# 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

# Solvency Position of University Pension 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

# Solvency Position of University Pension Plans

- 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