Part 2: Why Consider Changing Our OPSEU Pension Plan?

A pension plan must be financially sound both short-term and long-term.

Like the finances of a person or business, a pension has to collect enough income (employee & Trent contributions & investment interest) to balance costs. The main cost of the pension plan is the benefits payable to its members, incorporating active membership and the pension benefits each member will be entitled to at retirement.

Many pensions have been struggling to achieve sufficient income since the 2008 stock market crash.

Most investments, including those held by pension plans, were affected by this crash. Since then, interest rates and investment interest earnings have been unpredictable and generally lower than pre-2008 values.

Additionally, **people are living longer**, requiring retirement benefits to be paid out longer.

Our Pension Fund Status

These factors have contributed to our pension plan being underfunded based on Actuarial valuations that are performed annually. Imagine you maintain a bank account, where you contribute $20 and withdraw $30 per month - your account will eventually be empty. In the long run our pension plan is spending more money than it is taking in. OPSEU worked with Trent and via collective bargaining we made concessions to try and address this, including:

- Increasing our **contribution rate** (from 3% in 2004 to 9.8% coming in July 2020): *this increases income into the plan*
- Reducing our **early retirement without penalty** benefit (from minimum age 60 to age 62): *this delays and/or decreases benefits paid by the plan*
- Increasing **the number of consecutive years used to calculate average salary** (from 3 to 5): *this decreases benefits paid by the plan*

Unfortunately, these concessions have not been enough. Our pension plan continues to function (with an investment value of $124.2 million as of July 1, 2018) and retirees continue to receive their expected benefits. However, the two Actuarial valuation methods performed annually and detailed below indicate long-term issues:

<u>Going Concern Valuation</u>:

- the financial situation if the university and pension both continue running indefinitely (i.e., contributions to the pension continue as do benefit payments to retirees).
- As of July 1, 2018, we had:
    - a going concern liability of $17.3 million
    - a Funded Ratio (market value/liability) of 0.95

The Funded Ratio compares assets to future liabilities, answering the question: will money outlast expenses? A ratio greater than 1 is preferred.

<u>Solvency Valuation</u>:

- In this hypothetical financial situation, the university stops operating, no new money is invested in the pension, and all benefits earned to date are paid through to the very last employee receiving their last pension benefit.
- As of July 1, 2018, we had:
    - a solvency deficiency of $50.4 million
    - a solvency ratio (market value/liability) of 0.72 (72%).

Solvency ratio indicates the portion of liabilities funded. 100% or higher is preferred; below 80-90% indicates a possible problem. As of late 2018 about half of Canadian pension plans had a solvency deficiency. On the next page is a graph showing our pension's solvency deficiency since 2008.

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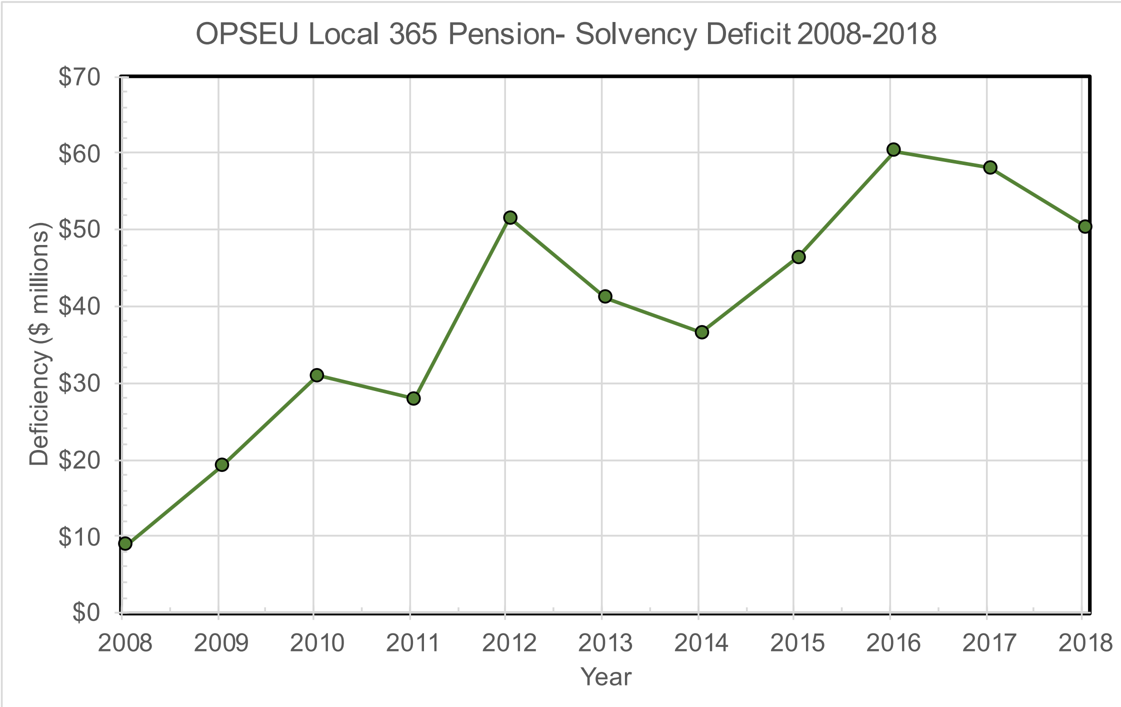

In recent years provincial rules have been strengthened, requiring all pensions be financially sound based on several measures including going concern and solvency. To that end, organizations managing a pension with a solvency deficiency must now pay installments to address that deficit. Currently, Trent is paying both Going Concern ($149,920.17) and Solvency ($130,621.08) payments monthly to fund the pension plan. This financial burden comes out of Trent's budget, negatively impacting everyone at Trent. Between this and the fact that our pension is not making ends meet, alternatives are being explored. This will be the topic of our next release.

Stay tuned for our next publication, describing pension alternatives being explored.

This document is offered to provide information and guidance.
Please refer to our Collective and Pension Agreements for official details about our pension.