MUNFA
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TO: All MUNFA Members

FROM: The MUNFA Executive Committee

DATE: April 17, 2017

SUBJECT: **The Situation With Our Pension Plan**

As you may have heard, MUNFA is engaged along with the other unions on campus and the administration in discussions on how to reform our pension plan. These discussions are the result of a major change in government policy initiated by the former Davis administration that has been broadened under Premier Dwight Ball. Our current pension plan is governed by two pieces of legislation, the MUN Pension Act and the Pensions Benefits Act (PBA). The former establishes our plan as an employer sponsored plan whose financing is guaranteed by the government in the event of insolvency, while the latter establishes the rules for dealing with any shortfall in funding the plan during its normal operation.

Under the PBA, regular actuarial assessments of the plan's future solvency are carried out and, if they reveal a potential deficit within the next 30 years, then the employer is required to meet this shortfall through 15 years of special payments. The combination of a low interest environment and higher than expected wage increases has meant that our plan has faced just such an actuarial insolvency since the mid-2000s. Since 2004, the government has provided MUN with a total of $125 million to meet these special payments over and above the regular grant to Memorial. In 2015, the Davis government said it could not pay this extra special payment amount and asked the University to request a deferral of the special payment for one year, which it did with the consent of all the unions. While campus unions consented to the one-time deferral of special payments in 2015, it was done so on the understanding we would keep our present employer sponsored plan, with no changes to benefits or contribution rates.

The election of the Dwight Ball administration further complicated this situation. No funds were provided for the 2016 special payments in last spring's budget, and in June Minister Byrne wrote the President of MUN to inform him that the government intends to substantively modify our pension plan. While it will remain a defined benefit plan and all accrued benefits are to be respected, the plan is to be transformed into a joint sponsorship plan, whereby the government is no longer responsible for the long-term solvency of the plan. Instead, any deficit or surplus would be shared equally by the two sponsoring groups, the University and the unions. Minister Byrne's letter calling for a move from an employer sponsored plan to a jointly sponsored plan was a shock to campus unions who, only the year before, had rejected the need for any major changes to our plan. While there are possible benefits to a joint sponsorship, it does open plan members up to being liable for half of any potential shortfall during times of economic instability. Such instabilities had seen the government inject $125 million in special payment as mentioned above.

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Initially, both the senior administration and the unions were under the impression that this change in governance would follow upon an injection of funds by the government to address the actuarial insolvency. This is what happened with both the Public Service Pension Plan and the Teacher's pension plan under the Marshall government. In addition to insolvency assistance, MUN was also hopeful that "cushion" funding to help ensure the plan's future health would replace the loss of the government guarantee. In long-delayed meetings in November with senior government officials and then in December with the ministers of finance and higher education, the senior administration of Memorial was informed that no further funding for our plan by the government is forthcoming. While MUN's plan has been better managed, when compared to other public plans in NL, MUNFA feels that no additional funding from government to be discriminatory to both our plan members and the University, particularly as government is withdrawing from its legislated obligation to guarantee the plan.

The current actuarial insolvency of our plan is estimated to be $183 million, while our assets are $1.45 billion. Almost all of this anticipated insolvency is due to two recent changes in the modeling used by our actuaries. The first saw a reduction in the long-term rate of return used in the model from 6.3% to 5.8%. The second resulted from adopting Canadian mortality tables, in the place of American tables, to more accurately reflect the longer life-spans that Canadians are now enjoying.

Both the unions and the senior administration of Memorial recognize that this current actuarial insolvency is the legal responsibility of the University, not of the plan members. Furthermore, before we move to a jointly sponsored plan it is essential that financing be in place to cover off this potential deficit. How this is to be financed is the question. There is little question, however, that financing this $183 million insolvency will negatively impact MUN's operating budget for many years to come.

At a special meeting of the full Memorial Pension committee on March 8, 2017, the VP Finance and Administration, Kent Decker, made a formal commitment that the University would assume full responsibility for the actuarial insolvency liability and that a plan explaining how this would be financed would be unveiled in a matter of weeks. Furthermore, the manager of pensions and benefits, Glen Roberts, stated that there would be a new actuarial assessment based on the figures as of December 31, 2016 and that the University would assume responsibility to pay that amount in full. The Chair of the Committee, Kim Keating, confirmed that this commitment has the backing of the Board of Regents. With these assurances, the committee voted unanimously to request a deferral of this year's special payment.

As soon as the plan to finance the actuarial deficit is made public, we will provide the memberships with an analysis of its implications for the University. For present purposes, the important point is by assuming full responsibility for this deficit, Memorial will eliminate the need for the current special payment financing schedule. Our plan will be fully funded prior to entering into any new governance structure.

With the promise of fully funding the plan today in return for assuming one-half of plan risks and rewards in the future, MUN is following the trend of other public pension plans in the country. However, MUNFA feels it is important to inform our members that no consideration has been provided for the removal of the government pension guarantee. In order to replace the government guarantee, "cushion" funding may be necessary to ensure plan's future solvency.

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An Ad Hoc committee is currently discussing what the governance structure of the new plan would look like. Here a consensus does seem to be emerging; it would see a two-tiered system of a sponsorship board and a board of trustees. The sponsorship board would meet once or twice a year and set general policy, while the board of trustees would meet more regularly and monitor the administration of the fund in a manner not dissimilar to what the current MUN pension committee does. The question, and it remains a matter of discussion, is what the composition of that board of trustees will be. Currently union representatives hold the majority of seats on the MUN pension committee. The Ad-Hoc committee hopes to make its recommendations to the full committee in May; it is mandated to report by the end of June. Any changes would require amendments to both the MUN Pension Act and the PBA, which are likely to be presented to the House early this fall.

Moving to a joint-sponsored plan means that any future deficit or surplus of the plan would be the joint responsibility of the University and plan members. Thus, in our current negotiations, questions concerning the longer-term viability of current benefits, contribution and accrual rates are all being discussed. We have not agreed to any changes to our current plan. We have a good plan, it serves not just our members, but the University community well. Other NL public service plans that have moved to joint sponsorship have witnessed increased plan contribution rates, and decreased plan benefits (i.e. reductions in indexing and best 5-years to 7-years for pension payment calculation). Recent pension contribution increases at MUN (+1.5%), which took effect in January 2017, reflect current actuarial forecasts of plan growth and demands on the fund. These changes, combined with MUN's promise to fully fund the plan, should reduce the need for further changes to plan funding in the near future. However, global trends of lower investment return expectations and longer periods of benefit collection by retirees are pressuring all plans toward increased contribution rates and reductions in plan benefits to maintain sustainability. We are working hard on your behalf to ensure that a new governance structure and removal of the government guarantee does not negatively affect our pensions. We will continue to keep you informed as the situation evolves.

MUNFA encourages all its members to familiarize themselves with the challenges that pension plans, especially defined benefit plans, are currently facing and will likely face in the future. While each plan faces its own unique set of conditions, there are common problems or threats that are driving pension reform across Canada and the world. We draw your attention to an informative and concise review of the issues facing pension plans and the need for reform. The book is available at the MUN Library and the NL Public Library:

The Third Rail: Confronting Our Pension Failures
by Jim Leech and Jacquie McNish
Signal, 2013
ISBN: 0771046634