Pension Plan Information Session #2

19 April 2022

The University Pension Plan

WLUFA

Wilfrid Laurier University Faculty Association

Agenda

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1. UPP Backgrounder

The UPP is a JSPP

Jointly-Sponsored Pension Plan (JSPP):

The UPP is a JSPP which is a pension plan that offers defined benefits and is jointly sponsored, governed, and funded by the employers and plan members

- Members contribute towards the cost of benefits (typically 50%) but contributions can be no more than the employer's contributions.
- Members and employers are equally required to make contributions toward <u>any</u> going concern unfunded liability.
- There is no reduction in earned benefits except on plan wind up (but JSPPs are not covered by the Pension Benefit Guaranteed Fund).

Origins of the UPP

- In 2014, a joint working group of OCUFA, COU, CUPE, OPSEU and OSSTF was created with the financial backing of the Ministry of Training, Colleges and Universities to design a sector-wide plan.
- OCUFA initiated discussion of a sector-wide pension plan in 2010.
- That group produced a 2015 consensus report which established the basic principles. A decision was then made in the summer of 2015 to try to refine the plan at six universities. Laurier was one of the six. COU and OCUFA jointly sponsored the initiative. Discussions broke down over the representation of non-unionized employees.

Creating the UPP

- In January 2017, unions and employers at UT, Guelph and Queen’s decided to proceed alone and they reached a conditional agreement in July 2017. That conditional agreement included a role in governance for non-unionized employees.
- The UPP began operations 1 July 2021 with three employer and several union groups administering what had been 5 pension plans.
- In May 2021, Trent’s Faculty Association voted 99% in favour of converting their pensions to the UPP and on 1 January 2022 Trent became the fourth UPP member.

2. What does it mean to convert a plan to the UPP?

What does it mean when a SEPP plan converts to the UPP?

- Assets and liabilities from the current Plan are transferred into the UPP
- Any Going Concern deficit brought into the UPP remains the responsibility of the universities – funded by fixed special payments over 15 years
- Decisions regarding future gains and losses on the assets and liabilities are made by representatives (called Trustees) of the sponsors of the plan

What happens to your individual pension after conversion?

- Conversion is the date at which you stop paying into the Laurier Pension Plan and begin contributing to the University Pension Plan.
- After conversion you have both a UPP pension that you are paying into on an ongoing basis and a prior pension that you contributed to before conversion.
- The pre-conversion benefits you've contributed to will be paid to you on retirement by the UPP according to the terms of the Laurier Pension Plan at the time of conversion.
- Your pension will consist of two parts, both of which are paid by the UPP: benefits on service earned under the Laurier Plan up to conversion and those earned since conversion to the UPP.

What happens to your Money Purchase Plan?

The UPP is a DB plan. It does not contain a DC (Money Purchase Plan) option.

But the UPP will continue to assess your prior conversion account balance annually and if your benefits are higher under the MPP, then you will receive that amount, but only on the pre-conversion portion of your annuity's returns. The formula and indexing used to calculate "better of" will be the pre-conversion one used under the Laurier Plan.

3. UPP Contributions and Benefits

Some Key Concepts

Contribution Rate: The percentage of nominal salary that is contributed to the plan. Contribution rates are lower below the YMPE/YAMPE.

Accrual Rate: The rate at which an employee builds benefits. It is expressed as a % and it is again lower below the YMPE/YAMPE.

Indexing: This is the increase in benefits after retirement, designed to mitigate inflation.

YMPE (Yearly Maximum Pensionable Earnings): The YMPE is set each year by the Canada Revenue Agency. It is the salary rate over which you stop making Canada Pension Plan (CPP) contributions for the year. In 2021, the YMPE was $61,000. Because members are contributing to the CPP, the rate of their contribution to their own pension plan is adjusted.

YAMPE (Yearly Additional Maximum Pensionable Earnings): In 2025, the maximum level of earnings used to calculate contributions under the CPP will go up 14% by the creation of an "Additional Maximum". The Laurier Plan has not adjusted contributions to the higher YAMPE level. If it does, then the lower contribution rate would be paid on a higher percentage of salary.

Contribution rates compared

WLU Pension Plan member contributions:

8% of each member’s pensionable earnings per year, up to the YMPE and 10% above the YMPE

This totals and average 8.85% of pensionable earnings

Employer Contributions:

7.0% to MPP accounts

3.23% for the MGP administration cost plus Annual special payments of $762,000

Total contribution of 10.5% of Earnings

UPP Contributions are the same for both the employer and employee:

9.2% of each member’s pensionable earnings per year, up to the YAMPE and 11.5% above the YAMPE

This totals an average of 10.2% of pensionable earnings

50/50 sharing of contributions between employer and employee

Benefits compared – WLU pension plan and UPP

WLU Plan Provisions	UPP Provisions
Minimum Guarantee Pension Benefits for Pensionable Service Transferred into UPP	**Pension Benefits for Pensionable Service Earned from Conversion Date**
Benefit Formula is a percentage multiplied by a period of earnings multiplied by years of service.	Benefit Formula is a percentage multiplied by a period of earnings multiplied by years of service.
The Percentage:	**The Percentage:**
1.37% of the Best Average Earnings up to the Average YMPE	1.6% of Best Average Earnings up to Average YAMPE
2.0% of Best Average Earnings in excess of the YMPE	2.0% of Best Average Earnings in excess of Average YAMPE
The period of earnings:	**The period of earnings:**
Average earnings for best 60 months	Average of earnings during best 48 months

Early retirement

Under the University Pension Plan, members may retire with a full pension after age 60 when their age plus continuous years of service (including service under a preceding pension plan) equals 80 or more.

If the member does not meet eligibility for a full pension upon early retirement, benefits under the UPP are reduced by 5% per year from the normal retirement date.

The UPP therefore offers something the Laurier plan does not: an early retirement option for those employees with service and age of 80.

Working After Retirement

Under the UPP, members cannot work full time, make contributions and draw a pension. At 71, in accordance with Canadian law, members are required to draw their pension and cease contributions.

Indexing

Under the UPP, benefits for pensionable service earned from the conversion date is conditionally indexed at 75% of the CPI with no maximum. It is “conditional” because indexation of UPP benefits is not guaranteed. The UPP Joint Sponsors may decide to reduce future indexation adjustments below the 75% level to protect the financial health of plan. However, the UPP Sponsors have agreed not to adjust indexation below 75% level for at least the first 7 years of the plan’s operation.

Supplementary Pension Arrangement

Laurier sponsors a non-registered Supplemental Pension Arrangement (SPA) to provide benefits for employees earning in excess of the Income Tax Act maximum pension limits. The UPP does not offer and will not administer Supplementary Pension benefits. Laurier's Supplementary Pension Arrangement would therefore remain the responsibility of the university.

Commuting

The UPP does not allow retirees to commute their pensions, though the option is currently available for the founding members for a 10-year period from the date the plan commenced operations. A time-limited conversion provision may therefore be negotiable.

Employee Transfers between Universities

If an employee participates in the UPP and transfers employment to another university that also participates in the UPP, there will be no break in UPP service.

An employee who contributes to a UPP pension at more than one institution will contribute to a single pension account.

However, different universities have different eligibility requirements, so it is possible that a member may not be eligible to contribute to a UPP pension at all UPP-sponsor institutions.

Post-Retirement Death Benefit

The UPP provides a more valuable normal form of pension for members with spouses compared to the Laurier plan:

Under the Laurier Plan, a 60% Joint and Survivor pension is provided to married members; however, the pension is reduced to be of actuarially equivalent value to the 5-year guarantee form. This ensures that members with and without spouses receive the same value of post-retirement death benefit, even if paid in different forms.

Under the UPP, a 60% Joint and Survivor pension is provided to married members; however, the pension is reduced to be of actuarially equivalent value to a 50% Joint and Survivor normal form (unreduced unless the spouse is more than 10 years younger than the member). The UPP's normal form of pension for members with spouses translates to a better post-retirement death benefit to spouses.

Solvency

Plan security is a major reason for converting from a SEPP to a JSPP.

SEPPs are dependent on the financial health of one institution.

JSPPs are separate entities from their employer-sponsors. As a result, a multi-employer JSPP, like the UPP, would not be wound-up if one of the participating employers became insolvent; accrued benefits would continue to be paid by the JSPP.

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.

Because a JSPP is considered so much more stable than a SEPP, they are not covered by the Pension Benefits Guarantee Fund.