WLUFA
Wilfrid Laurier University
Faculty Association

Understanding the Laurier Pension Plan

A pension is deferred wages.

During your working years, you and the university pay a portion of your salary into the pension plan, and those contributions, with accrued interest, go towards providing you with a pension when you retire. Additional voluntary contributions can also be made.

Whenever money is invested, there is risk. Your individual pension is protected by a minimum guaranteed benefit, but that does not mean that the investments out of which your pension is paid are always making a profit. We will describe later in this pamphlet what happens when the plan is in a deficit situation.

Pension management is a collective responsibility:

• From an investment perspective, the plan is managed not by each of us individually but by professional asset managers who work on behalf of all plan members.

• The size of the pension plan can be advantageous:

o Bigger pension plans have access to investments not available to smaller plans that can offer higher returns with lower risk.

o Larger funds can diversify more thereby reducing risk.

o The more of us that participate in the plan, the more cost effective the plan becomes with lower expenses and more money going to paying pensions.

o Access to professional investment expertise should result in greater returns on investments.

• When markets are down, or when interest rates are low, there may not be enough funds in the plan to meet its “going concern” obligations. But because your pension is part of a collective investment it remains payable for life, unlike individual accounts where you can outlive your money.

• Because our plan is required to meet legislated solvency requirements, there are times when our employer is required to pay more into the plan to meet its obligations.

There are two types of pension plans:

• Defined Contribution Plans, in which the amount you and your employer contribute to the plan is fixed; however, the pension you receive can be variable. The amount you earn from the plan in retirement is totally dependent on the performance of the plan's investments. When the markets go up, so does your pension; when they go down, so does your pension, and there is also the risk that you might outlive your savings. This type of plan is increasingly prevalent in the private sector because the risk is entirely borne by the member.

• Defined Benefit Plans, in which the pension you receive in retirement is fixed and payable for live; however, the contributions you and the employer make may increase over time.

The Laurier Pension is a Hybrid Plan, which means it is both a Defined Contribution and a Defined Benefit plan.

In Laurier's pension documents, the Defined Contribution Plan is known as the Money Purchase Pension (MPP). The Defined Benefit Plan is referred to as the Minimum Guaranteed Pension (MGP).

The appeal of a hybrid pension is that when you retire, you receive the pay-out of the plan whose value is higher (either the minimum guaranteed amount or the actual amount generated by your portion of the investment, called your money purchase account).

How is the Laurier Pension Plan governed?

The Laurier Pension Plan is a single-employer pension plan (SEPP), which means the university is responsible for plan design, funding, and administration. The employer is responsible for all aspects of the plan including deciding where to invest the assets in the plan.

The total of the money you pay into the plan and the university contributions is invested by asset managers according to both the plan and the institution's investment policies and procedures. The Laurier Board of Governors monitors the financial performance of the plan and oversees the work of the investment managers.

The primary involvement of employees (i.e., plan members) occurs during collective bargaining. WLUFA and the employer negotiate benefits and contributions during contract negotiations.

In the last decade, the rising cost of pensions has led the university to press for a number of changes to maintain plan health.

Since 2012:

• Member contributions increased (from 7% of total earnings to 8% of earnings below the CPP wage base and 10% of earnings above the CPP wage base, for an average increase of approximately 2% of earnings).

• Penalties for members who choose to retire early (i.e., before age 65) were increased via changes applied to the MGP.

• Automatic indexation of MGP benefits earned on and after January 1, 2013, were reduced from 100% to 50% of the cost of living (CPI) with a cap of 4%.

• Members who choose to take a commuted value lose eligibility for post-retirement benefits.

The university has pushed for changes to the pension plan because it sees those changes as necessary to preserve the health of the plan. The vulnerability of all single-employer plans is that they depend on the financial success of one employer, a stable or growing number of contributors to the plan, and fund managers generating profits on investments.

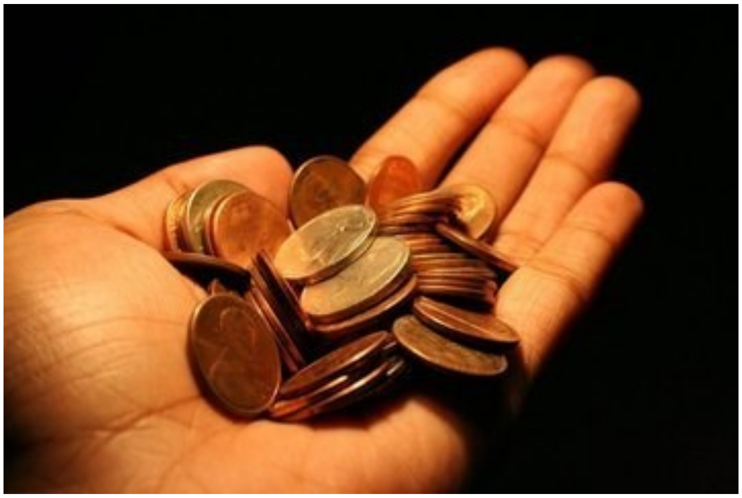
The reality is that many single employer plans have wound up over the last decade because of the financial strain and risk they place on employers.

When the pension is in a deficit situation the university will:

- Negotiate higher contributions from members.

- Draw money out of operating budgets, which generally means layoffs and hiring freezes.

Previous solvency crises with Laurier's Pension Plan have resulted in higher member contributions (2014), full-time hiring freezes (2009), as well as cuts to CTF and staffing levels (2009, 2015).



Because of their vulnerability, the province oversees SEPPs to better ensure their sustainability.

Under provincial legislation, if there is a deficit in the Laurier Pension Plan (which can happen if the plan does not generate enough income to meet its obligations, among other reasons), the university is required to put more money into the fund to cover the shortfall.

There are two primary measures of the health of a plan like Laurier's:

Solvency compares a pension plan's assets to its liabilities to determine if the plan could pay out all of its obligations if it ended tomorrow. The most recent solvency test of the Laurier Pension Plan was done in April 2019. At that time, the plan had a solvency ratio over 85%, so no additional contributions from the employer were required under provincial legislation.

The second type of test measures whether a plan is able to meet all its responsibilities on a "Going Concern" basis. This measure assumes that the plan will continue indefinitely so a long-term view is taken. When a plan is fully funded, it means that it is expected that the assets in the plan today will be sufficient to pay for all accrued pensions – those it currently pays, as well as those earned by those who have yet to retire, including indexing.

When the Laurier Pension Plan was tested in April 2019, it had a "going concern" deficit of $8.9 million and was 99% funded. As a result, the university is currently paying $762,000 per year to the plan for the next 10 years to address the deficit.

If the plan does not have enough money to be at least 85% solvent or fully funded as a “going concern,” the employer is required, under provincial legislation, to put more money in the plan. Plan members are not required by law to increase their contributions; the burden falls on the employer. But as noted above, in the past we have been asked to increase our contributions and/or reduce certain benefit provisions when the plan needed more funds while enduring significant cuts in operating budgets and job losses.

The Laurier Pension Plan does not currently have a solvency concern and is close to meeting its responsibilities as a “going concern.” The markets have been strong and there has not been a major reduction in the workforce.

But this can change. Many of us are thinking about the stability of our pension plan because of what is happening at Laurentian University. As recently as 2012, the Laurier plan’s “going concern” deficit was $86 million; it was $59 million in 2014. The university had to reduce those deficits under provincial regulations, and that resulted in their securing higher contributions from members and making cuts to operating budgets.

In theory, the solvency of a SEPP is entirely the responsibility of the employer, but in fact, members end up bearing their share of the costs and risk.