WLU Retirees' News

A Publication of the Wilfrid Laurier University Retirees' Association

To contact the executive: retirees@wlu.ca WLURA website: www.wlura.ca **Autumn 2024**

Pensions, Benefits, and the University Pension Plan Proposed Conversion

by Gerry Schaus

At the regular September gathering (Sept. 27) of the WLU Retirees' Association, there were two separate meetings scheduled. The first featured a presentation by WLU's Human Resources area, represented by Pamela Cant, the HR Director, Siobhan Adams, Senior Pension Consultant & UPP Project Lead, and Cole Moder, Senior Pension & Benefits Specialist.

The main interest of WLURA members was the proposal to convert the WLU Pension Plan (WLUPP) to the University Pension Plan (UPP) as of January 1, 2026. The UPP is already up and running with the participation of the University of Toronto, Queen's University, the University of Guelph and Trent University. Laurier is closest to being the fifth university to join the UPP although there are several smaller groups which have already become members. Since the WLU Faculty Association, the Staff Association and WLU members of CUPE and OPSEU have already approved the conversion, there are only a few more hurdles to overcome to formalize the process.

One of those hurdles is that two-thirds of retired or deferred pension contributors need to approve the proposal or it will fail. Since everyone who fits under this heading have already been sent an information package about the conversion along with a ballot specifically to vote against the proposal, the meeting on September 27 was mainly to outline the importance of the conversion of the WLUPP to the UPP and to answer questions. There was clearly a need for this session since about 25 people turned up in person and another 36 people joined the meeting on ZOOM – one of our best attended gatherings ever.

Several points were made about the UPP. In 2023, it had a rate of return of 10.2%, almost exactly the same as the WLUPP, but it is expected that with its size of assets, over $11 billion, compared to only $1 billion for the WLUPP, it will regularly be able to provide a higher rate of return with lower management expenses than the WLUPP. Besides economies of scale, the UPP will be jointly governed by employers and employees with a 12-person board: 6 members from the university administration side and 6 from the employee side. There will also be a clear sharing of risks, meaning that if the pension plan assets are deemed to be in a deficit position in any future valuation, it will be a shared 50–50% responsibility to get the plan out of the deficit. Currently, WLU is solely responsible for funding a deficit in the WLUPP, although WLU's employees were forced through difficult negotiations in 2012 to shoulder some responsibility for clearing a deficit brought on by the economic crash of 2008. That's why all pension contributors from January 1, 2013 onward were only promised a Consumer Price Index adjustment of 50% of the CPI up to 4% annually instead of 100% of the CPI annually up to 4%. That is a very big adjustment as current pensioners well know for the long-term value of our pensions.

One very important point that Pamela Cant and Siobhan Adams emphasized was that there will be no effect from this conversion to the UPP on the pensions and benefits of current WLU retirees. The terms of retirees' present pensions and benefits will not change and WLU will continue to be the administrator of the extended health and benefits packages. The conversion to the UPP, however, does have other effects. For one thing, anyone receiving a pension from the UPP will not be allowed to find a new employment position at any of the UPP member institutions and make new contributions to the UPP without temporarily giving up their pension income from the UPP. In other words, you can't get a pension from the UPP and make contributions to it at the same time. Clearly, this may only affect a few people and only those who had counted on drawing a paycheck and a retirement pension at the same time.

Needless to say, there were many questions for Pam and Siobhan both from the local audience and those on ZOOM. It was only at 3:30 p.m. that the HR people were able to finish up and take their leave.

After a 5-minute break, the second meeting was begun with a presentation by Alastair Robertson, WLURA's representative on the WLUPP board. He had two main points to make. The first was that there should be greater security offered by the much larger UPP as a JSPP (jointly sponsored pension plan) than the WLUPP as a SEPP (single entity pension plan). At the same time, according to

PBA (Pension Benefit Act of Ontario – 1990) regulations, any pension from a SEPP that is converted to a JSPP must be **at least** the same paid to current retirees once the JSPP is running. Accrued pension benefits for accrued service cannot be reduced. Both SEPPs and JSPPs must undergo valuations every three years, but an advantage of JSPPs is that they provide greater flexibility in responding to deficits. So, for example, in a valuation of the WLUPP in 2012, it was found that the WLUPP had a valuation of only 80% of its liabilities. It was only after very tough negotiations with 6 different employee groups that changes were made to the value of pensions as of that January 1, 2013, date alluded to previously. With a JSPP plan, however, the governing board of 12 members can unilaterally make adjustments to contributions by employers and employees in order to bring the plan out of its deficit position.

Alastair's second main point was that with a larger body of assets (the UPP currently has $11.7 billion in assets), there should be, although not guaranteed, a better investment performance and lower administrative costs, greater opportunity for asset diversification and in-house management of assets with an ability also to attract top money managers. Alastair gave some examples of the larger pension funds in the province of Ontario. The 10-year average rate of return of the WLUPP with about $1 billion in assets was 7.4%; that of OMERS (municipal workers) with $133 billion in assets was 7.3%; that of OTPP (teachers) with $255 billion was 7.6%; that of CAAT (colleges) with $20 billion was 9.3%; and HOOPP (health care workers) with $112 billion was 8.4%. The numbers were actually reassuring for those of us currently drawing from the WLUPP, but the point was still important to understand, especially with the rates of return garnered by the CAAT and HOOPP plans.

The audience was very appreciative of both the HR people who came to present information about the conversion and to Alastair Robertson for all the work he puts in on members' behalf in recent years. Since pensions and benefits are so vitally important to all members of the Association, these two meetings were both extremely informative and very reassuring, knowing that our current pensions and benefits will not change with the move to the UPP and that they continue to be secure.

Here is a link to the Zoom recording of this September 27, 2024 meeting: https://zoom.us/rec/share/_lPewRICO1VQ08t2ghM-sMzHZ542ockM3bPODv0LtS3AFdMccc26YzHq-cI5UK05L.TVct5KtJmtx7W3YC

Dialogue

The following is a dialogue among Bill Salatka, a retired member of WLURA, Siobhan Adams, representing Human Resources at WLU, and Alastair Robertson, our WLURA representative on the WLU Pension Plan committee.

The University Pension Plan Ontario: A Good Deal? Not.

by Bill Salatka, PhD, CPA

After reading the financial statements and other materials of the University Pension Plan Ontario (UPP), I have decided to run, not walk, away from this pension plan. WHY?

A critical component of assessing the financial viability, sustainability, future survival and health of any company or organization is to see all of the assets and all of the liabilities in the financial statements. The least risky financial structure for any pension plan is when the assets are equal to the liabilities. This would be called a fully funded pension plan. If liabilities exceed the assets, that would be called an underfunded pension plan.

The managers of the UPP have decided to keep unfunded liabilities for future pension payments off the financial statements of the UPP. Thus, the liabilities exceed the assets of the UPP. These liabilities did not disappear. Essentially managers are hiding the unfunded liabilities for future pension payments in the financial statements of member universities. This makes the UPP look like a fully funded pension plan when it is not even close to that. When the hidden unfunded liabilities are added to the financial statements of the UPP, the UPP real economic position is revealed, it is an underfunded pension plan.

Retirees face a significant risk of non-payment of their pensions if the amounts of the hidden unfunded liabilities are not paid in the future. If hidden unfunded liabilities are not paid the UPP will face a cash shortfall. If that happens, regardless of the contract you retired under, you will not be paid your full pension in the future.

We can determine the amounts of the hidden unfunded liabilities if we dig through the financial statements of the universities that are members of the UPP. Almost no retirees have the analytical skills, educational background, financial experience and the time to do that digging. Thus, these unfunded pension liabilities are truly hidden from almost all retirees.

I could not see the amounts and progress toward paying these hidden unfunded pension liabilities in the financial statements of the UPP. So, I can't even tell if the hidden unfunded pension liabilities are being paid to the UPP as promised by the managers.

The UPP as presented shows an excellent financial condition today, it is fully funded and not risky at all. Not

so. The ability to pay obligations of companies and organizations in the future should not be evaluated on the basis of a good economic environment like today where stock indices are at record highs. The obligations should be evaluated in terms of recession or depression that will occur in the future. Economic conditions of recession or depression greatly increase the possibility that the hidden unfunded pension liabilities will not be paid. With no cash, retiree benefits cannot be paid. Under conditions of future recession or depression: (1) Will the hidden unfunded pension liabilities be paid to the UPP? Who knows? (2) Can the hidden unfunded pension liabilities be paid to the UPP in the future? Who knows? (3) Will the University Administrations participating in the UPP be willing to pay the unfunded liabilities to the UPP? Who knows?

The managers say that the UPP is too big to fail. Not so. History has many examples of companies and organizations that were very big and failed anyway. Think Enron Corporation. Think Titanic. Many insurance companies, pension plans and investments that were very large failed in the past. Being big is no guarantee of success in the future.

A significant component of the UPP investment strategy is actively managing the investment assets of the UPP. The managers say that the UPP is large and therefore can produce higher returns, have greater diversification and have lower costs than pension plans that are smaller. Not true. Twenty years ago this may have been accurate. With the invention of Exchange Traded Funds (ETFs) highly diversified investments with very low costs and returns that match market returns in the long run can be used by anyone: individuals, insurance companies, mutual funds, including small or large pension funds. ETFs are used extensively in the investment markets today. Where a buy and hold strategy is used with low-cost ETFs that are indexed to say, the Standard and Poor's 500 for example, even individuals or small pension plans earn returns that exceed most actively managed investment funds over the long-term. Furthermore, using a buy and hold strategy with indexed ETFs provides excellent diversification and has a very low cost. Size of an investment portfolio is no longer an advantage for earning returns, diversification or achieving low cost. Assuming that size is insurance or a guarantee for avoidance of risk, diversification or earning higher returns is not accurate.

The managers contend that the actuarial estimates of future liabilities must be correct since they were determined by actuaries. Not so. Depending on the assumptions made by managers, liabilities of the UPP can be made to look very small or very large. Are the managers of the UPP making reasonable assumptions about the future? Who knows? Given that the managers of the UPP are willing hide unfunded pension liabilities, a reasonable person would ask what else are they hiding? Who knows?

Are the actuaries basing their assessments only upon what is in the financial statements of the UPP or are they including all of the hidden unfunded pension liabilities? If the actuaries are only looking at the financial statements of the UPP and not including the hidden unfunded pension liabilities then the assessments they make are incomplete. If so, the default risk of the UPP is understated.

In my opinion the whole set-up of the UPP is a sales job and looks too good to be true. The UPP looks very risky to me.

I plan to run, not walk away from the UPP. Better yet, I will jump into a high-speed race car and travel as fast and as far as I can away from the UPP pension plan.

WLURA pension plan meeting, September 27, 2024

Responses to Bill Salatka's essay

by Siobhan Adams

Thank you for sharing this [Bill Salatka's) document with us. It is important that we provide points of clarification, as there are some incorrect assumptions being made about the UPP funding arrangements and how past liabilities are recognized. It is important for retirees to have accurate information in order to make informed decisions.

- The UPP is a jointly sponsored pension plan (JSPP) and subject to different legislated funding rules than single employer plans. For example, a provision for adverse deviation (PfAD) is an additional funding cushion that adds to the liabilities and is required as part of the actuarial valuation for single employer plans, but not for JSPPs.
- Prior to conversion to the UPP, the predecessor pension plans from the participating universities were all single employer pension plans and were therefore required to hold a (PfAD) in addition to the actuarial liabilities as per legislated funding rules. Some of the

single employer pension plans prior to conversion may have been in a deficit under these funding rules due to the additional PfAD margin, but fully funded when the PfAD is excluded using the JSPP funding rules (i.e. more than 100% funded on a going concern basis before PfAD is added). The dollar amount associated with PfAD can result in a substantial addition to a single employer plan's actuarial liabilities, depending on the size of the plan and the relevant plan provisions that apply to the PfAD calculation.

- When universities move to the UPP, an actuarial valuation of the Plan assets and liabilities is performed at the date of conversion under the funding rules applicable to all JSPPs. Given the PfAD does not apply to JSPPs, it is quite possible that the funded status of a plan upon converting to the UPP is more favourable than it would be under the single employer funding rules.
- It is important to note that the actuarial valuation of the UPP is performed by licensed actuaries in accordance with legislation and prescribed actuarial standards and is filed with the pension regulators in Ontario.
- The actuarial liability of the UPP on a going concern basis includes the liability for future pension payments of all plan members (active and retirees).
- As of the date of conversion, all assets and liabilities from the predecessor plan (e.g. Laurier) are transferred to the UPP. No liabilities related to past service remain with the individual university. All obligation to pay member benefits transfers to the UPP. The assertion that there are "hidden unfunded liabilities" associated with the UPP is not true.
- The Laurier Plan will terminate as of the date of conversion to UPP and UPP assumes responsibility for all past and future pension benefits payable to Laurier employees and retirees.
- Laurier will remain responsible for repaying to the UPP the value of any going concern deficit (should there be one) at time of conversion, amortized over 15 years, but the pension liability associated with that deficit sits within the UPP.

by Alastair Robertson

HR has provided a clear and sound rebuttal to Bill's claims about the funded status of the UPP. As Siobhan notes, the various published actuarial valuations of the UPP (all of which show a going concern surplus) fully incorporate and measure all pension liabilities associated with the predecessor plans; there are no "hidden unfunded liabilities."

It is true that the Pension Benefits Act specifies slightly different going concern funding rules for JSPPs, like the UPP, than for single employer plans, like the WLUPP. Single employer plans (but NOT JSPPs) have to include a Provision for Adverse Deviation (PfAD) whose effects are to inflate the value of going concern liabilities and, hence, deflate the going concern funded ratio. For example, on January 1, 2023, the WLUPP had a going concern funded ratio of 107% when calculated using the JSPP (UPP) rules but a funded ratio of only 104% using the rules applicable to single-employer plans. The difference is accounted for by the incorporation of a $28 million PfAD in the second of these valuations and its omission from the first. So, as Siobhan points out, it is possible that a university could have a going concern funding deficit prior to entry into the UPP but a going concern surplus upon entry to the UPP. I don't know whether that was true of any of the four universities who are now members of the UPP.

The Final Word

by Bill Salatka

I agree with the Administration's and Alastair Robertson's comments in that all the legislative, accounting and actuarial rules have been properly applied. The key to understanding my concern is that there are different accounting and assessment rules for single employer pension plans versus jointly sponsored pension plans (JSPP). Wilfrid Laurier University Pension Plan is a single employer pension plan. The University Pension Plan Ontario is a JSPP. When single employer pension plans are transferred to a JSPP, the liabilities for funding deficits and provisions for adverse deviation remain with the employer.

These liabilities did not go away. The single employer pension plan must pay, in cash, an amount equal to the deficit and the provision for adverse deviation to the JSPP in the future. Otherwise, the JSPP will not have adequate cash to pay the benefits promised.

In order to determine the risk of non-payment, the financial statements of the single employer pension plans must be analyzed. This is quite a major undertaking. In short, the rules are different between the different types of pension plans, but cash payments must be made in the future for the pension payments to continue as promised. These promised cash payments are liabilities that continue to exist regardless of the accounting, legislative or actuarial rules.

President's Message Regarding the Proposed Change to the "University Pension Plan"

by Jim Butler

October 2024
Fellow Members,

As you are aware, retirees and deferred members of the WLU Pension Plan are being asked to consider and consent to the proposed change in pension plan sponsorship and design to the University Pension Plan (UPP), a multi-employer plan, from the Laurier Pension Plan. The Laurier Pension Plan is a single employer plan. Retired members would retain the same pension formula as at the time of their retirement whereas those retiring after the proposed transition date of January 1, 2026 will be governed by the new terms and conditions of the Jointly Sponsored Pension Plan (JSPP). It must be noted that the consequence for retirees is that the UPP will assume control over the Plan's governance and investment decisions.

Ontario pension legislation requires that active employees must provide their consent. Given that all of WLU's active employees have given their consent, the legislation then requires the agreement of the Pension Plan's retiree and deferred members. Retiree members are assumed to have approved the proposed change by default unless more than one-third object on the prescribed objection form that was mailed to each retiree. Should more than one-third of the WLU's pension plan retirees/deferred members object then the proposed change fails. The WLU Pension would continue as a single employer plan. In other words, Laurier's retirees and deferred pensioners have a significant say in the outcome.

In an effort to provide as much information as possible to the members of our Association, Human Resources were invited to make a presentation at our September 29th WLURA meeting. A members-only meeting followed this session where our representative on Laurier's Pension Committee of the Board of Governors gave a detailed report respecting the transition. The September 29th meeting followed an earlier meeting held for retirees on June 17th where representatives from the UPP and Human Resources held an information session. Both sessions contained Question/Answer components. Members were given the opportunity to submit written questions to Human Resources. The University Pension Plan (UPP) has a web site that provides more details on the Plan. Members were also able to send written questions to the UPP by way of Human Resources.

Attached to this Newsletter is a copy of further questions posed by our members along with a response from Human Resources, where provided. We have also included the presentation made at our September 29th members-only meeting by our Pension Committee representative.

The WLU Retirees' Association has adopted a neutral position on the question of whether or not to support the pension plan transition. Our approach has been to assist you in obtaining as much information as possible in order to make an informed decision. This is your decision to make.

Pension Benefit Premiums and Benefit Plan Entitlements

In 2017, the University began charging WLUFA and WLUSA Retirees 15% of the cost of Dental and Extended Health premiums as outlined in the Members' Collective Agreements (CAs), with benefit premiums being automatically deducted from Retirees' monthly pension payments. Retirees from other employee groups were charged 15% of the cost of premiums prior to this. WLUFA and WLUSA Retirees who retired prior to 2017 do not pay plan premiums. Note that Retirees who have withdrawn the commuted value of their pension are not eligible for Post-Retirement Benefits and so, obviously, do not pay premiums. On October 1, 2023 and again in 2024, Retirees who pay 15% of their premiums were hit with a significant premium rate increase.

Example of changes to monthly family premiums, taxes included:

Benefit	Retiree Pays 2022/ 10/01)	Retiree Pays (2023/ 10/01)	Increase (2022–2023)	Retiree Pays (2024/ 10/01)	Increase (2023–2024)
Extended Health	$51.69	$58.41	13.0%	$68.56	17.4%
Dental	$23.97	$25.89	8.0%	$29.23	13.2%
Total	$75.66	$84.30	11.4%	$97.79	16.0%

The University's position and current practice is that Retirees will receive benefits according to the terms of the plans at the time of their retirement. On the other hand, the CA language states that Retirees are able to participate in the 'plans' based on the terms and conditions *on the same terms as Members*, with the exception that benefits under the Extended Health Care Plan are limited to a maximum of $30,000 per calendar year. The benefit entitlements of these plans typically change with each new

Agreement that is negotiated, and historically benefits have improved with negotiations. These enhancements are not passed along to Retirees, but nevertheless, retirees' annual premium rates continue to increase.

There have been recent discussions on the retiree benefits interpretation and practice amongst WLUFA, WLUSA and WLURA. WLURA and WLUFA both agree that the language in the WLUFA agreement (similar to language contained in the WLUSA agreement) is administered incorrectly. It is WLURA's contention that benefits entitlements retirees actually receive does not reflect CA language, and WLUFA is looking into this matter.

Clearly, the WLU Retirees Association has a strong interest in this topic and will continue to pursue all available avenues. The Association has formed a committee to work on this file and will report on any further developments.

Pension and Benefits Contacts

The WLU Human Resources department requests that you use their general mailboxes so that your inquiry can be redirected to the most appropriate person.

Benefit Inquiries: benefits@wlu.ca
Pension Inquiries: retirement@wlu.ca
Phone: (548) 889-3385
Office: R215, 2nd floor, 202 Regina

Due to their hybrid work environment, calling ahead or booking an appointment is encouraged to ensure someone is available in person.

Pension & Benefits Team

- Siobhan Adams, Senior Pension Consultant & UPP Project Lead
- Cole Moder, Senior Pension & Benefits Specialist
- Keilah Dell'Erba, Pension & Benefits Specialist
- Krista Boertien, Director, Total Rewards

Sun Life

Sun Life continues to be WLU's carrier for Extended Health and Dental plans

Questions in regards to coverage or claims adjudication are best directed first to Sun Life 1-877-786-5433.

If you use the Sun Life mobile app, the click to call within the app has a skip-the-line feature that shortens potential hold times.

Any concerns with how Sun Life has processed a claim can be directed to benefits@wlu.ca.

Membership Fees

With our membership year ending on October 31, membership renewals are being sent to members whose memberships are expiring. Those with expiring memberships include continuing members and those ending their free first year of retirement membership. Those ending their free first year of membership retired in 2023.

If you receive a renewal notice, please renew and continue to enjoy the benefits of Retirees' Association membership. Our membership fees are very reasonable; the lifetime membership is particularly attractive. One year membership: $15, three years: $35, lifetime: $125.

When paying membership fees, please write a cheque payable to **WLU Retirees Association** and mail to:

WLU Retirees' Association
Wilfrid Laurier University
75 University Avenue West
Waterloo ON N2L 3C5

Upcoming Event

Friday November 29

Prof. Alex Latta, Global Studies / Geography and Environmental Studies, WLU, will speak on his work with Indigenous communities in the NWT, including issues related to Indigenous-led conservation, food security, and other dimensions of climate change adaptation.

First floor lounge, 202 Regina St.
2:00 p.m., with social time starting at 1:30

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