMPE (see YMPE and YAMPE below). This is a second-earnings threshold for Canada Pension Plan purposes, which will be a 14% increase in the earnings pensioned with CPP. The effect of this change would be to reduce UPP contributions on the range of earnings between the YMPE and the YAMPE from 11.5% to 9.2%.

Yearly maximum pensionable earnings (YMPE): The maximum level of earnings used to calculate contributions and pension under the Canada Pension Plan ($57,400 for 2019). Contribution rates to a workplace pension plan are usually lower below YMPE and higher above YMPE (on earnings not covered by the CPP). QPP contribution rates for the employer are now 6.0% up to YMPE plus 7.5% above YMPE, and 7% up to YMPE plus 9% above YMPE for employees. Under the UPP, contribution rates would be 9.2% under YMPE and 11.5% over YMPE for both employers and employees.

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How Did We Get Here?
Background to Bargaining 2018-2019

By Elizabeth Hanson
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Bargaining Term

In December 2018, QUFA bargained a renewed collective agreement (CA) that QUFA executive and council are recommending to Members for ratification. The ratification vote for most QUFA Members will also be a vote on conversion of the Queen’s Pension Plan (QPP) to the new jointly sponsored University Pension Plan (UPP). (QUFA Members who are not QPP members will be asked to vote on ratification alone.) This round of bargaining was both compressed and undertaken earlier than is normal because it was tied to the pension conversion process. This column explains how this situation came about and QUFA’s reasons for this unusual approach to bargaining.

Since 2015, QUFA, Queen’s University, the administrations and faculty associations of the University of Toronto and University of Guelph, and the United Steelworkers union (USW) have been engaged in designing a multi-employer, jointly sponsored pension plan (JSPP). The aim of this project is to provide a pension plan for university-sector employees that provides good pensions to employees without encumbering the operating budgets of universities with pension costs in excess of the contributions needed to fund the plan on an actuarially sound basis.

Readers who were at Queen’s in 2011 will recall that in that bargaining round, when we came within hours of striking, the university sought and won increased pension contribution rates and other adjustments to address deficits in the QPP. Despite these adjustments, the QPP remains in deficit. As of 2017, there was a $121-million going-concern deficit and a $300-million solvency deficit. “Going concern” refers to the ongoing operation of a plan where the employer remains in business, and new employees make contributions while the pension plan supports retired members. “Solvency” refers to the liabilities of plan were the employer to fold so that there were no new employees making contributions.

In 2012, the Ontario government imposed special solvency payments on the university sector, it is generally thought, for the purpose of driving the single-employer pension plans of the university sector into JSPPs. JSPPs, as multi-employer plans, have presumptive greater stability and therefore are not required to make solvency payments. The imposition of these payments is rightly characterized as “political,” insofar as the likelihood of Ontario’s public universities’ folding is remote. Nevertheless, the government was pursuing a policy objective that was arguably more legitimate than simple cost-cutting, which was to force a restructuring that would limit the exposure of university operating budgets to pension deficits resulting from extreme market events such as the crash of 2008.

The 2012 imposition of solvency payments, which were to begin in 2015 although they were then dangled like the sword of Damocles for a few more years, powerfully concentrated the minds of university administrations in some unfortunate ways. Most notably, the administrations of several universities, including Queen’s, began expressing interest in merging their single-employer pension plans with the JSPP for the college system, the Colleges of Applied Arts and Technology (CAAT) plan, which in QUFA’s view (and that of other faculty associations) offered poor benefits for excessive contribution rates. This unattractive prospect in turn concentrated the minds at the Ontario Confederation of University Faculty Associations (OCUFA) to consider the possibility of building a new, sector-wide JSPP that would be designed for the career paths and income levels of university faculty. In 2014, the Ministry of Training, Colleges and Universities gave the nod to OCUFA, the Council of Ontario Universities (COU)—which represents university administrations—and a number of public-sector unions including the USW, to begin exploration of the development of a sector-wide JSPP. The number of participants with different interests to be reconciled proved unwieldy, so in 2017 several universities withdrew in order to simplify the building process, with the prospect of joining once the plan was built.

The unions—the three faculty associations and USW—have been as committed to this project as the

More Information

For more definitions related to pensions, the following sites have useful glossaries:

- For federal- or CRA-focused terms: http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html
- For Ontario-focused terms: http://www.fsco.gov.on.ca/en/pensions/pension-plan-guide/pages/glossary.html

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