

Questions I Should Be Asking about the Dalhousie Staff Pension Plan

(Prepared by the DFA, October 24, 2011)

What is this pension shortfall?

Governments generally have two tests to make sure that a pension plan has enough money to meet its obligations: one is the “solvency” test and the other is the “going concern” test. The solvency test assumes the employer will close its doors immediately, and provide its pension plan members with an annuity. The solvency test is particularly important for pension plans in the private sector which are associated with firms buffeted by economic downturns which may make them go out of business. The other is a “going concern” test, which measures whether the pension plan can meet its current and future obligations over the long run. This determination is based on the expected financial performance of the fund, interest rates, cost of benefits, how long pensioners live, salary increases and other factors.

Dalhousie is currently assessed under the “solvency” benchmark, even though, after nearly 200 years, there is no threat that the university will cease to exist anytime soon. It is worth noting that universities in Alberta, Manitoba, Quebec, New Brunswick, and Newfoundland and Labrador are permanently exempt from the solvency test.

The Administration’s figures estimate that as of September 2011, that the pension plan would be short \$270 million under the “solvency” test; it was \$202 million short as of June 30, 2011 and \$129 million short as of March 31, 2010.

The University estimates the “going concern” shortfall at \$120 million as of September 2011; it was \$73 million short as of March 31, 2010.

Why hasn’t the University repaid this amount?

In 2010, the University was given a 10-year period to catch up on the solvency shortfall instead of the usual five years, and was given a three-year delay to start making those special payments. It must make these special payments, starting March 31, 2013, plus interest, in equal instalments. The three-year holiday may have seemed like a good thing, however the payments will be higher during the following seven years to catch up on what is owed.

One can presume if the markets improve and the long-term interest rates improve, the shortfall will be reduced. In fact, look at the variations in the value of the pension plan assets over the past few years:

June 30, 2007 - \$709.7 million

June 30, 2008 - \$743.4 million

June 30, 2009 - \$627.9 million

June 30, 2010 - \$680.1 million

March 31, 2011 - \$764.1 million

Who is to blame for the pension shortfall?

Firstly, it is unrealistic to expect that Dalhousie University will cease operations, so using a “solvency” benchmark rather than a ‘going concern’ measure alone certainly makes the shortfall appear larger than it really is. This is a policy choice on behalf of the government.

Secondly, some of the shortfall is due to the world-wide economic crisis, and the very low interest rates. Interest rates are used to calculate the expected rate of return of the plan for the ‘solvency’ test.

Thirdly, an element of the shortfall is a cost estimate by actuaries based on ‘expected’ demographic information about the members of the plan – at what age will members retire, how long they will draw pensions, who will quit and take money out, the rate of contributions and projected earnings based on interest rates. It is a best guess about what obligations will be going forward.

Will a change in governance structure to a jointly sponsored pension plan (JSPP) actually stabilize the plan and make it sustainable?

No, the change in governance the Administration is proposing would just change who is responsible for paying for any pension shortfall. It would not change the performance of the world markets or interest rates, or how long we live.

A JSPP would mean that the employees would “own” the plan with Dalhousie University. So instead of the employer being responsible for any shortfall, the employee and employer would both be responsible.

Is the current plan structure difficult to sustain?

Who is in charge of the plan has nothing to do with sustainability, as the markets are not influenced by who sits at the table. The only way to be sustainable is to balance premiums, earned income and pension benefits, or change the regulatory regime to eliminate the “solvency” benchmark for public-sector pension plans.

Currently, the DFA executive can veto any pension plan changes proposed by the Pension Advisory Committee (a parity committee comprising the Administration on one side and DFA, NSGEU, NSUPE, DPMG representatives on the other. Under a JSPP, there is no guarantee that the DFA would continue to have a veto.

Is there pension legislation to govern a JSPP?

Nova Scotia’s Pension Benefits Act does not cover JSPP’s. When Ontario contemplated JSPPs it had to amend its Pension Benefits Act and Regulations because parts of the Act were in conflict with the principles of JSPPs. These conflicts exist in the current Nova Scotia Pension Benefits Act, and would need to be amended. Nova Scotia has said it plans to follow Ontario’s lead.

Has the Province of Nova Scotia guaranteed permanent solvency relief to JSPPs?

Not in public. The Province of NS was going to introduce its Pension Act Reform bill last spring, but stopped at the last minute, for some reason.

The Administration said in May that the Province of Nova Scotia would make JSPPs exempt from ‘solvency’ requirements like in Ontario, but now they are not as definitive.

In Ontario, only JSPPs formed before the amendments were introduced are exempt, leaving out most universities. The Ontario government has given many universities 15 years to reach ‘solvency’ if they come up with a sustainability plan, and then go forward with it. A sustainability plan does not necessarily mean a JSPP, which only transfers liability to employees.

If we agree to a JSPP, now and the government does not come through with solvency relief, are we then locked into the new arrangement anyway?

Yes. And while the economic situation seems dire now, things can turn around. For example, according to Dalhousie’s March 31, 2011 financial report:

“University-sponsored Pension Plan also experienced healthy investment returns of 11.4%, an increase of \$91M. In addition, after receipt of pension contributions less the payment of benefits and plan expenses, the Plan’s assets grew from \$689.9M in 2010 to \$764.1M in 2011.”

Would a change to a JSPP mean I have to pay more into the plan?

Yes. It would be hard to see that the Administration would agree to a JSPP where they are entirely responsible for the current, or future, under-funded portion. In a previous communication, they assumed a 50-50 split on responsibilities under a JSPP; lately they have been moderating that saying it could be a different split. In any case, employees will be asked to contribute more.

The Administration has also stated that it will not negotiate compensation in the collective agreement until it gets an agreement about JSPP's, and the money it saves in pensions might be available for other compensation. When pressed, however, their answer has been, "That's a matter for the negotiating table."

Would a change to a JSPP result in a decrease to my pension benefits?

It is possible that pension benefits could be reduced under a JSPP, but not those that have already been bought (accrued).

A change to a jointly sponsored pension plan could introduce—as a routine measure by which to address deficits—decreasing the level of pension benefits upon retirement. It is also possible for the University to push for future pension benefits to be reduced without a JSPP.

The Administration has stated that "values" change when one is responsible for paying for them, meaning defined benefits may not seem so attractive if one has to pay more.

Why are the DFA executives against a joint side-table on a JSPP? What is the harm in meeting about it?

What is the harm in waiting until the legislation and regulations have been introduced?

We have three points:

- 1) We want to wait until the legislation and regulations are in place to see what is in store for JSPP's. The government could, at any time, change the "solvency" pension rules for universities and municipalities whether or not they have JSPPs.
- 2) We will not bargain compensation with three (NSGEU, DPMG, NSUPE) other parties at the table who are not party to our collective agreement. (Nor should they be.)
- 3) We reject the Administration's precondition to resolve pension issues before bargaining about any other monetary issues.

What other important issues are on the negotiating table?

Plenty. The DFA has tabled proposals on many other issues of interest to its Members. See the negotiating bulletins posted on the Members-only side of the web site.