Reform of the Pension Plan
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Changes to the legal framework for pension plans in the university sector have been promised for some time. It will be a reality very soon—the law is expected to be deposited in the National Assembly in early June. *This is not the final version* -- there will no doubt be change before proposed law is put to a vote at third reading. Still, we can see the general outlines of what is in store for the Concordia Pension Plan.

Moreover, although no one should rush to make a lifestyle choice based on potential changes to a pension plan, those who are already thinking about retirement in the near future may have a choice to make – see the Comments at the end of this report.

Context

Changes to the structure of university-sector pension plans have been the subject of considerable discussion between the provincial government on the one side, and plan sponsors and plan members on the other for the last two years. The ongoing assumption has been that the new law will incorporate features similar to the recently-adopted legislation dealing with the municipal plans. It now appears, however, that that the provincial government has changed its position and will adopt a new approach to pension reform for the universities.

Our understanding of the proposed legislation that will be tabled is as follows. For plans such as ours with operating costs that fall below 21% of the university budget, there is a window of negotiation opportunity to achieve three desired outcomes. The first is that current retirees (and those who declare their intention to retire or start receiving their pension prior to the tabling of the bill) will maintain the existing benefits as defined by their current plans and, moreover, will not be called on to participate in future deficit reduction measures. Second, ongoing plan costs, including the new stabilization fund but not the contributions to deficit reduction, must be shared on an equitable basis between the plan sponsor and plan participants, here characterized as falling between 45% and 55% for each side. Finally, the total operating costs of a new plan must not exceed the 21% ceiling. Important modifications in the cards for Concordia are the removal the non-contributory option as full plan participation will be mandatory, and, most likely, an increase in the contribution rate for all active members to meet at least the 45:55 rule.

In our opinion, the new proposal makes good sense in so far as it acknowledges the main position advanced by the universities and unions over the last two years to the effect that any reform should leave sufficient room for each plan to achieve a negotiated solution that reflects its particular circumstances.

Still, the Concordia Pension Plan does need to be reworked for two evident reasons: first, we have a class of members who do not contribute to the fund, depending entirely on employer contributions, and second, our member contributions fall considerably below the 45% minimum. So a new plan must be negotiated, and it must be in place by January 1, 2018. Here's the final wrinkle in the new government proposal: if we cannot come to an agreement on a new plan by the deadline, then the *current plan benefits* remain in effect but the member contributions increase to 50% of ongoing plan costs.

Within Concordia, the University administration has established the Pension Sustainability Forum, a group involving the 15 or so unions (including CUFA) whose members make up most of the Concordia plan's membership. The discussion at the Forum has been generally related to the current financing of the plan with some assessments of the financial implications of various hypothetical changes. This work will have to be recast in light of the new approach.

There follows: (i) a brief overview of the current plan; (ii) a benefit-cost analysis of potential plan changes; (iii) some concluding observations.

An Overview of the Current Pension Plan

Currently plan members may be contributory or not.

- Contributory members pay between 4.5% and 6% of their nominal (pensionable) salary, the percentage increasing as the salary increases. The average contribution rate for all members of the plan is just above 5% of salary.
- Non-contributory members receive half the benefits.

The University pays the residual amount needed to maintain the plan on an ongoing basis (ongoing plan cost).

- In addition to its share of the ongoing plan cost, the University must, if it is necessary, make a payment to reduce the pension deficit. The annual deficit reduction is determined by the government.
- In recent years, the University contribution has varied between 70%-80% of ongoing costs.

Given the plan option they choose and their current annual salary, plan members pay a fixed contribution and receive defined benefits. Since the value of the plan fund, from which benefits

are paid, is subject to unpredictable market variations, there is a risk in sustaining the plan over time that is borne by the University.

- For contributory members, the primary benefit is retirement income based on a formula involving years of contribution and salary:

  2% x Number years x average of best 36 consecutive months' salary *less* the QPP adjustment.
- Non-contributory members receive half this benefit.
- There is an inflation adjustment to retirement income flow that is contingent on fund performance (presented in the Addendum).
- Other benefits include Early Retirement after age 55 without Penalty, and the Ten-Year Guarantee.

Potential Plan Changes Based on the Proposed Legislation Only: A Benefit-Cost Analysis

It is important to estimate the increase in contributions from contributory members' current level (between 4.5 and 6%) needed to achieve the 50% cost-sharing objective: this level would represent our contribution to the Plan if we are unable to reach an agreement with the University on changes before the 2018 deadline. It should be underscored that under the new law non-contributory option will disappear, so, assuming that they have the choice and choose to stay in the plan, the contributions of these members will jump from zero to the new level (for twice the benefits).

Some numbers:

- The current cost of the Plan is 16.4% of the University's total pensionable payroll, what we will call the *salary bill*. The percentages that follow are relative to the salary bill. The 50:50 rule then applies to these percentages.
- The addition of the stability fund – a mandatory change – will cost an additional 1.3%. With these two changes, 50:50 cost sharing and half the cost of the stability fund, members' contribution rate would increase by an average of about 3.7% from the average current level of 5.2% (those who are currently non-contributory members would of course bear even larger increases).

This contribution increase could be reduced by removing certain benefits we have now:

- The removal of indexation for current active members when they retire reduces costs by 0.8%.
- The removal of early retirement benefits (including bridging): -1.5%. Change from best 36-month salary benchmark to best 60-month; -0.4%. Removal of 10-year guarantee: -0.2%.

If all these last benefits were removed, the plan would cost 14.8% of salary bill. With this reduction in benefits, the required increase in member contributions would fall from 3.7% to about 2.2%. But the negotiation process could also result in a reduction in member contribution from 50% to 45% of the total bill which would reduce members' contribution by 1/10. Effectively, there is a

shopping list of benefits and cost sharing that would lead to pension contribution increases of between 1.5% and 2.8% of salary.

We have not discussed the issue of the past deficit of the Plan. This amount will be calculated as at December 31, 2014. If there are no changes to the Plan, the deficit will have to be eliminated in 15 years. If there is an agreement, the size of the deficit could be reduced more quickly.

Personal Observations (Campbell, Chaikelson)

- Colleagues who are thinking of retiring should be aware that the indexation conditions under a new plan for retirees may not be as favourable as under the current plan.
- We have learned from Roger Côté, Vice President, Services, that the Québec Government has decided that, apart from those currently retired, only those active pension plan members who indicate their intention to retire *before this pension bill is deposited at the National Assembly* may retire under our current plan provisions. The Government has also let it be known that the bill will be deposited very soon, probably in the first two weeks of June.
- At Concordia, notification of an intention to retire must be made in writing to one's dean/University Librarian specifying a retirement date no later than May 31, 2016. Note that under the CUFA Collective Agreement, beginning to receive one's pension constitutes retirement. Still, if you take your pension after your turn 65, you may, under Article 42.05, continue to work on reduced time and reduced pay.
- Colleagues turning 71 this year and who will begin to receive their pensions under Article 42.05 would be well advised to confirm their intention to take their pension before the bill is tabled stating their intention to start receiving their pension on December 1.

CAVEAT

This report is based on information provided by the University administration's representative at briefings organized by the Québec Pension Board. There have been major changes in the proposed legislation since it was initially announced. The proposed bill could change again before being deposited and the deposited legislation could change further before being adopted into law. Before taking any decisions based on this information, we advise you to contact your personal financial advisor.

Addendum: Indexation in the Current Concordia Pension Plan

The indexation adjustment is applied to retirement benefits originating from the Plan as described above. The adjustment is contingent, related to the recent performance of the Plan's investment portfolio. It has two components that are computed on an annual basis: the first deals with that portion of the CPI that is above a 2% benchmark; the other, the portion of CPI up to the benchmark. The logic behind each component is somewhat different and there is value in getting the details straight.

- *CPI above 2%.* The Plan is committed to making an adjustment for this portion of price increases (termed *automatic indexation* in the Plan text). The constraint is Plan performance which must be greater than a 5-year average (net of managerial fees) less 5%. If this level is not achieved, the commitment is rolled forward.

  In recent years, the CPI has been less than 2% and, accordingly, there has been no increase in the University's obligation to adjust.

- *CPI up to 2%.* This portion is also assessed annually, but on a once-off basis whereby the obligation is not rolled forward. Here, the performance threshold is computed on a cumulative basis. Effectively, an account tracks performance; only when the account is positive may an adjustment of up to 2% be made. Since 2012 the account has been negative and no adjustments have been made even though inflation has been positive.

As previously indicated, the indexation benefit costs contributors, in the actuarial evaluation, 0.8% of their nominal salary. It appears that this benefit (certainly for active members) will be negotiable within the scope of the forthcoming legislation. A tenable approach for CUFA during these negotiations would be to give up indexation, but insist on its inclusion on an *ad hoc* basis (what the Dutch call *indexation as a defined ambition*), an approach that has no actuarial value and therefore does not contribute to the pension deficit. Of course, such a change would increase the importance of the Benefits Committee which would, in this context, assume the responsibility of determining the advisability of the adjustment in any given year.