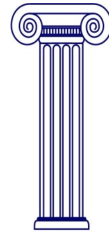
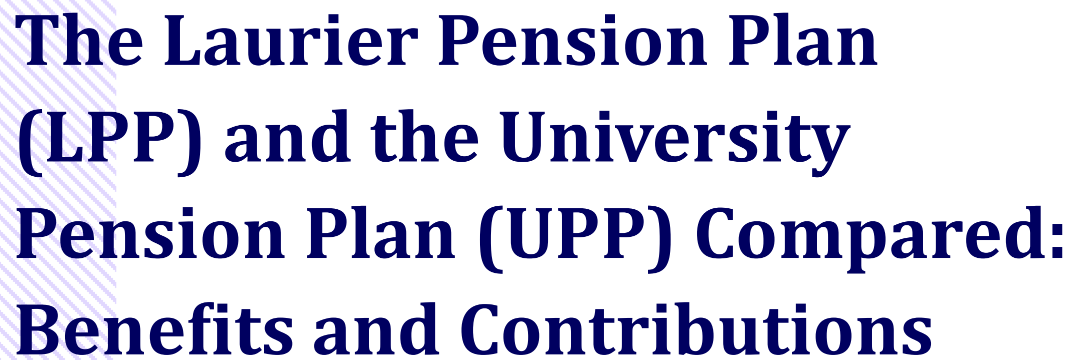


WLUFA

Wilfrid Laurier University
Faculty Association



The Laurier Pension Plan (LPP) and the University Pension Plan (UPP) Compared: Benefits and Contributions

There are a number of differences between the University Pension Plan (UPP) and the Laurier Pension Plan. In previous information booklets we reviewed differences in governance, size and plan security. This information booklet will contrast the benefits paid out and the contributions made to each of the plans.

It is not the case that one plan is "better" in all senses than the other. There are aspects of both plans that are attractive and different members at different stages of their careers will rank those advantages differently. In addition, member choices also affect the benefits received, for example, when a member chooses to retire.

Moreover, the differences between the plans need to be weighed in the context of your assessment of plan structure, earning potential, governance and your personal situations. The importance you place on plan security will be critical. It is not a straight-forward proposition.

Hybrid Provision

One of the most important differences between the Laurier Plan and the UPP is that one is a Hybrid plan and the other a Defined Benefit plan.

Under Laurier's Hybrid plan, retirees have the security of a Defined Benefit minimum guaranteed pension when they retire, but if the interest on their pension savings has produced returns better than the minimum guarantee, they receive a Money Purchase Plan (MPP) pension.

The "better of" determination is made once a year throughout your retirement.

At retirement each Member's pension account is converted to a variable annuity income stream. The factor used to convert variable annuity pensions is linked to long-term Government of Canada bond yields. To determine the rate of return on savings, the MPP uses the most recent 4-year average investment returns minus the conversion rate used to convert the MPP account balance to a pension.

The value of the MPP can go up or down annually based on this indexing, Historically, the MPP has produced higher pensions for retirees around 20% of the time, but in the last 5 years, the number has declined to about 10% of the time. In other words, 80 to 90% of the time, the minimum guaranteed pension is greater than that provided from the MPP.

The "better of" provision does not exist for UPP pensions as all post -conversion pensions will be Defined Benefit only.

However, Queen's University also had a hybrid plan that converted to the UPP. Queen's faculty who retire under the money purchase option continue to have indexation provisions based on investment returns. Further, members at Queen's retained their annuity conversion factor. In other words, there is reason to expect that should Laurier ultimately convert its plan to the UPP, our pre-conversion pension formula including MPP indexing provisions,

Commuted Value Provision

A second major difference between the Laurier and the University Pension plans is the option to commute one's pension.

Commuting a pension means transferring the lump sum value out of the plan. Under the Laurier Pension Plan, this option is available to members who, at the time of their retirement, decide to remove the value of their Money Purchase Plan pension, plus the additional value of the retirement year's Minimum Guarantee Pension, if any, from the plan and manage it themselves.

Members who choose this option lose retiree benefits as they are severing their connection to the Pension Plan.

Historically, around 15% of retirees have chosen to commute their pensions.

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 provision for commuting may therefore be negotiable.

Defined Benefit Rate

Laurier's Minimum Guaranteed Pension is a Defined Benefit pension. Unlike the MPP, whose employment and payout depends on investment returns and annual bond yields, a Defined Benefit is based on a set formula. The Defined Benefit pensions offered by the Laurier Plan and the UPP are both based on a percentage of average earnings calculated over a certain number of years multiplied by the number of years a member contributed to the plan.

But both plans use different earnings periods and different percentages.

One of the more complicated aspects of your pension is understanding how the Canada Pension Plan (CPP) factors into it. **The Year's Maximum Pensionable Earnings (YMPE)** is set each year by the Canada Revenue Agency. It is the salary rate over which you stop making CPP

contributions for the year and over which you do not earn CPP benefits. In 2022, the YMPE is $64,900. CPP contributions and benefits are only based on earnings up to the YMPE.

In 2016, The Minister of Finance announced an agreement in principle with the provinces that would "strengthen the Canada Pension Plan for future generations." One of the changes is that there will be a higher ceiling for earnings on which contributions and benefits will be based. As noted above, the original ceiling was called the YMPE. The new higher ceiling is called the **Yearly Additional Maximum Pensionable Earnings (YAMPE).** This change will be phased-in over two years, with the YAMPE representing an increase on the YMPE of 7% in 2024 with a further 7% increase in 2025. Ultimately, the YAMPE will be approximately 114% of the YMPE. The UPP calculates contributions and benefits using the YAMPE, whereas Laurier still uses the YMPE. If the university wants to adopt the YAMPE it will have to negotiate the change through collective bargaining.

Employees contribute a smaller amount and earn a smaller benefit on that portion of their pension below the YMPE or YAMPE. This is because they also make contributions and receive benefits from the CPP on that portion of their earnings.

The Laurier Pension Plan benefit formula for post-2012 service is as follows:

· **1.37%** on the Best Average Earnings up to the Average YMPE plus **2%** of Best Average Earnings in excess of Average YMPE. Best Average Earnings is based on an average of the best 5 years of service determined at retirement. Average YMPE is based on the same period as that used to determine Best Average Earnings.

The University Pension Plan benefit formula is as follows:

· **1.6%** of the Best Average Earnings up to the Average YAMPE plus **2%** of Best Average Earnings in excess of Average YAMPE. Best Average Earnings is based on the best 4 years of service determined at retirement. Average YAMPE is also based on the same period as that used to determine Best Average Earnings.

What this means is that pensions are higher under the UPP because they are based on a higher percentage of earnings up to the YMPE and fewer "best months" (which generally makes for a higher figure). However, the use of the YAMPE under the UPP means a larger portion of earnings is based on the lower accrual rate and this has a negative impact on the benefit rate. If Laurier negotiates the adoption of the YAMPE, then this difference will disappear.

To sum up, the benefit accrual rate is higher under the UPP compared to the Laurier plan; however, the use of the YAMPE rather than the YMPE does reduce the difference.

Contributions

Member benefit accrual rates are higher under the UPP compared to the Laurier plan, as are contributions. Under the Laurier Plan, the contribution formula for members is 8% of earnings

up to the YMPE ($64,900 in 2022) and 10% above the YMPE. On average, members currently contribute approximately 8.85% of earnings.

In comparison, the university currently contributes approximately 10.25% of earnings towards the cost of accruing benefits. In addition, the university is fully responsible for funding any deficits, and as discussed in the booklet **Understanding the Laurier Pension Plan,** it currently pays an extra 0.4% of earnings towards the "Going Concern" deficit.

Therefore, currently the cost split between member/university is approximately 45%/55%.

Under the University Pension Plan, the contribution formula for members and employer will be 50/50. What this means is that members contribute 9.2% up to the YAMPE and 11.5% above the YAMPE. The universities contribute the same amount. On average, members can expect to contribute approximately15% more than what they currently contribute, so the current 8.85% will increase to approximately 10.2% in aggregate. It will vary by individual based on actual earnings.

However, the other universities joining the UPP agreed to a one-time wage offset to cover the increase in contributions. Should member unions successfully negotiate a wage offset with Laurier, the difference in contribution rates will disappear and members will enjoy the higher benefits.

Note that the table provided which compares benefits and contributions does not show what contributions would look like with a wage offset (since it hasn't yet been negotiated).

Early Retirement

Under the Laurier Pension Plan, members may choose to retire any year after age 55, but reductions are applied if the member retires before age 65:

• For service prior to January 1, 2013:

o 1.5% per year if age 60 to 64

o 2.5% per year if age 55 to 59

• For service after January 1, 2013:

o 3% per year if age 60 to 64

o 5% per year if age 55 to 59

Plan members who retire early and have accrued service before 1 January 2013, receive a blended reduction rate.

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 will be reduced by 5% per year from the normal retirement date.

The UPP therefore offers something the Laurier plan does not: an option for early retirement with no reduction in pension benefits for those employees over 60 with service and age of 80.

For those who do not reach the 80 number before turning 65, early retirement is marginally less attractive under the UPP than under the LPP

Laurier Pension Plan (LPP) and University Pension Plan (UPP) Benefits and Contributions Compared*

EARNINGS						
Final Salary	**30,000**	**50,000**	**75,000**	**100,000**	**125,000**	**150,000**
LPP: 5-year Best Average Salary	28,300	47,170	70,760	94,340	117,930	141,510
UPP: 4-year Best Average Salary	28,710	47,860	71,790	95,720	119,640	143,570
CPP THRESHHOLD						
YMPE	64,900	64,900	64,900	64,900	64,900	64,900
YAMPE	73,990	73,990	73,990	73,990	73,990	73,990
5-year Average using YMPE	59,700	59,700	59,700	59,700	59,700	59,700
4-year Average using YAMPE	69,140	69,140	69,140	69,140	69,140	69,140
BENEFIT ACCRUAL (PER YEAR OF SERVICE):						
WLU (minimum guaranteed plan)	388	646	1,039	1,511	1,982	2,454
UPP	459	766	1,159	1,638	2,116	2,595
Increase of	18.5%	18.5%	11.6%	8.4%	6.7%	5.7%

MEMBER CONTRIBUTIONS AS PERCENTAGE OF EARNINGS						
WLU	8.0%	8.0%	8.3%	8.7%	9.0%	9.1%
UPP	9.2%	9.2%	9.2%	9.8%	10.1%	10.4%
Increase of	15.0%	15.0%	11.6%	12.6%	13.1%	13.5%
BENEFIT PER MEMBER CONTRIBUTING DOLLAR						
WLU	16.2%	16.2%	16.8%	17.4%	17.7%	17.9%
UPP	16.6%	16.6%	16.7%	16.7%	16.7%	16.7%
Increase/Decrease	3.0%	3.0%	-0.1%	-3.7%	-5.6%	-6.8%
*The numbers provided are not adjusted for any salary offset. The numbers provided ignore all ancillary benefits such as normal form, indexing, early retirement, "best of", CV option, etc.						
NORMAL FORM						
LPP - without spouse (Guaranteed 5 years)	16.2%	16.2%	16.8%	17.4%	17.7%	17.9%
UPP - without spouse (Guaranteed 10 years)	16.9%	16.9%	17.0%	17.0%	17.0%	16.9%
Increase/Decrease	4.6%	4.6%	1.5%	-2.2%	-4.2%	-5.4%
LPP - with spouse (Guaranteed 5 years)	16.2%	16.2%	16.8%	17.4%	17.7%	17.9%
UPP - with spouse (50% Joint &Survvivor)	18.1%	18.1%	18.2%	18.2%	18.1%	18.1%
Increase/Decrease	11.9%	11.9%	8.5%	4.6%	2.5%	1.2%
Note - the normal form for married members is 60% J&S in both plans, however, it's actuarial equivalent to different base forms						

Post-Retirement Indexing

Indexing is important in any pension plan, especially in inflationary periods. Retirees need their benefits to rise with the cost of living in order to maintain purchasing power.

Under the Laurier Plan, indexing works differently, depending on whether the retiree receives an MPP or a MGP pension.

• Minimum Guaranteed Benefits are indexed based on increases in the Consumer Price Index (CPI) (100% of CPI for pre-2013 service and 50% of CPI for post- 2013 service up to maximum of 4%). This indexing is guaranteed.

• The MPP variable annuity income is not really indexed, but if average Fund earnings (over a four-year period post retirement) are in excess of the discount rate (the Bank of Canada long-term bond rate) originally used to calculate the Member's retirement income, then the Member gets the added benefit.

The University Pension Plan indexes pensions at 75% of the CPI.

Under the Laurier Pension Plan the indexing formula can only be changed through collective bargaining. Under the UPP indexing is determined by the Joint Sponsors, as noted in the booklet "Understanding the UPP". What this means is that indexing rates can only be changed with the support of both the Employers Committee and the Employees Committee of the Joint Sponsors.

Post-Retirement Death Benefit

Many pension plans include a form of post-retirement death benefit whereby the pension is paid for a "guaranteed" period. If the member passes away before the end of the guarantee period, the member's surviving spouse/partner/beneficiary is entitled to the full pension payments for the remainder of the guarantee period. If the member outlives the guaranteed period, they will continue to receive their pension for the duration of their life, but no amount will be paid to the member's beneficiary or estate upon their passing.

· Under the Laurier Plan, the **normal form** is a pension payable for life with a guarantee period of 5 years.

· Under the UPP, the **normal form** is a pension payable for life with a guarantee period of 10 years.

The idea of a **normal form** is important because it is a reference point for other post-retirement benefits.

A second type of post-retirement benefit is available to members with spouses whereby instead of the guarantee period, the surviving spouse continues to receive a percentage of the member's pension after death, typically some percentage between 50 and 100%.

However, minimum standards legislation permits the retiring member's pension to be reduced to "pay" for the 60% surviving spouse pension. What this means is that, in actuarial terms, the survivor benefit is reduced because the member pays for it by accepting a lower pension during their lifetime.

· 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.

· Under the UPP, the pension to the surviving spouse is equal to 50% of the member's pension for the eligible spouse's lifetime. The amount of the member's pension will not be reduced to pay for the cost of the 50% survivor pension payable to the surviving spouse.

Unlike the Laurier Pension plan, then, the UPP's the Joint and Survivor pension has a different **normal form** to the guarantee period pension.

Survivor benefits under the UPP are better for both single members (because the life guaranteed period is 10 years compared to 5 years under the Laurier Plan), and they are even better for married members (a 50% unreduced Joint and Survivor pension as compared to the equivalent amount to the guaranteed 5 years).

Collecting a Pension While Continuing to Work

At 71, in accordance with Canadian law, members are required to draw their pension and cease contributions. The Laurier plan currently allows members to cease accrual, commence their pension and remain employed by the university. That would not change under the UPP. A member could continue to collect earnings from Laurier and draw a UPP pension, but they must cease making pension contributions .

Transfers Between UPP Participating Universities

If an employee is contributing to a UPP pension and transfers to another university that also participates in the UPP, there should be no break in UPP service. However, faculty working at different universities participating in the UPP are subject to the eligibility requirement in place when each of the individual plans converted to the UPP.

Supplemental Pension Arrangement

Benefits under both the Laurier Plan and the UPP are limited to the maximum pension permitted under the Income Tax Act.

However, Laurier sponsors a non-registered Supplemental Pension Arrangement (SPA) for certain employees to provide benefits in excess of the Income Tax Act maximum pension limits.

In some cases, a member's contributions to their regular Laurier pension account, combined with the University's contribution to the member's account, exceeds the total contributions permitted under the Canada Revenue Agency contribution limit for the year. The Supplemental Pension Arrangement (SPA) is a plan that provides a notional account for contributions that are in excess of the CRA limit. The SPA is valuable to higher earners; those earning roughly $195,000 or more per year.

A SPA account is notional – it is not managed separately – and contributions are credited with the same return realized by Laurier Pension Plan.

The UPP does not have a Supplemental Pension Arrangement, but other Faculty Associations entering the UPP negotiated the continuance of their SPAs.