Centre for Public Sector Labour Relations and Compensation

Total Compensation Strategies Branch

Public Service Pension Plan:

Ontario Northland Transportation Company Designation and Asset Transfer

March 20, 2018

Deputy Minister, Treasury Board Secretariat

President of the Treasury Board

Date

Date

Summary of Proposal

- The Ontario Northland Transportation Commission (ONTC) is requesting designation as a participating employer under the Public Service Pension Plan (PSPP) and to transfer the assets and liabilities of the Contributory Pension Plan of the Ontario Northland Transportation Commission (ONTC Plan) into the PSPP

Policy Commitment

- The Government of Ontario is working to improve the management of broader public sector investment funds, including pension plans, as another step forward in fulfilling Ontario’s commitment to strengthening the retirement income system for Ontario workers.
- Pooled asset management is an important public policy initiative of the Government of Ontario as reflected by the October 2012 Report from the Pension Investment Advisor to the Deputy Premier and Minister of Finance, (the Report of the Pooled Asset Management Working Group) and as per statements made in the last three budgets.

Background

- ONTC is a Crown Agency of Ontario whose mandate is to provide and ensure efficient, safe and reliable transportation services in northern Ontario

- ONTC falls under the purview of the Ministry of Northern Development and Mines (MNDM) and is classified as an Operational Enterprise Agency which is governed by a Board per the Agencies and Appointments Directive

- The ONTC Plan is a single employer, defined benefit plan that provides pensions to over 1300 retirees and approximately 740 active members

- In addition, ONTC offers an unfunded Supplemental Employee Retirement Plan (SERP) to its executives.
  - ONTC pays pension benefits to members whose pension exceeds the Income Tax Act maximum pension limits, firstly, by paying the maximum pension allowed by Revenue Canada out of the ONTC Plan and secondly, the balance of the pension benefit out of operating funds.

Background (cont'd)

- The ONTC Plan has been facing funding pressures since the 2008 economic downturn due to persistently low interest rates and improved longevity of members
- As a result, the ONTC Plan represents a significant financial risk to the Agency because of the size and volatility of the pension plan liabilities
- To help mitigate the financial risk of the pension, the ONTC has employed several risk mitigation strategies since 2009 including:
  - plan re-design;
  - increasing employee contribution rates;
  - discontinuance of pensioner ad hoc increases;
  - employed Asset Liability Modelling techniques; and
  - entering into the Province's solvency relief program for certain public sector pension plans
- Despite the implementation of these risk mitigation strategies the ONTC Plan continues to be a growing concern and significant risk for the organization

Key Risks

- MNDM is expected to seek additional funding at a later date from TB/MBC to meet the PBA requirements of the asset transfer agreement between ONTC and OPB, including SERP benefits (Impact: High; Likelihood: High)
  - MNDM in their TB/MBC February 6, 2018 submission advised that the estimated cash contribution upon settlement is approximately $50 million [including SERP obligations] for which MNDM would need appropriation in order to make the cash payment in order to proceed with the merger. MNDM will report back on the amount of the required settlement.
- ONTC bargaining agents may seek to change PSPP terms through collective bargaining (Impact: High; Likelihood: Medium)
  - ONTC pension plans are currently and have historically not been collectively bargained.
  - TBS recommends that ONTC, MNDM and TBS sign a letter of agreement as a condition of joining the PSPP that would stipulate certain requirements of the parties.

Key Risks (cont'd)

- Market fluctuations may reduce the amount of assets available for the asset transfer. A pessimistic return of -10% would double the estimated shortfall at the time of settlement. (Impact: Medium; Likelihood: Medium)
  - To the extent possible, ONTC and OPB would shorten the timeframe for delivering the required asset transfer reports to the regulator.
  - ONTC, with OPB assistance, to immunize the ONTC investment portfolio against market corrections.

- The asset transfer requires regulatory approval from the FSCO (Impact: High; Likelihood: High)
  - All prescribed regulatory requirements to approve an asset transfer have been met by both pension plans.
  - Actuarial Valuations have been completed as at December 31, 2017 for both pension plans, the results of which support the fact all regulatory requirements would be met.

Key Risks (cont'd)

- Pressure to provide salary increases to employees based on the increase in member contribution rates once a member is in the PSPP (Impact: Medium; Likelihood: Medium)
  - All bargaining agents are in favour of joining the PSPP and are fully aware of the PSPP employee contribution rates
  - PSPP provides pension indexing whereas ONTC Plan does not
  - PSPP member contribution rates are still much lower than other public sector pension plans

Proposed Financial Impact

- There is no financial request from TBS for the PSPP related to this request
- The assets under the ONTC plan make up less than 2.0% of the PSPP assets ($500M versus $25B)
- OPB has advised that this request is expected to have a negligible impact on the PSPP's funding
- MNDM received approval to proceed with the merger at the February 6, 2018 TB/MBC. MNDM is expected to report back at a later date on financial impacts.
- Based on the most recent information provided to TBS and assuming the pension plan merger occurs effective May 1, 2018, it is estimated that $50 million (including SERP obligations) of additional contribution will be due from ONTC at such time that the asset transfer may be approved by the regulator, FSCO.

Proposed Financial Impact (cont'd)

- There are differences between the benefits of the ONTC plan and the PSPP. As the PSPP is slightly more generous than what was previously offered in the ONTC plan, MNDM reported to TB/MBC that there will be a one-time pension expense related to the improvement in benefits which is currently estimated at $21M and would be reported in 2018-19.

- Given that additional analysis is needed to determine the definitive financial impact, MNDM will report back at a future date with the amount of the required settlement payment and any associated accounting impacts, prior to receiving final approval for the merger. The ministry will be directed to report back to TB/MBC before proceeding with the transfer.

Communication Plan

- MNDM is responsible for notifying ONTC
- TBS is responsible for advising OPB of TB/MBC approval. OPB and ONTC are responsible for initiating the process to prepare the transfer agreements and obtain regulatory approval of the asset transfer under the PBA.
- OPB is responsible for following the procedures for enrolling an employer in the PSPP and administering the transfer of assets into the plan.
- ONTC and OPB are responsible for any required or otherwise necessary communications with ONTC plan members regarding the asset transfer, including ensuring that the ONTC unions and employees are aware of and assume the terms and risks associated with the transfer

Proposed Minute

Recommend approval of an Order in Council to the LGIC to:

- Designate all permanent full-time and part-time employees of ONTC as mandatory members in the PSPP effective May 1, 2018 and to designate ONTC as an employer under the PSPP with regard to these employees.
- Designate all other ONTC employees who are not permanent as elective members of the PSPP.
- ONTC would be an employer under the PSPP, effective May 1, 2018, with respect to all ONTC employees who are members of the PSPP.

Note: The above are subject to ONTC, MNDM and TBS signing a letter of agreement.

Proposed Minute (cont’d)

Recommends to Treasury Board/Management Board of Cabinet that it:

- Provide approval for the PSPP to be the successor pension plan to the ONTC Plan in accordance with Section 81 of the Pension Benefits Act with respect to:
  - the service of designated ONTC employees on and after May 1, 2018; and,
  - the credit of ONTC employees accrued prior to May 1, 2018 that is purchased through the transfer of assets from the ONTC Plan and any payments associated with the transfer of assets to the PSPP; and
  - the payment of pension benefits for ONTC employees who retired prior to May 1, 2018 or any ONTC member who is entitled to an annual deferred vested pension from the ONTC Plan and does not retire prior to May 1, 2018.

Proposed Minute (cont'd)

Recommends to the LGIC an additional three OICs that would:

- Amend the PSPP to:
  - Authorize the OPB to enter into an agreement with ONTC to transfer ONTC assets and liabilities into the PSPP with respect to active plan members
  - To provide for a new part that would replicate the ONTC pension benefits payable under the PSPP to transferred deferred members and members who became deferred or retired effective May 1, 2018, and
  - To permit transferred ONTC members to purchase credit in the PSPP for periods of employment with ONTC for which the transferred ONTC members did not have credit in the ONTC Plan prior to April 30, 2018.

Note: The above are subject to ONTC, MNDM and TBS signing a letter of agreement.

Proposed Minute (cont'd)

- Amend the PSSBA to permit transferred ONTC members to receive benefits for service under the PSSBA for past ONTC service and to permit the transfer of assets or payments into the PSSBA to cover the liabilities associated with those benefits.
- Approve a regulation made by the ONTC pursuant to section 8 of the *Ontario Northland Transportation Commission Act* providing authority for the PSPP to be the pension plan and where applicable the PSSBA to be the supplemental pension plan for:
  - certain of the employees of the ONTC, and
  - subject to the consent of the Superintendent of Financial Services Commission of Ontario to the transfer of assets from the ONTC Contributory Pension Plan to the PSPP, certain former employees of the ONTC and employees of the ONTC who commence receipt of a pension prior to the date on which the assets are transferred.