QUFA PENSION NEWS
Queen's University Faculty Association Pension News

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.[1] The coverage rate has fallen from 46% in 1977, primarily because of the loss of defined-benefit plan coverage.[2]

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

[1]Statistics Canada. "Pension Plans in Canada, as of 1 January 2017." *The Daily* 27 June 2018. https://www150.statcan.gc.ca/n1/daily-quotidien/180627/dq180627e-eng.htm.

[2]Marie Drolet and Rene Morissette. "New Facts on Pension Coverage in Canada." Statistics Canada 18 Dec 2014. https://www150.statcan.gc.ca/n1/pub/75-006-x/2014001/article/14120-eng.htm

QUFA can be reached at qufa@queensu.ca.

QUFA PENSION NEWS

Spread the Word!

QUFA invites you to print out and post this *QUFA Pension News* in a visible place in your department or unit. Thank-you!


QUFA PENSION NEWS

Queen's University Faculty Association Pension News

How Did We Get Here?

Background to Bargaining 2018-2019

By Elizabeth Hanson
Co-Chief Negotiator, QUFA 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