Pension Fundamentals
The rudiments of defined-benefit pension plans and defined-contribution plans, and the differences between single-employer pension plans and jointly sponsored pension plans

Primary Objectives of Pension Plans
Registered pension plans (RPPs) are a significant component of total compensation for faculty and librarians at Queen’s, currently constituting nearly 18% of total compensation. RPPs are one of the primary tools for building income security during retirement, especially given the limitations of the Canada Pension Plan (CPP).

Despite the importance of pension plans to provide income security during retirement, non-CPP pension coverage has fallen significantly in the past 40 years. According to Statistics Canada, in 2016, only 37.5% of all paid workers were covered by an RPP. The coverage rate has fallen from 46% in 1977, primarily because of the loss of defined-benefit plan coverage.

Defined-Benefit Pension Plans
Defined-benefit (DB) pension plans are typically preferred by employees and unions. In the DB model, benefits are predetermined according to the formula stipulated in the plan. This usually involves a combination of years of service, accrual rate, and highest average salary. The minimum guarantee formula of the Queen’s Pension Plan (QPP) is calculated based on such a formula.

DB plans are preferred by employees and unions because the benefits are guaranteed regardless of market conditions and investment performance of the plan. The risk of market downturns are borne by the plan sponsor (the employer), and plan participants (the employees) continue to earn and receive the benefits even if the plan does not have sufficient assets to pay the liabilities of these benefits. These shortfalls result in unfunded liabilities in the plan. Employers must increase pension payments to cover these liabilities. Such payments can result in significant unexpected costs for employers. For this reason, employers have aggressively sought to terminate DB plans or replace them with defined-contribution plans, which provide employers with cost certainty by shifting the risk of benefit loss to employees.

Defined- Contribution Plans
Under the defined-contribution (DC) model, pension benefits are based on accumulated contributions plus the return on investment. In contrast to DB plans, the value of the pension benefit is only known when the employee retires. If an employee retires during a market downturn, the impact on pension income can be very significant.

The money purchase component (MPC) of the QPP operates like a DC plan. If, at the time of retirement, the employee’s individual MPC is compared against the predetermined pension benefit of the minimum guarantee (DB), the employee enjoys the higher pension benefit from the hybrid plan. Hybrid pension plans like the QPP can no longer be established because of the regulations adopted by the Canada Revenue Agency from the Income Tax Act.

Single-Employer Pension Plan vs. Jointly Sponsored Pension Plan
The QPP is a single-employer pension plan (SEPP), where Queen’s University is the sole sponsor of the plan. As sole sponsor, the Queen’s administration has to take full responsibility for funding the plan and has sole authority over what to do with any surpluses in the plan. For example, during periods of high investment returns, the employer sponsor can choose to take contribution holidays, which means they reduce or stop their contributions to people’s pensions. These holidays can result in long-term deficits in the plan as the investment climate swings back to lower returns.

Jointly sponsored pension plans (JSPPs) have two sponsors: employees and employer(s). There may be more than one employer, making them multi-employer plans as well as JSPPs. The key with JSPPs is that both sponsors are responsible for ensuring that the plan can meet its obligations to pay people’s pensions. If there is a deficit, the sponsors have to decide how to address the shortfall by increasing contributions, reducing benefits, or temporarily cutting inflation protection for retirees. If there is a surplus, the sponsors can decide to increase the benefit, cut
contributions, or enhance inflation protection for retirees. Both sponsors have to agree to any changes. This tends to make JSPP management more conservative than SEPP management, as employee groups tend to favour decisions that protect their future pensions.

University Pension Plan

QUFA is recommending that Members vote to convert the QPP into a JSPP designed for the university sector, called the University Pension Plan (UPP). There is more information about the details of the UPP on QUFA’s Web site and on the UPP Web site:

https://qufa.ca/member-services/pension-information/
http://www.universitypension.ca/

Please take some time to learn about the issues to prepare for the online vote taking place **9-15 February 2019**.

Please contact QUFA if you have any questions or concerns.

Notes


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