QUFA PENSION NEWS
Queen's University Faculty Association Pension News

University Pension Plan FAQs

Frequently asked questions about the University Pension Plan (UPP)

1. The University Pension Plan

Q What is the University Pension Plan (UPP)?

A The University Pension Plan (UPP)—the proposed jointly sponsored pension plan (JSPP) for the Ontario university sector—has been developed with extensive participation and direction by selected leaders of:

- University of Toronto Faculty Association (UTFA),
- Queen's University Faculty Association (QUFA),
- University of Guelph Faculty Association (UGFA),
- United Steelworkers Local 1998 (U of T),
- USW Local 2010 (Queen's), and
- USW Local 4120 (U of Guelph).

These leaders have been meeting regularly with representatives of the administrations at the three universities, determining the UPP's details and transitional arrangements.

The creation of the UPP represents a once-in-a-generation opportunity to sustain the defined-benefit (DB) pension system with the Ontario university sector. The move to the UPP would enable us to maintain a DB pension plan while addressing the significant financial challenges that exist under the current plan.

Q If the UPP includes shared governance and shared costs, what does this mean practically?

A Sharing costs starts with setting employee and employer contribution rates. These have been negotiated at 9.2% below yearly maximum pensionable earnings (YMPE), and 11.5% above YMPE equally for both employers and employees based on the UPP's funding needs, and with the goal of keeping contribution rates steady over the long term. Employees and employers will also share responsibility for any future surpluses or deficits that might arise related to the pensions earned within the UPP.

In the event of a funding deficit, both employees and employers share responsibility for bringing the plan back to full funding. The responses to covering a shortfall arising in the UPP could include:

- raising contribution rates (these are paid by both employers and employees),
- reducing future pension benefits for those paying in now (for the portion of pension earned after the start of the UPP), and/or
- reducing or suspending cost of living increases for pensions on pay earned after the start of the UPP.

In the event of a funding surplus, the employee group and the employer group would each determine the use of the surplus based on the terms of the funding policy (to be developed as part of the UPP). The option would be to hold the surplus in reserve as a financial cushion, to lower contribution rates, to increase future pensions, and/or to raise cost of living increases for pensions being paid out from the UPP.

2. Converting to the UPP

Q Why does QUFA support converting the Queen's Pension Plan (QPP) to the UPP?

A The creation of the UPP represents a unique, once-in-a-generation opportunity to improve and sustain the retirement income system in the Ontario university sector. While there are several reasons to support this transition, they can be distilled to these two most significant:

- Moving to a JSPP model means securing a DB pension plan. Our current circumstances carry too much risk for employers—and, therefore, for plan members. The UPP addresses some of the financial challenges faced by our current "single-employer" university pension plans, providing a solution that supports plan sustainability and alleviates employment risk, which includes the risk to other benefit programs.

- Moving to a JSPP provides joint governance—employees, unions, and faculty associations representing plan members will finally have an equal say with the university administrations in the design, funding, investment, and administration of our pensions.

Q **What would happen to pension benefits already earned under the current plan, including the benefits of retired members, if the QPP were converted to the UPP?**

A All pensions earned under the Queen's Pension Plan (QPP) would be fully transferred to the UPP. Anyone who retired under the QPP before conversion to the UPP would continue to be paid the same amount of pension after conversion. These retirees would not be affected by any contribution increases and would receive the same cost-of-living increases after conversion that they would under the current QPP. In the unlikely event the UPP was wound up, Queen's University would be required to pay into the UPP any additional amount required to ensure that retirees and their beneficiaries receive full payment of the pension earned under the QPP.

Starting the first day of the UPP, all future benefits would be earned within the UPP.

Q **What is the UPP accrual date?**

A The UPP accrual date refers to the later of the date that the superintendent of financial services approves a transfer of the asset from the QPP to the UPP and 1 July 2021 (or such other date on which the transfer may be approved or the parties may agree).

3. Pension-Plan Funding, Asset Transfers, and Investment

Q **Given that the QPP is not fully funded, how will the amount that is transferred by Queen's University, and every other university joining the UPP at the start, be determined?**

A The UPP will determine the value of pension promises under each predecessor pension plan and compare that amount to the value of assets transferred to the UPP by each university. Any shortfall in the assets needed to pay for benefits under the existing pension plans will be fully borne by the university. This process will be undertaken on a plan-by-plan basis. This approach ensures that all pension promises from all universities are determined in the same way.

In the event that the value of the pension promises exceeds the value of the assets transferred, each university will be obligated to pay the amount of this shortfall over not more than fifteen years. This set of payments will be fixed, and may not be reduced or eliminated until all amortization payments have been made, regardless of the financial experience of the UPP.

Q **Will the amount transferred be roughly equal to the current assets plus the going-concern shortfall?**

A Yes, this is correct. The UPP will consider the university's obligation to eliminate the going-concern shortfall as an asset upon transition to the UPP. As a result, all plans will be fully funded upon joining the UPP.

Q **Is the move to the JSPP a way to make the solvency shortfall go away?**

A Yes, this is correct. One of the central terms of the agreement to establish the UPP is the condition that solvency funding will not apply to it. This is consistent with all of the other Ontario JSPPs. The Ontario government is aware of this condition and has not raised any concerns about it.

This applies to both the current set of solvency rules and the enhanced funding rules that the provincial government has proposed as a replacement for the solvency rules (i.e., after the change, Ontario's JSPPs will continue to be funded on a normal going-concern basis, and will be exempt from solvency payments or enhanced funding requirements).

Q **Does the multi-employer nature of the proposed UPP mean that the better-funded predecessor pension plans will effectively subsidize benefits of members accrued in the poorer-funded predecessor plans?**

A One of the foundational terms of the agreement to establish the UPP is that the past service liabilities of the predecessor plans must be transferred to the UPP on a fully funded basis, as described above.

Q **How are investing opportunities different in a multi-employer JSPP?**

A Investing opportunities are different because of the size of the asset base in a multi-employer JSPP. Larger plans have access to a much broader and more economically advantageous set of investment opportunities. For example, larger investment funds are able to own real estate directly rather than indirectly through stock ownership or high-fee funds. Because larger plans have a larger membership and asset base over which to spread risk, they are able to make investment choices aimed at earning higher returns.

In addition, larger plans enjoy economies of scale in the costs of investment management. Investment costs are much lower with a large pool of assets. While these savings seem fairly small when looked at on an annual basis, over a longer term these differences can have a meaningful impact on the asset base available to pay pensions. In general, between 70% and 80% of your pension comes from investment earnings on contributions rather than the contributions themselves, so it is important to take advantage of any opportunity to optimize investment returns.

Q What caused the current deficits in the QPP?

A There are several reasons why the plan's going-concern and solvency deficits have grown:

- increased longevity (people living longer than the plan design originally anticipated);
- historically low interest rates (this translates into higher levels of assets needed to pay the pensions owed to members); and
- the investment market crash of 2008, generally poorer investment returns since then, and an expectation that returns will be lower in the future.

4. Plan Comparison

Q What are the basic features of the QPP and of the UPP?

A The basic comparison features of the QPP and the UPP are listed in Table 1.

	QPP	UPP
Plan design	hybrid	defined-benefits, multi-employer
Governance (sponsor)	employer	employer and employees 50-50
Accrual below/above YMPE[1]	1.4% / 1.8%	1.6% / 2.0%
Employee contribution	7% / 9%	9.2% / 11.5%
Employer contribution	6% / 7.5%	9.2% / 11.5%
Normal retirement date	1 July, year after 65th birthday	month of 65th birthday
Unreduced pension with early retirement	none	age 60, 80 factor (20 years of service)
Normal form of pension with spouse	10 years with spousal 60%	10 years with spousal 50%
Pension indexation	conditional on investment returns of greater than 6%	funded conditional, 75% of Consumer Price Index (CPI))[2]
Take pension without retiring	allowed	government prohibits
Commuted value	anytime up to 71 years	phased-in restriction if over age 55

[1]YMPE refers the yearly maximum pensionable earnings for the Canada Pension Plan (CPP) ($57,400 for 2019). It will increase by 14% in 2025.
[2]between ages 65-71

Table 1: Basic Features of the QPP and the UPP

5. Benefits and Contributions

Q Is it true that employee contribution to the UPP would be higher than contributions to the current QPP?

A Yes. QUFA Members are currently contributing 7% below YMPE (YMPE is the year's maximum pensionable earnings, the earnings cap set annually for purposes of Canada Pension Plan (CPP) contributions and benefits) and 9% above YMPE. Under the UPP, those rates will be increase to 9.2% and 11.5% respectively.

In 2025, that break point will change from the YMPE to the year's additional maximum pensionable earnings (YAMPE). This is a second earnings threshold for CPP purposes that will be a 14% increase of the YMPE. The effect of this change will be to reduce contributions on the range of earnings between the YMPE and the YAMPE from 11.5% to 9.2%.

While employee contributions are higher, there are two points to consider:

- The university's current contribution is 6% below YMPE and 7.5% above the YMPE, and their contributions would increase to 9.2% and 11.5% below and above YMPE respectively to match employee contributions. The university would be contributing higher rates to the pension.
- In addition, QUFA has negotiated for a one-time increase of 1.5% of salary to occur on the UPP accrual date, provided QUFA consents to the conversion. This will help to mitigate contribution increases.

Q How do the proposed contribution rates under the UPP compare with other JSPPs in Ontario?

A The 2018 member contribution rates are provided in Table 2.

6. Retirement

Q I am retired. How will the move to the UPP affect my monthly pension and my indexing?

A For anyone who is retired under the current QPP (that is, retired before the expected UPP accrual date of 1 July 2021), there would be no impact on the amount of monthly pension due to the transition to the UPP. Retirees would not be affected by any contribution increases and would receive the same cost-of-living increases after conversion that they would under the QPP.

Pension Plan	Below YMPE	Above YMPE
Ontario Teachers' Pension Plan	10.40%	12.00%
Ontario Municipal Employees' Retirement System (OMERS)	9.00%	14.60%
Colleges of Applied Arts and Technology (CAAT)	11.20%	14.80%
OPSEU Pension Trust	9.40%	11.00%
Healthcare of Ontario Pension Plan (HOOPP)	6.90%	9.20%
Proposed University Pension Plan (UPP)	9.20%	11.50%

Table 2: Member Contribution Rates (2018)

Q The first 20 years of my eligible pensionable employment are in the current QPP, but the last 10 years or so will be in the proposed UPP. Will the first 20 years be calculated under the current pension rules? How will the two parts of my service—the first 20 years under one set of rules and the 10 under another—be put together to create my pension?

A When you retire, the UPP will calculate the first 20 years of pension based on the current QPP formula. The 10 years of benefits earned under the UPP will be determined based on the UPP formula**.** *It will use all of your earnings under the QPP and the UPP to determine the best 48 months of earnings for both plans.*

All of your service (i.e., 30 years) will be used for eligibility purposes for early retirement.

Because the UPP will be the administrator of both the predecessor plans and the UPP itself, it will be able to perform the required entitlement calculations and combine the results in a single monthly pension payment. The same would be true of survivor benefits. The survivor benefits attributable to the QPP and the UPP would be calculated in accordance with the rules of each plan, and combined in a single monthly payment.

Q What is voluntary phased retirement, and when would it be available?

A *If QUFA consents to conversion, and the QPP is converted to the UPP, voluntary phased retirement will be a new program available at Queen's. Starting as early as age 62, Members can set a three-year irrevocable plan with reduced responsibility and pay. Members would receive a 75% bonus of their year-one salary to be paid out over three years, or as a retiring allowance at the end. Members would continue with full pension credit at their full, not reduced, salary during the three years. Members will have a reduced workload with prorated salary to a maximum of 200% of duties over three years.*

Members would be able to request to initiate phasing in 2020 so as to being the three-year period in 2021. The request to initiate voluntary phased retirement can only be denied once by any Member.

Q Currently, Queen's does not have unreduced early retirement. How would this work?

A If QUFA consents to conversion, and the QPP is converted to the UPP, Members will be able to enjoy unreduced early retirement at age 60 with 20 years or more of service. Members can take the minimum guaranteed pension earned without penalty. This does not apply to the money purchase account. Under the QPP, Members must pay approximately 10% of the value of the pension to take it five years "early" (i.e., before age 65).

7. Other Questions

Q Under the QPP, I can commute my pension. Will I be able to commute my pension under the UPP?

A Under the UPP, the rules for commuting will allow you to do it any time up to age 55. After that, you will have to leave your money in the pension plan until you activate it, or you turn age 71. This change will be phased in as follows:

- first 3 years of UPP: You will be able to take the full commuted value of the QPP and the UPP pensions earned at any age;
- next 7 years of UPP: You will be able to take the commuted value only of the QPP portion of your pension at any age;
- thereafter: The rule above applies with respect to an age limit for accessing commuted value.

Q Can I activate my pension while continuing to work full-time?

A Currently, at age 65, you can choose to activate your QPP without retiring from full employment. If you are age 65 at 1 July 2021 (or the accrual date of the UPP), you will retain this right. If not, this feature will not be available going forward. At age 71, Members are required to activate their pensions as per CRA guidelines, even if they continue to work.

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