BUFA Pension Issues

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Ontario Government Initiatives

- As part of the 2012 Ontario Budget, the government announced its intention to reform the framework governing public-sector pension plans.
- Legislation to this effect was expected to be introduced in the Fall of 2012.
- Recent political developments in Ontario mean that the legislation has been pushed back to, perhaps, the Spring of 2013.
- However, all indications are that the government will proceed with its plans to reform public-sector pensions as part of its deficit-cutting agenda.
Government Objectives

1. The government expects that single-employer public-sector pension plans will move to a 50–50 cost sharing formula for ongoing contributions within five years.

2. It proposes the establishment of a super fund that will pool the assets of a number of public-sector funds.

3. It will support efforts to convert current single-employer public sector pension plans to jointly sponsored pension plans (i.e. Teachers Pension Plan or OMERS).

- The government intends to pursue these goals through the provision of incentives and negotiation at first; but will legislate when it is deemed necessary.

- At this point in time, there is not enough detail regarding the proposed regulatory framework.
Rationale of Proposed Changes

1. The move to 50-50 cost sharing is intended to provide relief to university operating budgets

2. The proposal to create a very large ($40 billion plus) investment pool is based on the belief that it reduces administrative costs and improves investment returns through investments in alternative assets (real estate, private equity, hedge funds etc.)

3. Jointly Sponsored Pension Plans generally shift risk from employers to employees
Implications for BUFA Members

- The current cost sharing formula at Brock is 60-40 (university-member)
- At current contribution rates - 15% in total - the move would result in an annual reduction of 1.5% in take-home pay for BUFA members for the remainder of their working life
- It is difficult to assess the impact on our fund of the creation of a single asset manager given the lack of detail in the government proposals
- The same is true for the proposed jointly sponsored public-sector plans
Although Brock’s Pension plan is in a much better position that many other university pension funds, it faces serious challenges in future.

Perhaps the most serious challenge stems from the low government bond yields that we have experienced in the past.

These bond yields are used to estimate the present value of future fund liabilities - the pension promise.

A low discount rate translates to a high present value of future liabilities.

In Brock’s case, the reduction in the discount rate from 6% in the 2009 funding valuation to 5.25% in the 2011 valuation resulted in an increase in the present value of future liabilities by approximately $20 million.

This was, by far, the largest contributor to the increase in the going-concern deficit of the plan.
Long-term government bond rates are not expected to rise substantially in the near future.

There is usually a lag between changes in long-term government bond rates and revisions in actuarial assumptions.

Recent funding valuations of university pension plans have employed discount rates ranging from 6% (very liberal) to 4% (conservative).

Ours at 5.25% is near the middle of that range.

Our fund’s 2011 actuarial valuation showed a going-concern deficit of $35.4 million; up from $4.2 million in 2008.

As a result, going-concern special payments by the University rose from $421,000 to $3.4 million.