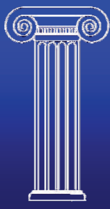

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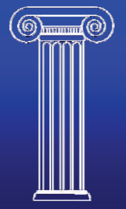

Building community through dialogue, discussion and debate

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'Perspective is Everything': Why Communication is Critical

Herbert Pimlott, Editor & Associate Professor of Communication Studies

The title of one of *The Globe & Mail*'s most recent marketing campaigns, 'perspective is everything', captures perfectly the importance of communication, whatever you are talking about, from celebrity gossip and foreign affairs to world cup football and pension plans. Those who determine how an issue is framed and the language used shape *what* issues people rank as important and *how* they see them. As every scholar of communication knows, language, like communication, is not neutral.

It's why the Harper Conservatives have invested so much time and so many resources into communications and why money-losing newspapers are supported by media barons like Rupert Murdoch.

Indeed, recent studies of audiences of Fox News and UK tabloids have shown respectively that Fox News viewers are more likely to know less about politics and current affairs than those who don't watch any news at all (!) and tabloid readers are most likely to hold misconceptions that are an inversion of reality about most issues, and especially high-profile topics such as immigration, benefit fraud and crime (e.g. Farleigh Dickinson University, 2012; Ipsos Mori, 2013).

Perception has become more influential than reality.

And we have to ask: 'In whose interest, do these misconceptions work?'

If 'perspective is everything', does that mean the employer's view of the pension plan will be different from the employees'? What each side wants from that pension plan is not necessarily the same, is it?
A few other questions also come to mind:

'When the actuary provides advice exclusively for the employer's benefit, who is looking out for the interests of plan members?'

Can we sustain a pension plan if the trend in hiring employees (and therefore ongoing contributors to the pension plan when we are enjoying our 'golden years') is moving to outsourced, contract, part-time and casual employees?
If Laurier has moved to at least half of the undergraduate teaching carried out by contract faculty (CAS) in 2012 (up from 38 percent in 2008), would it not be an idea to have more full-time, permanent faculty who would also contribute to a shared pension plan – or at the minimum ensure that our CAS colleagues are paid well enough to be able to afford to contribute to a pension plan? (*As you know, other employee groups are not expanding in proportion to student enrolments – except for management – which expanded at almost twice the rate of student enrolment between 2008 and 2012.*)

These figures also contrast with a general perception that faculty salaries make up most of the costs of universities (note: half the undergraduate teaching by CAS professors was paid for by a mere 3.4 percent of revenue in 2012).

(cont'd on pg 2)

(cont'd from pg 1) Does it matter if the senior administration didn't contribute to the pension plan for a decade? Some people say that 'it's in the past'?

Since pension plans take the long view, as both Joanne and Marc remind us in their contributions, and since members of the senior administration have complained about the cost of paying down the pension plan deficit, then surely it's not 'in the past'. In fact, such an impact is cumulative (see the excerpt from our 2011 bargaining advisory on contribution holidays in this issue).

For example, if you make the decision to not pay your mortgage for five or 10 years – or to only make the lowest minimum payment possible – then the interest will compound upon what you owe. *(Should your family bail you out?)*

The last question about perspectives that I want to draw your attention to is the role of the actuary.

The University of Windsor's senior administration is seeking a judicial review of an arbitration won by the Faculty Association (WUFA) because the former do not want to release the documents that contain advice from the pension plan actuary provided during the 2011 negotiations.

But, as WUFA points out: 'Mercers is contracted and paid from the Pension Plan, with monies contributed by both parties, to manage the pension plan. WUFA viewed the advice to [the] Administration about pension strategies during bargaining, and other items on the table during negotiations, as a conflict of interest' (http://www.wufa.ca/?q=node/409).

I can't help but ask: *'When the advice provided by the plan actuary is exclusively for the benefit of the employer, who is looking out for the interests of plan members?'*

The Word on 'Pension Holidays' at Laurier

In recognition of this issue's emphasis on pensions, a note from full-time negotiations last time:

"The deficits in the Laurier pension plan started with the Administration taking what is called **pension contribution holidays** in 1994. A pension contribution holiday is a suspension of the actuarially defined cash contributions to the pension plan. This continued until 2002. The employees kept contributing seven percent of wages to the pension plan, but the Administration did not contribute a matching amount. This is no different from the Administration taking a loan from the pension plan. As with all loans, the funds must be paid back with interest. The amount of this loan explains the deficit in the pension fund that we see today. In short, the actuarial design of the Laurier pension plan was not adhered to and therefore a deficit occurred.

To be fair, it must also be mentioned that employees at Laurier also took partial pension contribution holidays from 2000 to 2001. So, employees also partially suspended cash contributions to the pension plan and have also taken a loan from the pension plan. This loan must also be paid back to the pension plan.

At the end of 2010, our actuary calculated the Administration's loan to be $59.27 million and the employee's loan to be $4.94 million, both resulting from the pension contribution holidays.

If these loans were paid as of 2010, our actuary has determined that the Laurier pension plan would be properly funded. There would be no pension 'crisis'."

WLUFA Bargaining Advisory, No. 4, 28 November 2011, p.2.

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Ontario Universities Pension Symposium

Joanne Oud
Instructional Technology Librarian and
Member of the WLUFA Executive

I attended the Ontario Universities Pension Symposium, held at Laurier May 6, and was especially struck by two major themes.

The first was an emphasis by several speakers on the need to look at pension plans through a long-term lens. Although some speakers mentioned that markets have been more volatile in recent years, others cautioned that although recent events have made us more nervous, return rates have improved and we can't assume that investments will continue to perform poorly in the long term based on the last few years. This sounded familiar, since Bill Salatka and WLUFA have been saying it about our pension situation at Laurier for a while. Pensions are on a more than 50 year horizon, and things tend to even out over time.

Some other sessions sounded less familiar. Multi-employer pension plans were one of the major themes at the symposium, and were quite new to me. I was interested to discover how strongly the provincial government is encouraging universities to join together to form larger pension plans called jointly sponsored pension plans (JSPP), like the college system or the teachers' pension plan. Nearly all the speakers touched on some aspect of JSPPs, including advantages, disadvantages, and examples of different types of plans.

A JSPP has potential advantages for employers, including a longer time frame to make solvency payments. It could either be good or less good for WLUFA members at Laurier. There are many kinds of JSPP, so it all depends on what the details of the plan are and how it is implemented. OCUFA has been working with universities and the government on developing and agreeing to core principles, which would ensure that any JSPP solutions considered are good ones and that participating members wouldn't be disadvantaged by moving from their own plan to a JSPP.

Based on what I heard at the symposium, it looks like the provincial government really wants us to move towards JSPP for pensions in the university sector before too long. Several universities are already in discussions to join one JSPP, the Colleges pension plan (CAAT). OCUFA is working on developing a new university-sector JSPP alternative. Provincial legislative changes would need to take place before any of these developments can happen. At Laurier, any pension changes would need to be negotiated by WLUFA and the University. It's clear that JSPPs are a major issue looming on the university pension horizon in Ontario, and we may be hearing more about them here at Laurier in future.

(cont'd from pg 4) Laurier pension plan are living longer, and this would create a deficit in the Laurier pension plan.

Yet, as of 2010, the analysis from our actuary, after accounting for pension contribution holidays, shows that there is no significant surplus or deficit in the Laurier pension plan. Did members of the Laurier pension plan suddenly start living many years longer since 2010 creating the large deficit we observe today? That explanation does not make sense to me. Furthermore, a large deficit actually existed in the Laurier pension plan in 2010 refuting the explanation that members of the Laurier pension plan began living many years longer since 2010, creating a large deficit in the pension plan since 2010.

The bottom line? It is a myth that the above three factors are the cause the large deficit we observe in the Laurier pension plan today. These factors may have contributed to the existing large deficit since 2010. Yet, the truth is that the bulk of the deficit was created by the lack of funding of the pension plan due to pension contribution holidays taken by the Administration in the 1990's.

WLUFA advocate Editorial Policy

The views expressed in WLUFA advocate are those of the individual authors and do not necessarily reflect those of WLUFA, the Communications Committee, and /or the editor, except where such views are clearly indicated. The editor reserves the right to edit and reformat submissions to meet the format and requirements of the newsletter. It is the policy of WLUFA advocate to encourage discussion and debate that is respectful. We do not (re) print or publish *ad hominem* attacks on fellow members, nor any submissions that might be deemed libellous or discriminatory. Submissions to the newsletter must include name and contact information, and name(s) may be withheld upon request.

Pension Truths or Myths?

Bill Salatka, WLUFA Past-President & Associate Professor of Accounting

June 12, 2014

I see more myth than truth in the discussions of the Laurier pension plan. It has been rumored that the Laurier pension plan deficit was created by one or more of the following factors:

1. Retirees receiving more from the pension plan than they deserve
2. Low returns on investments of the pension plan, or
3. The Laurier population is living longer than in previous years.

Each of these factors has the potential to increase the deficit in the Laurier pension plan. Yet, none of these factors actually created the bulk of the pension plan deficit at Laurier we observe today. It is a myth that the above factors created the deficit in the Laurier pension plan. The pension contribution holidays taken by the Administration created the bulk of the deficit in the Laurier pension plan.

A surplus or deficit in the pension plan is defined by the difference between Pension Assets and Pension Liabilities. A positive difference is a surplus, where pension assets exceed pension liabilities. A negative difference is a deficit, where pension liabilities exceed pension assets. Pension liabilities exceed pension assets in the Laurier pension plan resulting in a deficit of tens of millions of dollars.

What facts do we know about the Laurier pension plan deficit? WLUFA's primary source of information is an analysis prepared by our actuary for the last round of negotiations to renew the Full-Time Faculty and Librarian Collective Agreement. That analysis clearly demonstrated that the pension contribution holidays taken by the Administration in the 1990s created the bulk of the deficit we now observe in the Laurier pension plan. If the funds not contributed to the pension plan were invested at the same rate as the actual rate of return on pension plan assets, as of 2010 there would be no significant pension surplus or deficit in the Laurier pension plan. How do these facts compare with the above three rumors?

"The bulk of the pension plan deficit was created by the lack of funding because of contribution holidays taken by the Admin"

1. If retirees remove more from pension plan than they deserve, a deficit can be created in the pension plan because retirees are removing from the pension plan more assets than was planned. This can take the form of receiving excess benefit payments or asset withdrawals from the pension plan by retirees. As of 2010 no such deficit is observed after accounting for pension contribution holidays. With the consequence that there is no evidence that this factor created the large pension deficit we observe today. This factor may have contributed to the deficit since 2010, but we would have to believe that only since 2010 retirees are consistently removing more from the pension plan than was planned. This is very unlikely. Thus, I do not believe this factor is the cause of the existing Laurier pension deficit.

2. If a pension plan experiences low or negative returns, a deficit can be created in the pension plan because assets are not earning the returns that were expected. In the years immediately prior to 2010, large negative returns were experienced in the stock markets and by the Laurier pension plan. Yet, our actuary's analysis shows that if the Administration had invested the funds from pension contribution holidays at the identical returns of the pension plan, no significant deficit or surplus would exist in the Laurier pension plan despite the large negative returns. Stock market returns since 2010 have been positive on a cumulative basis but may be lower to what was expected, contributing to the deficit. Yet, these returns since 2010 did not create the deficit since the deficit in the pension plan existed long before 2010. I do not believe that low returns are the explanation for the bulk of the deficit observed in the Laurier pension plan today.

3. There is evidence that members of the **(cont'd on pg 3)**

Pension Plan Prospects

Marc Kilgour
Professor, Mathematics
Chair, Department of Mathematics

Almost everyone who is working thinks about saving for when they're not working any more. Maybe not everyone does it, but it's hard to find anyone who doesn't think it would be a good idea.

If you belong to a pension plan, the problem seems to be solved, as you are automatically a member of a retirement-savings plan.

But pension plans are retirement savings for groups rather than individuals, and their features reflect their group nature, as well as other restrictions. Saving as a group sounds so simple – what could go wrong?

A fundamental principle underlies group pension plans: Everybody contributes part of their earnings during employment, and after retirement receives a regular payment in an amount that is fair to the group. The key is that, on average, the total pension received by a retiree should equal that individual's total contributions during employment, plus interest of course. [*Editor: the employer's contribution on behalf of employees is 'deferred compensation': an amount earned by employees as part of their salaries but paid out to them at a later date.*]

There are many complications and evolving problems, and this brief essay will describe some of them.

Laurier employees and retirees are affected by issues that affect pension plans in general, by issues that affect Ontario Public Sector plans, and by issues that relate to the Laurier plan specifically.

This report will focus not as much on Laurier's plan as on the broader context, and on how that context is changing.

One of the complications of pension plans is that they are usually benefits of employment – the employer is involved, and generally matches the employee's contributions. As well, the employer is typically the *sponsor* of the plan, which implies not only decision-making authority but also responsibility – the employer is on the hook if the plan goes wrong. [*Editor: But the employer has also had 'sole' responsibility for spending the surpluses, too.*]

Usually, investment returns are the issue, as payments to retirees are based on them. If investment income falls short of the built-in assumptions, the plan's sponsor must make up the difference.

Another complication is that pension plans are regulated. In Canada, regulation is generally a provincial responsibility, and in Ontario it falls to the Financial Services Commission of Ontario (FSCO, pronounced "fisco"). FSCO's responsibility under Ontario's Pension Benefits Act includes ensuring that plans are sustainable, i.e., able to meet their obligations. Actuarial evaluations of a plan must be reported to FSCO every one or three years, depending on the status at the previous evaluation.

For a plan like Laurier's, two kinds of actuarial evaluation apply. A Going-Concern evaluation is based on a comparison of the value of the plan's accumulated assets to its liabilities (future benefits earned to date); essentially, it measures whether the plan can continue indefinitely, as opposed to running out of money. A Solvency or Wind-Up evaluation assumes that the plan is ceasing operations and asks whether its current assets are sufficient to purchase annuities to meet its current obligations. The Laurier plan, for instance, was 79.9% funded on a Going-Concern basis, and 81.8% on a Solvency basis, as of December 31, 2012.

Obviously, being underfunded is not good. From the employer's point of view, the main issue is that it requires the plan's sponsor to make special payments to the plan, in addition to matching employees' contributions. In Ontario, where most universities have distinctive pension plans, and some have several, Laurier's funding status is not the worst, but it's not the best either.

How could this underfunding have happened, and what's likely to happen next?

One reason is good news for us but bad news for pension plans: We are all tending to. **(cont'd on pg 6)**

(cont'd from pg 5) live a little longer, which means that pension payments are going to have to be kept up that little bit longer. To be more specific, an individual's monthly payment, calculated at retirement, is based on the total amount saved on their behalf and some actuarial assumptions about lifetimes. Increasing longevity means that those assumptions tend to be too pessimistic, so the payments are too big.

Broadly speaking, the designs of employee pension plans reflect the pattern of human mortality when they were set up, about 50 years ago. These plans are not easy to adjust when the ratio of retirees to current employees changes. Perhaps people used to be more confident about their ability to understand and manage issues. Perhaps no-one expected basic demographics to change, or thought about the consequences if it did. Yet it has. The standard mortality table has changed several times in the last few decades, and the recently announced all-Canadian pension mortality tables were accompanied by a system that includes "mortality improvement scales." All pension plans are facing the problem of declining mortality.

The economy is another source of problems for most pension plans. An obvious issue is the possibility of bad years for investments, like 2008. Because pension funds are invested for the long term, they are typically hit hard when the market dips. To reduce risk, most of them have a substantial fixed-income component, so recent low interest rates have not reduced returns. They have another effect as well. Solvency evaluations depend on long-term interest rates; low interest rates mean that annuities are more expensive, so the assets of a plan don't go as far, and it appears to be underfunded.

There are other factors that determine the position and funding levels of a pension plan including, most importantly, management decisions, where the employer has sole control over the pension plan. But I'm going to leave these issues for others.

"Unlike most provinces, Ontario still requires solvency evaluations of public sector pension plans"

Quite a bit has been written recently on perils confronting Defined-Benefit Pension Plans in Canada. (Laurier's, though technically a Hybrid Plan, is effectively in this category.) I highly recommend the recent book *The Third Rail: Confronting Our Pension Failures*, by Jim Leech and Jacquie McNish (Signal, McClelland & Stewart, 2013). It's easy to read, but it covers the ground pretty well.

Unlike most provinces, the Ontario government is continuing to require Solvency evaluations of public sector pension plans, even though there seems to be no risk of public sector institutions being wound up. In the last few years, the provincial government has come out strongly in favour of jointly-sponsored pension plans for universities, which would mean that employer and employees would share responsibility for any shortfalls. [*Editor: Of course, sharing responsibility for shortfalls should mean sharing in surpluses, too.*]

In fact, the Ontario government strongly favours Multi-Employer Jointly-Sponsored plans for universities, but exactly how they would work remains to be determined. The Administration, in a joint initiative with the pension consulting firm, Aon Hewitt, held the Ontario Universities Pension Symposium, a meeting of interested parties including university administrations and employee groups from across Ontario.

I was there, and had the abiding impression that, all of a sudden, most of the people in the room came to the realization that, for Ontario university pension plans, major change is inevitable, and coming soon.

It seems likely that some university plans will convert to joint sponsorship soon. Some may join an Ontario multi-university plan that is now being talked about (preliminary discussions involving COU and OCUFA, representing all employee groups in the university sector, have started).

One initiative from COU was the outline of a "straw plan," to demonstrate how a sector-wide pension plan might work. Another alternative for a university is to merge its plan with an existing plan – the CAAT (Ontario Colleges) plan is looking to expand, and some universities are interested. The situation is changing rapidly but it is also complicated.

It seems to me that the bottom line is clear: At Laurier, the pension plan is going to be an even bigger issue in the near future.

(cont'd from pg 8) (2) All parties involved in in pension discussions must be able to fully understand the decisions they are contemplating. To ensure this, the data used to inform decision-making must be made available to all parties.

(3) The plan must provide a guaranteed formula pension. Most of the existing pension plans provide some level of certainty to members on what their retirement income will be.

(4) The plan will be negotiated by universities and their unions, and not legislated by the government.

Two key features of pension funding are articulated in our principles. First, the new plan will be treated in the same manner as all of the existing public sector plans with respect to its funding rules. And second, the plan will not have a funding shortfall at inception; it will be fully funded.

Pension sustainability: everyone wins

We believe that a multi-employer JSPP has the potential to be a win-win for government, employers and interested employees if we do it right.

For government, all of its budget objectives will be met, including consolidation of assets and liabilities, the conversion of these plans to a JSPP, and a more financially stable university sector.

Employers will get the solvency relief they require, and potential cost savings from economies of scale and professional expertise in the management of the pension plan.

Members will get a greater role in decision-making, a more stable pension plan, and the opportunity to protect benefits through cost savings and greater stability.

However, there are substantial trade-offs that must be fully acknowledged. The shift in risk from the employer to the members is substantial and material. For this trade-off to be a fair deal, members must realize the gains noted above, as well as be assured that past deficits will not be offloaded on to them as well.

Working together gives us the opportunity to fix some existing problems in parts of the system, and build something for the future.

Our goal is to create a situation where all parties - government, members and sponsors - are in a better pension position than they are today.

This can only happen if the parties work together in good faith.

Retiree's Recognition Social

Did you know?

Each year, after the Annual General Meeting in April, WLUFA hosts a Spring Wine & Cheese event in which retirees of the current academic year are honoured with an introductory biography and awarded with a small gift of appreciation from WLUFA.

Management Decisions: Taking Responsibility?

In Marc Kilgour's article, he writes that 'management decisions' are also an important factor affecting pension plans.

If the employer controls the pension plan and chooses to only pay the minimum required under law, and/or take a 'contribution holiday', it can have an impact on the plan. It was required if the plan was fully funded and/or the returns were too high (or if the plan was funded over a certain rate over 100% fully funded), then the employer is sometimes required, by law, to not continue contributing to the pension plan.

When times are good and the returns on investment are high, employers can use that as an excuse not to fund the pension plan. However, if they are responsible for the plan, then they also have the liability when it is underfunded and/or when investments are not performing well.

Equally important, an underfunded pension plan can also be used in negotiations against employees by claiming that the plan is underfunded and therefore employees need to contribute more to the fund and/or retiree benefits will need to be cut.

The Employee Perspective on University Pensions

by Donna Gray, Research Director of OCUFA whose portfolio includes Collective Bargaining, Pensions and Benefits Research

(The following is an article based upon the presentations made at the Ontario University Pension Forum at Laurier on 6 May 2014 and co-sponsored by Aon Hewitt)

The Ontario government has identified the sustainability of university and other public sector pension plans as a key priority. The last three budgets have called for the pooling of pension assets for investment purposes, and the equal sharing of costs and risks between employers and employees through jointly sponsored pension plans (JSPPs).

OCUFA has concerns about this 'broad-stroke' approach to pension policy since it is clear that not all of our plans were underfunded and in need of reform. Further research was clearly needed.

We set out to answer the following question: ***'Is there a sector wide sustainability problem? And if not, are there individual plans within the sector that we should be concerned about?'***

We asked a second question: ***'What are the pension models available to our members, based on our members' own pension goals, the funded status of our plans and current government policy?'***

Research results were clear: ***There is no sector wide sustainability problem, although there are pockets of concern.***

We concluded that pension reform should focus on providing an array of options, based on local goals and needs. Some of our members may choose to keep their current plan, or merge with an existing plan, such as the community college plan. Some members, however, were interested in exploring the creation of a new, multi-employer jointly sponsored pension plan for the university sector. Twelve OCUFA member associations, including WLUFA, are working with us and the other university unions and employers to design a new plan: we expect to complete this work by June of 2015.

What is a Jointly Sponsored Pension Plan?
In a jointly sponsored pension plan (JSPP), both the union (or unions) and the employer have equal power, and *make all the important decisions regarding the plan* ***together***.

This type of plan is an innovation of Ontario's public sector unions: teachers, municipal workers, hospital workers and others, all participate in JSPPs covering the bulk of employers and workers in each of these sectors. Over the last few decades, these plans have become world renowned for their stability, cost efficiency and investment models.

These plans are very different from our current plans in a number of ways. Most important, if there is a deficit in the plan, both you and your employer will share equally in the responsibility for getting the plan back to full funding. Currently, this is your employer's responsibility. But the reverse is also true: **In a JSPP, both you and your Employer share decision-making authority and control over surpluses in pension plans.**

"The shift in risk from the employer to the members is substantial …. members must be assured that past deficits will not be offloaded on to them as well"

Our Guiding Principles
Our ultimate goal is to create a pension plan that provides adequate and secure benefits, through a plan that maximizes the value of benefits for pension dollars spent. As the starting point for our work, the unions and employers agreed to a set of principles that would guide us.

(1) The first principle is that participation in a sector-wide plan or multi-employer JSPP will be voluntary and open to all pension plan types and employee groups.

Faculty association members expect to ratify any new pension arrangement through normal collective bargaining. This principle also speaks to a very important shared value: we believe that all university employees should have access to a pension plan as part of their compensation package. **(cont'd on pg 7)**