

Queen's University

Town Hall Presentation

On the University Pension Plan (UPP)

This is a presentation prepared by Queen's University for its employees and retirees and is based on the Revised Pension Plan of Queen's University only. This presentation is not applicable to employees at any other University or participating in another university's pension plan. This presentation is for general information only and is not legal advice and in the case of any conflict between this presentation and the notices required under the PBA for consent to transition to the UPP, or the definitive documents created by the UPP, the notices and definitive documents will prevail. These slides are part of a Queen's University presentation and are incomplete without accompanying oral commentary.

Agenda

Introductions

Presentation

- Why A Jointly Sponsored Pension Plan?
- University Pension Plan Details
- Examples
- Contribution Rates
- Governance and Transparency
- Members' Consent
- Questions

What is a Jointly Sponsored Pension Plan (JSPP)?

- A JSPP is a pension plan that offers defined benefits and is jointly sponsored, governed, and funded by the employers and plan members.
- A member's retirement benefit under a JSPP is based on a pre-set formula, typically with reference to years of pensionable service and earnings.
- There are several large Ontario pension plans which are JSPPs, including:
 - Ontario Teachers' Pension Plan;
 - OPSEU Pension Plan (public service);
 - HOOPP (healthcare); and,
 - OMERS (municipal).
- These plans have a long history and are internationally respected for their ability to provide secure pensions.

Why A Jointly Sponsored Pension Plan?

Why change to a JSPP?

- Traditional pension plans face significant sustainability pressures that highlight the need for a new model to provide pensions for the future.
- Here's why:
 - Years of low interest rates, volatile investment markets and rising life expectancy have led to funding shortfalls and climbing contribution rates for most traditional pension plans;
 - Ontario's pension funding rules are a significant financial burden for universities, and are designed for single employer plans that are vulnerable to bankruptcy and plan wind-up;
 - In the private sector, defined benefit coverage has significantly declined creating a "pension gap" between the public and private sectors;
 - In the public sector, direction is away from the model under which employer bears all the risk;
 - Ontario Government and stakeholders at the three universities broadly support the move to a new model and are committed to working together;
 - Goal is a sector-wide plan – one that is open to any other Ontario university consistent with the general trend of plan consolidation.

What are the advantages of the University Pension Plan (UPP)?

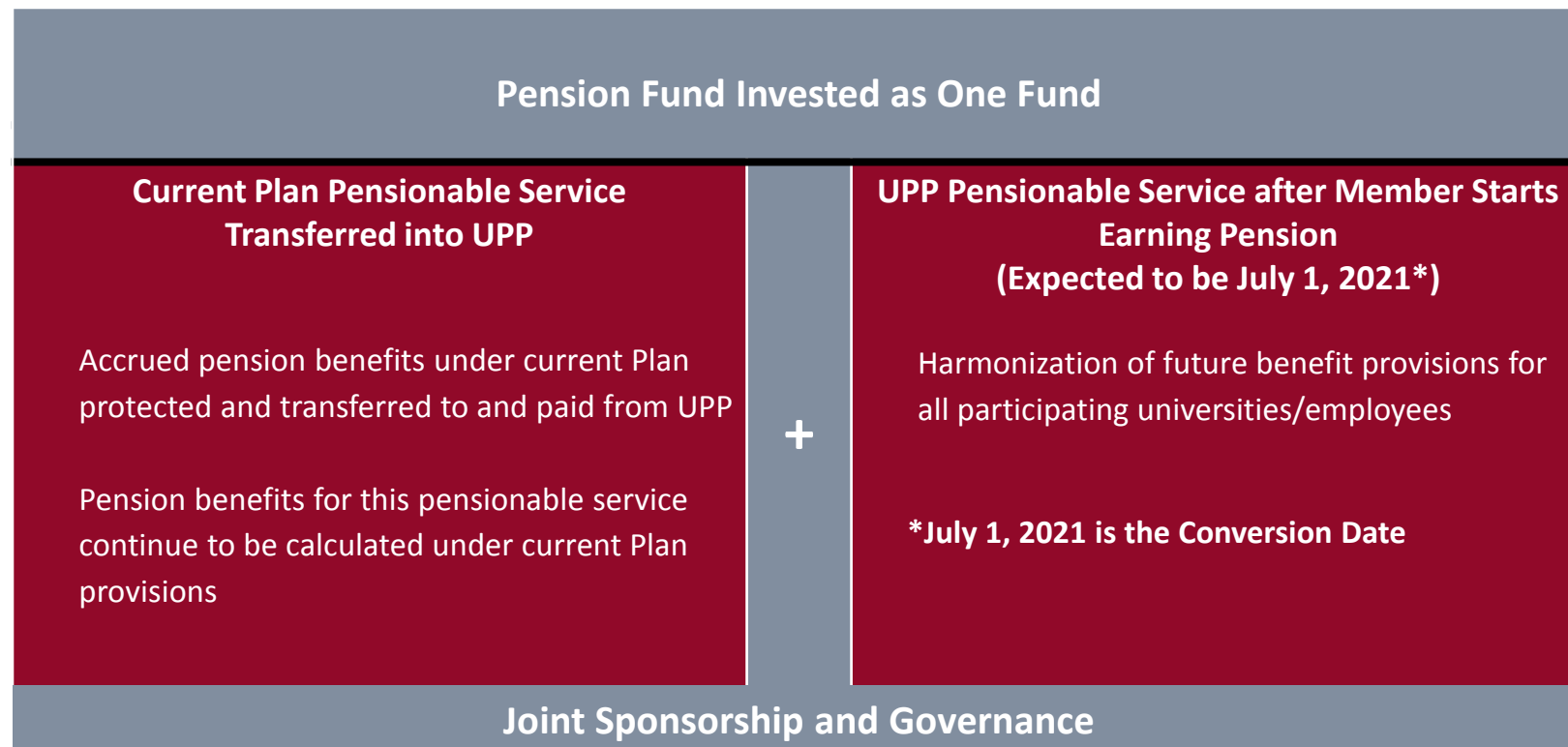
- The UPP offers the following key advantages:
 - Protection of defined benefit pensions under a new model for the sector;
 - Joint governance, where university administrations, and employee groups have an equal say in plan design, funding and administration;
 - Greater transparency into plan operations, funding, and decision-making through joint governance and open information-sharing;
 - Clear and explicit sharing of risk between employers and plan members;
 - More stable and predictable contributions from employers and plan members;
 - Relief from some of the financial pressures on universities caused by Ontario's current pension funding rules;
 - Efficiencies and economies of scale – a much larger plan means greater efficiency in plan administration and access to higher-return investment opportunities, which, in turn, will help address increasing costs.

Which universities and employee groups would be eligible to join the UPP?

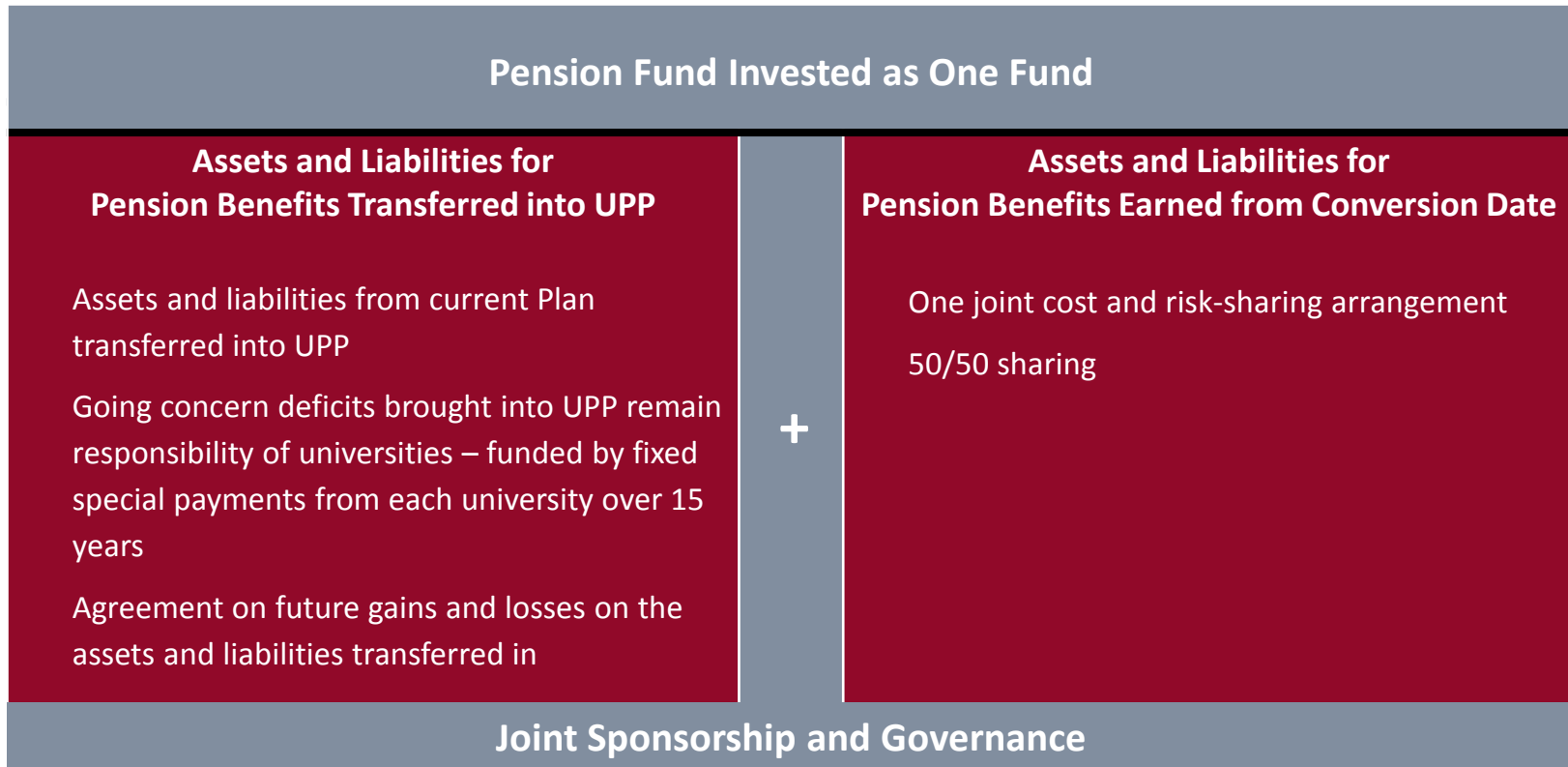
- Currently, Queen's University, the University of Guelph, the University of Toronto, the faculty associations, USW, and other staff groups, including representatives of non-unionized employees at those universities are working together toward being the first participants in the UPP;
- Other unions representing employees at the three universities are currently considering their participation;
- Once operating, the UPP would be open to other universities and employee groups as well;
- Employees of Queen's University must be a member of the Revised Pension Plan of Queen's University ("Plan") or eligible to become a member in order to be a member of the UPP

University Pension Plan (UPP) Details

How do the current Plan and UPP fit together?



How do the current Plan and UPP fit together?



How will my pension benefits be determined?

Pension Benefits Payable From UPP Combination of Pension Benefits Calculated Under:	
Current Plan Provisions	UPP Provisions
<p>Hybrid Pension Benefits for Pensionable Service Transferred into UPP</p> <p>Hybrid Benefit Structure: Greater of Money Purchase Benefit and Minimum Guarantee Benefit</p> <p>Account balances transferred to UPP; no further contributions but account balances continue to earn investment return until retirement or earlier termination at which point “greater of” test is made</p>	<p>Pension Benefits for Pensionable Service Earned from Conversion Date</p> <p>Defined Benefit Structure: Defined benefit provisions</p>
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How will my pension benefits be determined?

Pension Benefits Payable From UPP Combination of Pension Benefits Calculated Under:	
Current Plan Provisions	UPP Provisions
<p>Minimum Guarantee Pension Benefits for Pensionable Service Transferred into UPP</p> <p>Benefit Formula:</p> <p>1.4%¹ of Best Average Earnings up to Average YMPE, plus</p> <p>1.8% of Best Average Earnings in excess of Average YMPE</p> <p>Limited to maximum pension permitted under Income Tax Act</p> <p>¹ 1.35% for pensionable service prior to August 31, 1997</p>	<p>Pension Benefits for Pensionable Service Earned from Conversion Date</p> <p>Benefit Formula:</p> <p>1.6% of Best Average Earnings up to Average YMPE, plus</p> <p>2.0% of Best Average Earnings in excess of Average YMPE</p> <p>Limited to maximum pension permitted under Income Tax Act</p>

How will my pension benefits be determined?

Pension Benefits Payable From UPP Combination of Pension Benefits Calculated Under:	
Current Plan Provisions	UPP Provisions
<p>Minimum Guarantee Pension Benefits for Pensionable Service Transferred into UPP</p> <p>Best Average Earnings: Best 48 consecutive months of salary, calculated at retirement or earlier termination (salary for future service under UPP recognized for this purpose)</p>	<p>Pension Benefits for Pensionable Service Earned from Conversion Date</p> <p>Best Average Earnings: Best 48 months of salary, calculated at retirement or earlier termination (salary for pre-UPP service recognized for this purpose)</p>
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How will my pension benefits be determined?

Pension Benefits Payable From UPP Combination of Pension Benefits Calculated Under:	
Current Plan Provisions	UPP Provisions
<p>Minimum Guarantee Pension Benefits for Pensionable Service Transferred into UPP</p> <p>Average YMPE¹: Average of YMPE for the years used in the calculation of Best Average Earnings</p> <p>¹ Year's Maximum Pensionable Earnings under Canada Pension Plan (CPP)</p>	<p>Pension Benefits for Pensionable Service Earned from Conversion Date</p> <p>Average YMPE¹: Average of YMPE in last 48 months of employment</p> <p>For pensionable service from January 1, 2025 average will be based on Year's Additional Maximum Pensionable Earnings (YAMPE) under CPP which is set at 114% of YMPE</p>
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How will my pension benefits be determined?

Pension Benefits Payable From UPP Combination of Pension Benefits Calculated Under:

Current Plan Provisions	UPP Provisions
<p>Minimum Guarantee Pension Benefits for Pensionable Service Transferred into UPP</p> <p>Early Retirement for This Portion of Pension Benefit:</p> <p>Minimum Guarantee Benefit earned to early retirement date reduced from last day of the month of 65th birthday</p> <p>For benefit earned for pensionable service to August 31, 2012, 2% per year for first 5 years plus 6% per year thereafter</p> <p>For benefit earned for pensionable service from September 1, 2012, 3% per year for first 5 years plus 6% per year thereafter</p>	<p>Pension Benefits for Pensionable Service Earned from Conversion Date</p> <p>Early Retirement for This Portion of Pension Benefit:</p> <p>No reduction in pension benefit earned to date of early retirement if age 60 and 80 age-plus-continuous service points (service transferred into UPP from current plan counts for purposes of determining eligibility)</p> <p>For retirement on or after the last day of month of 55th birthday and before age 60/80 points eligibility, pension benefit earned to early retirement date reduced 5% per year from normal retirement date (last day of the month of 65th birthday)</p>

How will my pension benefits be determined?

Pension Benefits Payable From UPP Combination of Pension Benefits Calculated Under:	
Current Plan Provisions	UPP Provisions
<p>Minimum Guarantee Pension Benefits for Pensionable Service Transferred into UPP</p> <p>Normal Form of Payment:</p> <p>Without spouse at pension commencement date – lifetime pension with a guarantee of at least 120 monthly payments</p> <p>With spouse at pension commencement date - legislated automatic payment form is lifetime pension with 60% continuing to surviving spouse on pensioner's death; actuarially reduced to reflect 60% survivor pension</p>	<p>Pension Benefits for Pensionable Service Earned from Conversion Date</p> <p>Normal Form of Payment:</p> <p>Without spouse at pension commencement date – lifetime pension with a guarantee of at least 120 monthly payments</p> <p>With spouse at pension commencement date – lifetime pension with 50% continuing to surviving spouse on pensioner's death, actuarially reduced if spouse is more than 10 years younger; legislated automatic payment form is 60% survivor pension, actuarially reduced to reflect increase from 50% to 60%</p>

How will my pension benefits be determined?

Pension Benefits Payable From UPP Combination of Pension Benefits Calculated Under:

Current Plan Provisions	UPP Provisions
<p>Pension Benefits for Pensionable Service Transferred into UPP</p> <p>Indexation of Pensions In Payment:</p> <p>Money Purchase Benefit – indexation based on the excess of 6-year average of pension fund investment return over 6%</p> <p>Portion of any Minimum Guarantee Benefit Supplement in respect of pensionable service to August 31, 2012 also indexed as above; no indexation on portion for pensionable service from September 1, 2012</p>	<p>Pension Benefits for Pensionable Service Earned from Conversion Date</p> <p>Indexation of Pensions In Payment:</p> <p>Funded conditional indexation at 75% of Increase in CPI -- funded in contribution rates based on long-term actuarial assumptions and granted each year subject to funding policy under which Plan Sponsors jointly decide to reduce future indexation adjustments below 75% level given financial health of plan</p> <p>Transitional rule: Plan Sponsors have agreed not to reduce indexation below 75% level in first 7 years</p>

Is the commuted value option available on retirement?

- Current plan provides commuted value option after eligibility for early retirement.
- CV option is available up to age 71 currently. Under UPP will only be available up to 55.
- UPP will not provide commuted value option after eligibility for early retirement.
- Transition for members transferred to UPP:
 - For first 3 years from date of transfer to UPP
 - Current plan provision will continue to apply to combined benefit from service before and after joining UPP.
- After 3 years but before 10 years from date of transfer to UPP:
 - Current plan provision will continue to apply to pension benefit for service transferred into UPP; commuted value option not available on pension benefit earned for service under UPP.
- After 10 years from date of transfer to UPP:
 - No commuted value option after eligibility for early retirement.

Is the commuted value option available on retirement?

First 3 years	Years 4-10	Years 10+
Current Plan provision will continue to apply to combined benefit from service before and after joining UPP.	Current Plan provision will continue to apply to pension benefit for service transferred into UPP; commuted value option not available on pension benefit earned for service under UPP.	No commuted value option after eligibility for early retirement.

Can I start my pension after age 65 while working?

- The QPP currently allows members to cease accrual, commence their pension and remain employed on and after Normal Retirement Date.
- If prior to the date on which service begins to accrue in the UPP a member has already elected to cease accrual and commence their pension from the QPP they will be treated as a retired member under the UPP and will continue to receive their pension.
- If prior to the date on which service begins to accrue in the UPP a member has already elected to cease accrual and is entitled to a deferred pension from the QPP they will be treated as a former member under the UPP and will be entitled to commence their pension.
- A member of the QPP will be eligible to continue to have the option to cease accrual and commence a pension under the UPP while remaining employed (for both QPP and UPP service) if he/she attains Normal Retirement Date prior to July 1, 2021.
- A member who attains Normal Retirement Date after the date on which service begins to accrue in the UPP will only be entitled to commence receipt of their pension after termination of their employment or at December 1st of the year the member attains age 71, if earlier.

Examples

How will this actually affect benefits?

Example					
Final Salary	\$ 50,000	\$ 75,000	\$ 100,000	\$ 125,000	\$ 150,000
4-year Average Salary	\$ 47,860	\$ 71,790	\$ 95,720	\$ 119,650	\$ 143,580
4-year Average YMPE	\$ 54,925	\$ 54,925	\$ 54,925	\$ 54,925	\$ 54,925
Annual Pension Earned					
Per Year of Service					
Current Plan (Minimum Guarantee Benefit)					
- Without Spouse	\$ 670	\$ 1,073	\$ 1,503	\$ 1,934	\$ 2,365
- With Spouse ¹	\$ 631	\$ 1,010	\$ 1,414	\$ 1,820	\$ 2,225
UPP					
- Without Spouse	\$ 766	\$ 1,216	\$ 1,695	\$ 2,173	\$ 2,652
- With Spouse ¹	\$ 755	\$ 1,198	\$ 1,670	\$ 2,140	\$ 2,612

¹ Assumes retirement at age 65 with spouse 2 years younger.

How will this affect my benefits?

For service earned under UPP, Greater of Money Purchase Benefit and Minimum Guarantee Benefit replaced by defined benefit provisions with:

- Higher benefit formula
 - Approximately 12% increase in benefit for members not affected by Income Tax Act maximum pension
- Subsidized survivor pension
 - Approximately 5% increase in retiree's pension with 60% survivor benefit coverage
- Unreduced early retirement
 - Unreduced pension at age 60 with 80 or more points versus reduction of 15%
- Better indexation
 - Contribution rates targeted to fund 75% of CPI indexation; pension fund not required to earn over 6% to provide indexation

Contribution Rates

What will contribution rates be under the UPP?

- 50/50 sharing of contributions.
- Contribution rates for both members and universities estimated to be:
 - 9.2% up to the YMPE, plus;
 - 11.5% above the YMPE.
- Pensionable salary cap set at \$165,000 in 2018 and increased each year at the same rate of increase in the Income Tax Act maximum pension.
- Increase in member and university contribution rates from current levels:
 - For members, from 7.0% up to YMPE/9.0% above YMPE;
 - For university, from approximately 7.5% up to YMPE/9.4% above YMPE (combination of 6.0%/7.5% to Money Purchase Account plus cost of Minimum Guarantee Benefit).
- University special payments in addition to these contributions.
- YAMPE will be used as the breakpoint starting in 2025.

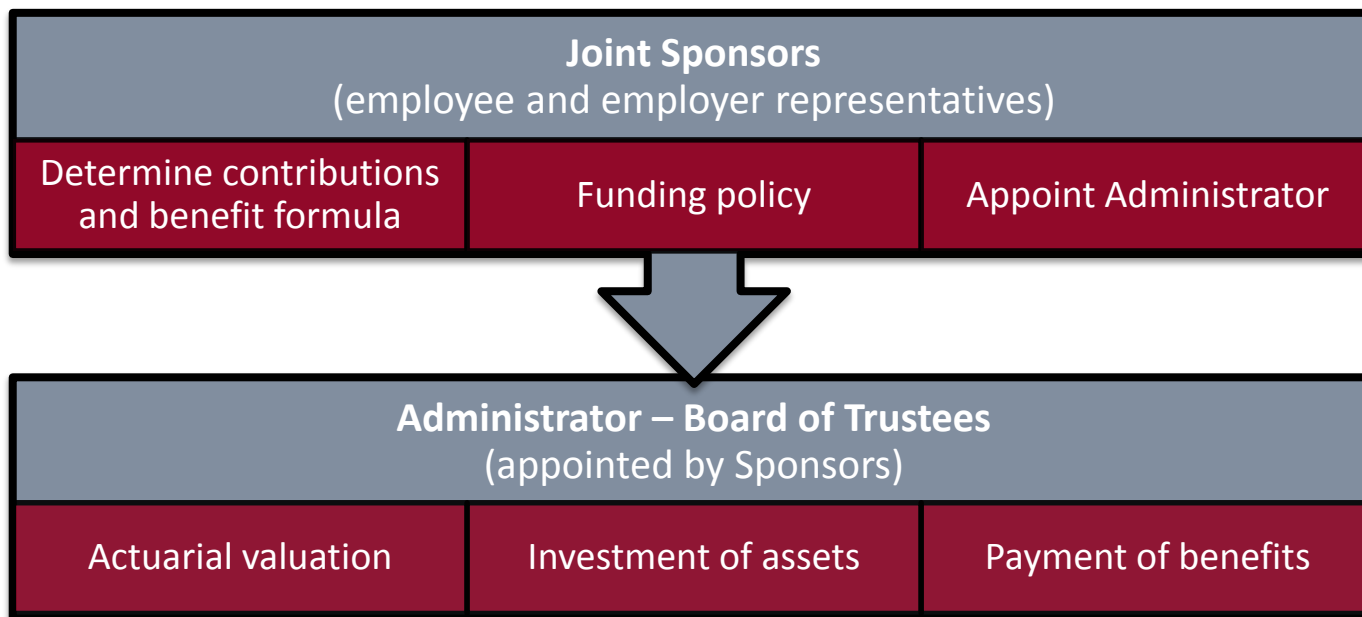
What else do I need to know?

- Current Plan is covered under the Pension Benefits Guarantee Fund (PBGF):
 - For pension benefits up to \$1,500 per month, PBGF would cover any unfunded portion on Plan wind-up;
 - Universities pay significant premiums to the PBGF; premiums unrelated to risk of employer insolvency.
- JSPPs are not covered under the PBGF:
 - Multi-employer JSPPs like the UPP would not be wound-up if one of the participating employers became insolvent; accrued benefits would continue to be paid by JSPP;
 - JSPP could not be wound-up unless employee and employer sponsors agree;
 - Accrued benefits can only be reduced under a JSPP in the event of full wind-up of the JSPP where there are not sufficient assets;
 - However, universities remain responsible to fund accrued benefits transferred into the UPP in the event of a future windup of the UPP.

Governance and Transparency

How will the plan be governed?

UPP will be a “two” Sponsor model – employers are one Sponsor and employees are the other Sponsor.



How will the plan be governed?

The UPP Joint Sponsors:

- Set benefits, contributions and funding policies for the UPP;
- Have equal representation of the participating universities on one hand, and the faculty associations and unions representing UPP members on the other hand;
- Responsible for appointing Administrator (Board of Trustees);
- Representatives of the non-unionized employees will have access to information from the Sponsors and will meet with the Sponsors annually.

How will the plan be governed? (cont'd)

The UPP Board of Trustees:

- Legal Administrator of the UPP responsible for making decisions about administration (including the preparation of actuarial valuations, ensuring compliance with all applicable laws, investment of the UPP assets, and payment of pension benefits to members);
- Will consist of 6 Board members appointed by the universities; 6 Board members appointed by the faculty associations and unions; and 1 Board member appointed by the non-unionized employees (without a tie breaking vote);
- Independent Chair of the Board of Trustees to be appointed jointly by the Sponsors (first seven years);
- 14 Board members in total (first seven years);
- Board of Trustees anticipated to be recruited and in place by January 1, 2020, together with the Sponsors, in order to ensure UPP is ready to accept contributions, assets and start pension accrual, effective July 1, 2021.

Members' Consent

Do I have any say in this?

- In order for the proposed conversion to the UPP to proceed, there is a regulatory process. Under the Pension Benefits Act process:
 - All members, unions, retired members and former members must receive detailed notification of the proposed conversion to the UPP;
 - This notice will come to you from the University, as the current legal Administrator of the Plan;
- The required content of the notices includes:
 - The information about the benefits provided under your current Plan;
 - Actuarial information about your current Plan;
 - Information about the benefits to be provided under the JSPP; and,
 - The nature of a JSPP.
- The notices must also contain personal data and calculations concerning the member's accrued pension under your current Plan, and the member's accrued pension after joining the proposed JSPP.
- The data and calculations must be "fresh" in the notices – which means that the information on which they are based cannot be older than 6 months.

Do I have any say in this?

In addition to the notices, there is also a consent/objection process:

- **At least 2/3 (two-thirds)** of all the active members of the current Plan give their consent; and,
- **No more than 1/3 (one-third)** of the retired members, former members and other persons entitled to benefits under the current Plan (inactive members), as a group, object;
- Conversion also requires the prior approval of the Superintendent of Financial Services (the “Superintendent”).

Do I have any say in this?

Unionized Members

- **For unionized members of the Plan:**
 - Your union must determine whether to consent on your behalf;
 - If your union consents on your behalf, you are deemed to consent;
 - If your union does not consent, you are deemed not to consent to the conversion;
 - Faculty and USW will be seeking ratification of members in late January/early February.

Do I have any say in this?

Retired and Former Members

- **For retired and former members of the Plan:**
 - Even if you were unionized when you were employed at the University, that union will not consent on your behalf;
 - You will have an individual right to object to the conversion;
 - If no more than 1/3 of the retired members, former members and other persons entitled to benefits from the current Plan object, the inactive member threshold will be met and conversion can go ahead (subject to the active member consent threshold).

Do I have any say in this?

Non-Unionized Members

- **For non-unionized members of the Plan:**
 - If you are non-unionized, you will have an individual right to consent to the conversion;
 - Your consent will be added to all of the deemed consents by unionized members to determine the total;
 - If 2/3 or more of the active members of the current Plan consent (or are deemed to consent in the case of unionized members), the active members consent threshold will be met and all members of the Plan are deemed to have consented to the conversion;
 - As long as the inactive member objection threshold is met.

How will the new plan be approved?

- If both the active member and inactive member consent thresholds are met then the next step is to apply to the Superintendent for approval. It is anticipated that the application will be submitted by December 31, 2019.
- The approval process is lengthy and detailed. In order for the Superintendent to grant approval the university must demonstrate a number of criteria, including that:
 - the required notices provided to members are accurate and complete.
 - the commuted value of the pension benefits provided under the UPP for the transferred members is not less than the commuted value of their pension benefits under the current Plan.
 - every transferred member is entitled to credit in the UPP for their membership in the current Plan for the purpose of determining eligibility for membership in and entitlement to benefits under the UPP.
 - the pension benefits provided under the UPP for inactive members are, at a minimum, the same as the pension benefits provided for them under the current Plan.

What is the timing of all of this?

- Faculty Association/USW ratification January / February 2019
- Notices out March 2019.
- Consent by June 2019.
- New JSPP registered January 1, 2020.
- Contributions under UPP would only start after regulatory approval for transfer of existing Plan assets to JSPP, anticipated to be July 1, 2021.

Where can I get more information?

- Information about the proposed pension plan is available on the UPP website at www.universitypension.ca, where you can sign up to receive updates and submit questions.
- This presentation will be posted on the UPP website by December 2018.

Questions?

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