Making Your Pension Plan Sustainable

May 23, 2013
Why are we here?

• Current situation
• What it means for you?
• Why does the law require us to act now?
• How do we avoid hard choices?
• What have other universities done?
• What are your questions?
Before we start

• If you are a retiree, your pension payments are safe

• If you are a pension plan member, your earned benefits are protected by current law

• Today’s discussion is about the University’s obligation to you as your employer
Current situation

- The pension plan is a key part of your benefits
- The plan is in a better financial position compared to others
- Economic and demographic factors have affected its sustainability
  - Slow economic recovery
  - People living longer
- Our objective: to ensure our pension plan is competitive, affordable and sustainable for the long term
Challenges

• Two major issues with university pension plans:
  – Challenges to fund existing deficits given the size of the plan and budgetary pressures
  – Steadily increasing costs

• Current problems stem from:
  – Demographic factors
    • Increase in pensioner longevity
  – Economic environment
    • Unprecedented low interest rate levels
    • Lower expectations for future investment returns
How your pension plan works

• The pension you will receive is calculated based on years of service and salary
• The benefits earned every year must be paid for
• There are 3 funding sources:
  – pension plan members’ contributions
  – the University’s employer contributions
  – investment earnings
Your pension plan: some figures

- Pension plan = $1.4B in assets, almost equal to the University’s total assets!
- Fourth largest pension plan among Ontario universities, after Toronto, York and Queen’s
- Annual cost: $60M — 72% paid by the University
- Special payments since 2011: $6.4M per year, paid by the University
- Total: $66.4M per year
Some definitions

• **Pension solvency:**
  - A pension plan must meet its legal obligations towards all current pension plan members, on the assumption that the plan is *closing today*.

• “**Going concern**”:
  - A pension plan must meet the obligations of its current members, on the assumption that the plan will *exist forever*.
Actuarial valuation*

- Going-concern deficit: $109.6M
- Solvency deficit: $289.1M

- Projected special payments required to fund deficits: ¹
  - No relief: 2014 to 2018: $62M/year
    » 9% of operating budget
  - With relief: 2013: $8.2M
    2014 to 2016: $11.9M
    2017 to 2026: $32.0M
    » 5% of operating budget

*Results based on actuarial valuation performed by Mercer (Canada) Limited as at January 1, 2013
1) Based on Stages 1 and 2 of the temporary solvency funding relief for public sector pension plans
Ontario Government Funding Relief

• Relief: a *temporary* solution offered by the government

• Allows solvency deficit payments to be spread out
  – Payment over 14 years instead of five
  – Conditions of the government must be met for the relief to stay in place
Requirements for relief

Three steps must be taken:

1. **Apply for relief** and explain how the University would like to reduce plan costs

2. **Develop a funding plan** to reduce the costs

3. **Implement** the necessary changes
Recap on the numbers

uOttawa’s pension regime funding*

*Revised numbers based on actuarial valuation as at January 1, 2013
What are the options?

Status quo

We can choose to take no action on the pension plan, but this will mean some very difficult budgetary choices.

- **Short-term impact:**
  - We must pay back $289 million over the next 5 years
  - Current service costs will keep going up

- **Long-term impact:**
  - Continued uncertainty on cost level
What are the options?

Option 1:

Change the contribution split between employees and the University

Now: uOttawa 72% / employees 28%

Government of Ontario target: 50/50
What are the options?

Option 2:

Review plan design, for example:

- Pension indexation
- Early retirement conditions
- Harmonization of YMPE
Other universities have managed to change their plan

<table>
<thead>
<tr>
<th>University</th>
<th>Deficit-Going concern ($M)</th>
<th>Deficit- Solvency ($M)</th>
<th>Sharing Employer/employee</th>
<th>% of payroll for current costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>McMaster’s</td>
<td>233.9</td>
<td>514.4</td>
<td>61/39</td>
<td>17.27%</td>
</tr>
<tr>
<td>Guelph (profs)</td>
<td>142.0</td>
<td>410.0</td>
<td>50/50</td>
<td>15.35%</td>
</tr>
<tr>
<td>Guelph (staff)</td>
<td>46.0</td>
<td>181.0</td>
<td>56/44</td>
<td>14.68%</td>
</tr>
<tr>
<td>Waterloo</td>
<td>118.3</td>
<td>248.3</td>
<td>50/50</td>
<td>14.58%</td>
</tr>
<tr>
<td>Toronto</td>
<td>1 156.5</td>
<td>1 809.6</td>
<td>60/40</td>
<td>18.74%</td>
</tr>
<tr>
<td>uOttawa</td>
<td>109.6</td>
<td>289.1</td>
<td>72/28</td>
<td>20.44%</td>
</tr>
</tbody>
</table>

Source: Aon Hewitt, March 2013
Next steps

- Relief application must be approved by the government
- Communication to staff and retirees
- University must show progress and concrete action by January 1, 2016 to continue to qualify for funding relief
For more information

http://www.financialresources.uottawa.ca/public/pension
QUESTIONS?