SFUFA Pension Update - Release of the Joint Committee Report and Summary of Recommendations
June, 2018

In 2014 and 2015, SFUFA began to explore options for improved retirement security for faculty and librarians at SFU. Over a period of eighteen months to two years, we evaluated our existing Academic Pension Plan, reviewed other pension plans and plan models, and held numerous discussions and information sessions to provide members with information on a range of possible steps to increase income security in retirement. Prior to entering collective bargaining in 2015, one plan in particular stood out as promising: the BC College Pension Plan (BCCPP), a jointly-trusteed and cost-shared plan covering our colleagues at numerous other BC public institutions.

The college plan provides its members with significantly higher retirement benefits and much greater stability and predictability than our own Academic Pension Plan, while removing the need for individual members to be investment experts. But in order to achieve the stability, security, and enhanced benefits it offers, the BCCPP requires substantial member contributions, something that is voluntary in our current plan. Additionally, the BCCPP is mandatory for all those at participating institutions.

In the summer of 2015, before entering negotiations for our collective agreement, we conducted an electronic poll of members, asking whether we ought to include membership in the BCCPP as a bargaining proposal, on the condition that such membership would allow existing SFUFA members the ability to opt out. Members voted over 77 percent in favour, providing us a strong indication that a move to the College Pension Plan was supported. During the course of bargaining, two issues arose that prevented us from moving ahead at that time - first, initial estimates of the cost of joining the BCCPP made it appear financially unfeasible for SFU to even contemplate; second, in our discussions with the BCCPP it became clear that an opt-out provision would not be possible. That is, if we were to join the plan, the BCCPP would require that all SFU faculty and librarians participate. As this had been a concern of some members, and we had committed to only acting at that time if opt-out was secured, we had no choice but to leave the pension question to one side.

At the end of the last round of bargaining, SFUFA and SFU signed a letter of agreement to continue work on pensions after negotiations were concluded. This letter of agreement established a joint committee to do further work on pension security and to provide a report including ranked options for faculty members to consider. The members of the joint committee are:

- SFUFA: David Broun (Physics), Julian Christians (Biological Sciences), Barbara Sanders (Actuarial Science)
- SFU: Ali Dastalmachian (Beedie School of Business), Mark McLaughlin (Ancillary Services), Judith Osborne (retired: Criminology, former VP Legal).

The following summarizes the *Report of the Joint SFU/SFUFA Committee to Develop A Rank Ordered List of Pension Plan Options for SFUFA Members* and provides a recap of the options considered. Our sincere thanks for the committee's extremely thoughtful and detailed work throughout this process.

Directives and Principles:

The committee's directive was to consider options including: membership in an existing defined benefit or jointly-trusteed plan, development of a stand-alone defined benefit/target benefit/hybrid option, or any other pension option deemed "worth exploration". The committee was further instructed to consider numerous factors including the type of plan, the plan's governance structure, the costs of the plan, and the options for membership in the plan.

Committee Process:

The joint committee hired an actuarial firm, Aon Hewitt, to evaluate available options to SFU faculty. While initially SFU had concerns about the BCCPP's transition costs, Aon Hewitt felt exclusion of the plan from consideration was premature given that we had only heard rough estimates and no proper costing had been done. Aon's report, then, while examining in greatest detail options for establishing our own target benefit plan or making improvements to our existing defined contribution model, also noted that the College Plan ought to be given greater consideration provided we could get full financial information to make an informed decision.

Following receipt of Aon's advice, the joint committee then contacted the BCCPP, and was able to commission that Plan's own actuarial firm, Eckler Ltd., to provide a detailed actuarial report on the cost of joining that plan. Eckler's report was released to us just a few weeks ago, and showed that costs of transitioning to the BCCPP would be significantly lower than anticipated and could be amortized over 15 years. As a result, the College Plan was firmly back as a contender when the joint committee sat down to evaluate options based on the expert advice that had been provided.

The following is the rank order recommended unanimously by the SFUFA and SFU reps on the joint committee, with some information about the strengths and weaknesses of each option.

Ranked Option #1: BC College Pension Plan

The BCCPP was the unanimous top recommendation by the joint committee, with the committee stating that the "BCCPP offers the most improvement in the pension benefit over the long term compared with other options".

The starting point for the BCCPP is shared contributions - members pay directly into the plan, joining these contributions with employer contributions, investing collectively, and pooling investment risk in order to secure stable and predictable retirement income adequate to last throughout their lives. It is a jointly-trusteed pension plan that provides secure and predictable benefits according to formulae determined by the plan rules. For service after December 31, 2015, the formula for unreduced pension is 2% x (*years of service)* x (*average of best 5 years of salary)*. The plan further provides cost of living increases provided that certain criteria are met.

The current BCCPP formula means a member who retires with 25 years in the plan whose average salary over the best 5 years is $100,000 would earn, in retirement, $50,000 each year for life. A member who retires after 25 years at SFU with 5 of those years at the top of the current scale--$152,000-- would earn $76,000 for life. Each additional year earns a higher pension; after 30 years of service, a top average salary of $100k earns a pension of $60k per year, and a top of scale average earns a $91,000 annual pension. These numbers are not only a recognized improvement over our current defined contribution plan, but also are predictable and stable, which allows members to plan for retirement without worrying about temporary fluctuations in the market or about outliving their investments. Predictability and stability is one of the strongest features of a plan like this. And, because pension assets are pooled and managed professionally, individual members do not need to be experts and manage their own investments. The pooled risk in a plan like the BCCPP means that investment and longevity risks are shared across all members rather than being carried by each individual.

The above figures are based on a single individual's unreduced pension, payable for their lifetime. The BCCPP, however, does also provide for alternative payout patterns in which one can reduce the monthly value in order to ensure that pension benefits extend also over the life of one's spouse, and/ or provide a payout to one's estate in some circumstances. The system is flexible, then, allowing its members to tailor benefits to the specific needs of their families.

Because the formula specifies that the salary calculation is based on the best five years rather than the last five years, if faculty members have received a salary supplement mid-career for administrative positions such as Deanships or Senior Administrative roles, those years of increased salary would also be considered in the salary calculation.

The College Plan formula is based on years of contributions. There would be provisions to allow members to buy past years, using funds in their current pension accounts (and other registered accounts). This buy back would, though, be entirely voluntary, and the cost of buying years of service in the BCCPP would be determined separately as it is dependent on the age and salary of the individual member at the time. (Previous data have shown, for example, that members close to retirement may find buying in to the BCCPP a favourable alternative to an annuity purchase.) All members, whether drawing a full or partial pension from the BCCPP would have access to the BCCPP post-retirement benefits. For anyone hired after 2001, the BCCPP post-retirement benefits have ten times the lifetime limit for extended health and dental coverage compared to the current SFU post-retirement benefits. (For a comparison of benefits, see http://www.sfufa.ca/wp-content/uploads/2014/07/Post-Ret-Benefits-Table.pdf).

The joint committee unanimously feels that the College Plan is the preferred option and the best choice for SFU faculty and librarians. It does, however, raise three points that members must consider: mandatory membership, mandatory member contributions, and governance. Should SFU decide to join the BCCPP, all faculty and academic administrators must join the plan. Individuals would not be able to opt out. This does not mean that members must move the money they currently have invested in the SFU Academic Pension Plan over to the BCCPP, but on a going-forward basis, everyone must participate in the plan and make contributions to it. To be clear, this pension security is not free. Plans such as the BCCPP work because contributions are made by both employers and employees. Contribution rates for members of the BCCPP are currently 10.15% (from pre-tax income); SFU would contribute an additional 10.25%. That does not mean a ten percent deduction in take-home salary, as after taxes and other factors are considered the real cost will likely be closer to 7%, but there is no pretending this is not a cost. It is, however, an investment that the joint committee unanimously believes is smart, and in the best interest of SFU faculty and librarians.

Finally, another point noted by the Committee relates to governance of the College Plan. The BCCPP is jointly governed by members of the plan and members of government. There has yet to be any discussion of SFU's role in governance of the plan: SFU is not guaranteed a seat on the board.

The costs to transition to the College Plan are explained in detail in the Eckler Report, which is available at http://www.sfufa.ca/wp-content/uploads/2018/06/Eckler-SFU-transfer-1.pdf

In order to be fair to the BCCPP members currently in that plan, the College Plan must maintain its funded ratio at the same level before and after the transition. The transition cost is calculated based on the impact to two separate accounts: the basic account from which pension benefits are drawn, and the Inflation Adjustment Account (IAA) from which post-retirement inflation indexing is drawn. These two accounts are affected differently should we join the College Plan. The impact on the basic account was costed as a lump sum of $19,043,000, which could be amortized over 15 years at a cost of 1.27% of the total salary mass at SFU. On the other hand, Eckler determined that the SFU contribution to the IAA could be *lowered* by 0.57% of pay over the 15 year amortization period. The net cost would therefore be 1.27% - 0.57% = 0.7% of total salary mass.[1]

How to manage transition costs would need to be sorted out with SFU, so questions still exist in this regard; it is, however, a far more manageable issue than previously thought.

All factors taken into consideration, membership in the College Pension Plan is the top ranked recommendation by the joint committee.

---

[1] The *Report of the Joint SFU/SFUFA Committee to Develop a Rank Ordered List of Pension Plan Options for SFUFA Members* reads "1.27%-0.57%=0.7% of payroll." Payroll and total salary mass are synonymous so we have used the same terminology throughout for clarity.

Ranked Option #2: Enhanced Defined Contribution

The committee felt that the next-best option would be enhancing our current Defined Contribution plan. The enhancement could take a number of forms, including mandatory employee contributions for new hires and the possibility of phased-in contributions for existing members. These additional contributions mean that members would, on average, reach retirement with larger balances in their Defined Contribution plans. Furthermore, members would retain more control over their retirement investments, and would likely leave more to their estates in the event of death soon after retirement. However, members would still remain fully exposed to the risk of sub-par market performance (based on their individual investment choices), fluctuations and uncertainties in financial markets. Furthermore, unless additional mechanisms could be found for pooling longevity risk (such as the variable rate annuities available to UBC faculty members), members would still face the real possibility of outliving their retirement savings.

While this is the second-ranked option, the committee considered it a distant second to the BC College Pension Plan, with members' retirement finances only improving substantially if new de-accumulation options, in particular variable rate annuities, became available. The purchase of variable rate annuities would only be possible if we were to join the UBC Enhanced Defined Contribution plan (more details below) or if there were changes to the Income Tax Act. Those options both being unavailable at present, the only immediate benefit achievable by changes to our current plan would take the form of mandatory member contributions. While this would likely increase the retirement funds that members accumulate, it would not improve any of the risk factors (longevity and investment risks).

Ranked Option #3: University Sector, Multi-Employer Plan

The third-ranked option under consideration was the potential for a University sector multi-employer plan. UBC has an enhanced DC plan that is similar to the enhanced plan described above (option 2). However, despite exploratory inquiries, there is no indication that UBC might consider allowing SFU to join their plan, and it is unclear should SFU join the UBC plan that SFU faculty would share in the plan governance. Additionally, as with all models, this option would also require mandatory enrollment and mandatory member contributions. It is, then, not only an unlikely prospect at this time, but involves the same kinds of challenges as the College Plan with fewer benefits.

Ranked Option #4: Target Benefit Plan

The final option of those considered was a Target Benefit Plan (TBP), which is a shared-risk model in which contribution rates and benefits (i.e., the pension income you would receive) change based on the investment performance of the plan and the longevity of the members. There are a number of factors that would need to be in place to join a Target Benefit plan: first, SFU would need to be recognized by Canada Revenue Agency as a multiple employer. If this were the case, then SFU faculty members could establish a TBP. It would cost up to $500,000 just to set up the plan, and then ongoing costs would be $150/member annually as well as an annual fee of approximately $100,000 for actuarial, governance, and investment consulting fees. Importantly, one-off charges of the type that appeared prominently in costing a transition to the BC College Pension plan would be an implicit part of setting up an SFU Target Benefit Plan, and would act as a significant drag on plan performance.

The joint committee felt that the initial costs of this type of plan in a low-interest environment may be prohibitive, particularly when the payoff for members remains uncertain and, even in best case scenarios, would fall far short of other models. Allowing optional membership in such a plan would further erode its feasibility. The one existing TBP we could potentially explore joining, the BC Target Benefit Pension Plan (BCTBPP, currently the pension plan of some members of the BC Government and Service Employees' Union) is still relatively new, and offers little improvement for SFU Faculty.

The joint committee feels that the target benefit option is not worthy of further exploration.

Conclusions:

The joint committee has recommended that SFUFA members be provided its report and given an opportunity to consider its conclusions. In particular, it notes that the BC College Pension Plan offers the greatest improvements over our current Defined Contribution Plan, and that Plan receives the joint committee's endorsement, with the caveat that members have some significant decisions to make regarding mandatory membership and mandatory contributions. The SFUFA Executive believes that pension security is a critical issue, and cannot be achieved without member contributions, and that the BCCPP is by far the best option available, and would provide long term benefits for SFUFA members that far outweigh the contribution costs we would bear as members of the Plan.

The report and recommendations of the joint committee are now on the SFUFA website so that members may have all the information available and determine whether we ought to encourage the University to move ahead with this process.

The full report of the committee can be accessed at: http://www.sfufa.ca/wp-content/uploads/2014/07/Joint-Pension-Committee-ReportFinal-1.pdf

Further resources on pensions are available on the SFUFA website at http://www.sfufa.ca/current-issues/pensions/resources/

We draw your attention in particular to two documents: a series of FAQs produced when we began to explore the College Pension Plan option, at http://www.sfufa.ca/wp-content/uploads/2014/07/SFUFA-Pension-FAQ-Mar-23-20151.pdf
and an introduction produced at the outset of this work in 2014, which is at http://www.sfufa.ca/intro-to-pension-plans/

These are older documents, and reflect the state of discussion at the time they were produced, but they do offer background and additional detail for those seeking to better understand the issues generally.

SFUFA will be organizing events for members to discuss this matter further and hear directly from members of the joint committee early in the Fall semester. Until then, we welcome your questions and comments as we collectively consider how, if at all, to proceed with this work.