TUFA PENSION
BRIEFING NOTE #2

THE UNIVERSITY PENSION PLAN (UPP) - An Outline

The University Pension Plan (UPP) is a multi-employer jointly sponsored defined benefit (DB) pension plan designed in response to the solvency crisis that has confronted us and other university pension plans since 2008. In the UPP, a joint Sponsor Board of twelve members will be drawn equally from Employer-side representatives and Employee-side representatives to set benefits, contributions, and overall policies for the UPP. The Sponsor Board will also appoint a Board of Trustees responsible for operating the UPP and making administrative decisions. Given the relative magnitude of their stake in the Plan, the University of Toronto Faculty Association would be the only OCUFA member with a permanent seat on the sponsor board. Representatives from other faculty associations would cycle on and off the board, and unions representing staff and non-faculty association members will have representation equal to that of faculty associations.

The UPP Sponsor Board would be required to manage the plan in a fiscally responsible manner. If a surplus emerged, the Board would jointly decide how to spend the excess funds. Similarly, a deficit cycle would require compensatory adjustments be made: any such adjustments could only affect contributions or accrual on a go-forward basis: earned service is always protected in Ontario's pension plans.

At the point of joining the UPP, the going-concern deficit of any existing university plan seeking to join the UPP would be registered as an obligation to the UPP and would have to be paid down over some mutually determined period of time. For TUFA, we expect this would conform to the 15-year amortization period established for the three founding members of the UPP.

Although some of the specific elements of a transition from our current pension arrangement into the UPP would be negotiated with our own Employer, the broad contours of the UPP have been set. The key differences between the new UPP and our existing Pension Plan are described below. Before reviewing them, it is important to understand that the migration to a new plan cannot diminish or erode existing entitlements of either active members or retirees. Our current pensioners' retirement benefits can not be materially changed by migration to the UPP, and current members' pension entitlements would only change on a go-forward basis such that a retiring member's pension would be calculated as the weighted average of the TUFA Plan's benefits prior to the migration and the UPP's benefits subsequent to migration.

1. **Accrual Rate:** In the absence of a merger into a JSPP, effective 1 July 2019, TUFA's annual benefit accrual rate will be 1.8% of Final Average Earnings on Pensionable Service. This constitutes a drop from the current 2% rate and was negotiated in the last bargaining round to address the solvency and going-concern deficits in our current Plan. Under the UPP, the accrual benefit rate would be 1.6% on earnings below the Year's Maximum Pensionable Earnings (YMPE) and 2% on earnings above the YMPE. The YMPE is currently the first $55,900 of earnings and as such represents about 1/3 of our members' average earnings at retirement.

2. **Final Average Earnings:** TUFA members' Final Average Earnings are calculated based on the members' 5 best (i.e. most lucrative) consecutive years of service; the UPP would reduce this to 4 years. This change would be advantageous to TUFA members in determining retirement income.

3. **Early Retirement:** Currently, the TUFA Pension does not have any provisions for early retirement on an unreduced pension. Members forfeit 6% of their entitlement for each year they retire prior to reaching normal retirement age. The UPP, however, includes a provision for unreduced pensions beginning at age 60, provided that the sum of the member’s age plus years of UPP-eligible service equals 80 or more. The Queen's University Faculty Association, as part of their negotiations to join the UPP, secured the right for their members to include prior service when calculating the factor 80, thus securing an attractive early retirement option for current members.

4. **Indexation:** Under the existing TUFA plan, indexation on the benefits of members who retired on or after July 1, 2006, have been frozen until such time as our Plan no longer has a cumulative deficiency. Given the magnitude of the TUFA Pension Plan's solvency and going-concern deficiencies, this freeze amounts to a moratorium on indexing for the foreseeable future. Pension benefits under the UPP, on the other hand, will have funded conditional indexation equal to 75% of the annual increase in the Consumer Price Index (CPI). “Funded Conditional Indexation” means that the contribution rates have been set to fund indexation at 75% of the increase in CPI (“75% of CPI”), and so if the actual financial and demographic experience of the UPP matches the assumptions underlying the contribution rates then the indexation will be applied. To the extent that the actual experience turns out to be less favourable than the assumptions, the indexation can be reduced below 75% of CPI, in accordance with the funding policy set by the Joint Sponsors. In any event, indexing on UPP pension benefits is guaranteed to be paid at 75% of CPI for the first 7 years.

5. **Contribution Rate:** Subject to any transitional measures that might be negotiated by TUFA and the Employer, current service contributions for both employers and UPP members will be initially set at 9.2% of pensionable salary below the YMPE and 11.5% of pensionable salary above the YMPE. TUFA members currently contribute 9% of their nominal earnings to the TUFA Plan and so this would constitute an increase in contribution costs for all members; the University on the other hand will experience little change from the current service contributions that it is now making. As part of their agreement to endorse the merger into a JSPP, faculty associations at the three universities involved in the UPP have each negotiated some form of salary offsets to counter the impact of increased contributions and we expect to engage in similar discussions with our employer.

6. **A Word on the Supplemental Retirement Arrangement:** As a top-up to our existing retirement benefits, the SRA does not fall under the legislation and regulations governing registered pension plans. In practice, however, it is indistinguishable from the payments TUFA retirees receive from the registered plan. Under a plan migration, there are several ways in which the Employer might meet its obligation to provide SRA benefits to our retirees and TUFA has maintained from the outset of discussions with the Employer that a holistic solution must be found for the entire Retirement Arrangement. We would not recommend a retirement model in which our SRA benefits are not effectively secured.