Understanding the pros and cons of converting to a multi-employer JSPP

This Backgrounder is intended to help inform our discussion of the possible benefits and risks of converting from a single-employer defined benefit (DB) plan to a multi-employer jointly sponsored pension plan (JSPP).

PROS OF CONVERTING TO A MULTI-EMPLOYER JSPP

• **An equal say in plan governance** – The JSPP’s sponsor board would include equal representation from employees and employers. The sponsor board would oversee all aspects of plan management, including funding policy, contribution rates and benefit levels. It would also appoint an administrative board to invest plan assets, conduct actuarial valuations and manage the plan on a day-to-day basis. Decisions could be made only with the agreement of the employee representatives.

• **Increased transparency in decision making** – Unlike the current situation, in which pension plans operate as part of each university’s administration, the JSPP’s sponsor board would have a legal obligation to operate in the best interests of plan members, and ensure the members can readily understand its strategies and priorities.

• **Exemption from solvency funding** – We expect that entering into a multi-employer JSPP would exempt the plan from solvency funding, eliminating the need to pay down any solvency funding shortfalls in existing plans. Future contributions would be based on the JSPP’s going-concern funding needs.

• **Flexibility for members who move between participating universities** – Defined benefit pension plans generally produce higher pensions for members who stay in the same plan for their entire career. Under a multi-employer structure, moving between participating universities would not result in a break in service, and the same earnings base would be used to calculate the total pension.

• **Greater spreading of risk** – Multi-employer pension plans offer greater stability than single-employer pension plans because the risks are spread across a larger membership base.

• **More stable benefit levels** – Any changes to the JSPP design and terms would require support from both employees and employers. Pension improvements may be harder to negotiate in a JSPP; however, it would also be more difficult to reduce future pensions.

• **Equal benefits for employees in any upside gains** – If a funding surplus occurs in the JSPP, employees will share in the decision on how it’s applied. This can be very hard to negotiate in the current structure.
CONS OF CONVERTING TO A MULTI-EMPLOYER JSPP

- **If the JSPP winds up, pensions earned in the JSPP could be reduced** – In the unlikely event the JSPP winds up and has a solvency shortfall, pensions earned after the conversion could be reduced. (All pensions earned under your current plan would be fully guaranteed for active, inactive and retired members and their beneficiaries.)

- **Plan provisions would no longer be negotiated locally** – The JSPP sponsor board would be responsible for plan changes, which must be approved by the employee and employer representatives. Local faculty associations and trade unions would not be able to seek plan improvements as part of the collective bargaining process.

- **Employees would assume a direct and equal share of the pension risk, and responsibility for managing that risk** – In the current structure, the employer is legally responsible for paying the difference between employee contributions and pension costs. However, risks may be transferred to employees through other salary/wage concessions or operational changes, as well as through bargaining proposals to increase contributions or reduce benefits for future service. In the event of a shortfall related to pensions earned within the JSPP, the sponsor board would need to consider raising contribution rates, reducing future pension benefits and/or reducing or suspending cost of living increases.

- **Employee representatives would share responsibility for the plan’s ongoing health** – Currently, the university administration takes responsibility for the plan’s health and any adverse results. In a JSPP, member representatives are jointly responsible for these difficult decisions. This means, for example, that “nice to have” plan provisions must be assessed in the context of their impact on the plan as a whole.

### Consent and ratification

The framework governing university sector JSPP conversions is set out in Ontario’s Pension Benefit Act. Under the provincial regulations:

1. Each union or faculty association conducts a ratification vote among its members. The process for conducting that vote is determined by each union or faculty association, but every member is entitled to full information about the proposed change.

2. If the vote is positive, the union or faculty association registers a “yes” vote on behalf of its members. If a faculty association represents 1,000 members, and the majority of those voting vote yes, then the “yes” vote for that association equals 1,000 votes.

3. Non-union, unrepresented members of the plan will vote individually.

4. If the total number of active members in the pension plan is, say, 6,000, then at least 4,000 in total must be registered as “yes” votes for the pension plan change to be approved. “Active” members would include all those represented by unions and faculty associations, as well as unrepresented members.

5. At the same time, if the total number of retirees, beneficiaries and inactive members is, say, 3,000, not more than 1,000 may vote “no” for the plan change to be approved.

If the required level of member consent is obtained, the university would then apply to the Superintendent of Financial Services for consent to the transaction. When that application is made, the university must send all members, retirees and other plan beneficiaries a notice regarding the application and how to get more information.

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This document describes highlights of various university sector pension plans in simple terms. It also provides general information about jointly sponsored pension plans. It is not intended to be relied upon as legal or financial advice. Every effort has been made to ensure the accuracy of this information, but if there are any errors or differences between the information given here and the legal plan documents or applicable legislation, the legal plan documents or applicable legislation will govern.