Centre for Public Sector Labour Relations & Compensation
Total Compensation Strategies Branch

OPSEU Pension Plan Trust

Plan Expansion

Major Projects Committee

November 2, 2017

– CONFIDENTIAL –

OPTrust Plan Select Proposal

- OPTrust is proposing the expansion of the OPSEU Pension Plan (Plan) membership under a reduced defined benefit schedule called Plan Select (Select) (see Appendix A).

- This proposal is one part of a broader strategy to expand the services offered by OPTrust and advocate for defined benefit plans.
    - The advocacy channels being: OPTrust, and members & retirees of the OPSEU Pension Plan

- The potential membership for Select is identified by OPTrust as employees and management in the broader public sector (BPS) that have an 'inferior' workplace pension plan, or no plan at all. This would include organizations with non-represented workers, and those with workers represented by other unions.

OPTrust Plan Select Proposal
(continued)

- OPTrust's rationale for expansion is to spread the Plan's investment volatility risk across increased numbers of active members in an effort to support Plan sustainability.

- OPTrust has provided no alternative strategy to ensure long term sustainability for the Plan.

- As of December 2015, the ratio of active to deferred / retired members was 1.03 : 1.0.
  - In comparison, Public Service Pension Plan ratio was approximately: 0.99 : 1.0

Plan Expansion - Key Issues

- An evaluation identified risks particular to this proposal, some of which are:
  - As the Government of Ontario and OPSEU are co-sponsors of this pension plan, careful consideration is required to avoid perception that OPSEU is the Government’s union of choice
  - BPS employers would have no representation in governing the plan
  - Plausible implications on labour relations in the BPS
  - There is no evidence to suggest OPTrust is able to attract sufficient membership to achieve the minimum sustainability of Select
  - Risk and possible long term financial impact for the Government of Ontario attributed to cross subsidy, sustainability of additional membership, increased pressures to improve/bargain up the benefits offered
  - Financial risk for BPS and Government of Ontario attributed to both employer contributions and the impact of contribution deductions for employees

Step One -
Foundation of Good Governance

- Before plan expansion can be considered, the Government of Ontario needs to ensure a strong governance framework is in place for the OPSEU Pension Plan to guarantee the Board has the skills, knowledge and tools to be productive, accountable and deliver on its mission, ethically and sustainably.

- A comprehensive review of “Best Practices” in board governance framework is required to identify and address potential gaps.

- Only after a strong governance framework is in place, can the Government of Ontario consider plan and/or service expansion as a future direction to the OPSEU Pension Plan.

Attributes of Effective Board Governance Jointly Sponsored Pension Plan

TBS

- Trust Agreement which includes the powers and duties of the plan's Independent board, governance expectations which incorporates code of conduct and conflict of interest.

Independent Competent Board:	• Impartial, diverse, skilled trustees • Annual Board evaluation • Structured to effectively address governance accountabilities • Culture of candid inquiry and respectful dialogue • Well informed • Trustees accredited in Board governance, ethics and duty of care
“Best Practice” Board oversight responsibilities of the Plan “Administrator” including:	• Governance controls • Investment policy • Enterprise risk management • Financial oversight and audit • Executive compensation • Transparent disclosure • Board education

Governance, the Trust Agreement and an Effective Board

Declaration of Trust of OPSEU Pension Plan Trust Fund

- The Trust Agreement outlines powers, duties and responsibilities of Trustees.
- The Trust Agreement does not permit Trustees to amend the Plan or the Trust Agreement.
- Amendments to the Trust Agreement require approval from both sponsors: OPSEU and the Province as represented by Treasury Board Secretariat (TBS).
- Due diligence of any new proposal is a responsibility of the Plan Sponsors.

OPTrust Request to Amend the Trust Agreement

- OPTrust submitted 13 proposed amendments to the Trust Agreement to TBS for approval on February 21, 2017.

Summary Of OPTrust Proposed Amendments:	
Seven proposed amendments are considered modernizing or housekeeping items, and can be agreed to.	• Defining the Statement of Policies & Procedures (SIPP) • Process for selection / rotation of Chair and Vice Chair • Method of distributing Board materials • Method of providing notice of Board meetings • Board meeting schedule • Method of participating in Board meetings • Return of Contributions – reference updated to correct section reference in the PBA

OPTrust Request to Amend the Trust Agreement (continued)

Summary Of OPTrust Proposed Amendments (continued):

Six amendments are considered more substantive proposals.

TBS will be requesting that OPTrust provide further information as these proposals could potentially expand the Trust's powers in ways that need to be better understood.

- Establishing banking relationships/deposit plan funds outside of Canada
- Enter into Agreements with banks outside of Canada to provide investment advice, comingle assets etc.
- Providing the Trust with the powers of a natural person
- Amending the investment powers of the Trustees to authorize new kinds of investments such as derivative markets
- Permitting subsidiary corporations to employ employees, and hold administrative and operational assets and liabilities
- Removing certain restrictions on the borrowing powers of the Trustees

TBS Proposed Trust Amendments

- TBS recommends using this opportunity of OPTrust's proposed amendments to the Trust Agreement to propose additional governance related amendments.

Summary Of TBS Proposed Amendments:	
Suggested best practice proposals include:	• A code of conduct for the Trustees, including a conflict of interest protocol • A process for setting compensation for certain executive positions that aligns with the principles of the BPS Executive Compensation Framework • A public disclosure requirement for executive compensation with principles similar to the disclosure requirements of publicly listed companies, and consistent with other public sector pension plan • A requirement for pre-approval from the Board for out of country travel for all non-Investment Division OPTrust employees

TBS Proposed Trust Amendments
(continued)

TBS

Summary Of TBS Proposed Amendments (continued):

Suggested best practice proposals include:

- A requirement to produce and disclose to both Sponsors an Annual Operating Expense Report, by division (Investment and Plan Administration), including, but not limited to:
  - Staffing costs
  - Information Technology
  - Communications
  - Audit fees
  - Year-over-year comparison
  - Office premises
  - Professional Services
  - Depreciation
  - Out of country travel expenses

- A Sponsor shared protocol to assure an independent, competent board, including Board member composition and professional qualifications, (competency, skills, knowledge & experience)

- Agreement that each Sponsor has access to request Plan data, respecting Trust confidentiality of personally identifiable information, and that the request may or may not be shared with other Sponsor

Next Steps: Governance

- TBS to have a high-level discussion with OPSEU regarding proposed governance amendments to ensure professional best practice governance, sustainability and possible plan expansion.
- Request OPTrust to provide further detail on amendments that could potentially expand the Trust's powers, and analyze any possible risk.
- Finalize TBS recommended governance-related amendments.
- Provide OPTrust with detailed feedback and governance-related proposals.
- Share feedback on amendments with OPSEU, obtain OPSEU approval of the final Trust amendments and discuss conditions for possible plan expansion.
- Seek Treasury Board / Management Board of Cabinet approval if required on amendments.

Next Steps: Possible Plan Expansion

- A open transparent and consultative discussion with OPTrust and OPSEU on possible plan expansion, examining and addressing:
  - consideration to avoid perception that OPSEU is the Government’s union of choice
  - BPS employers possible concern having no representation in governing the plan
  - Governance of current plan clearly defined
  - Bargaining and labour relations considerations within the OPS and BPS
  - Risk and possible long term financial impact for the Government of Ontario attributed to cross subsidy, sustainability of additional membership
  - Viable alternatives to BPS employers and employees
  - Detailed cost analysis and implementation plan to ensure no cross subsidization
  - Evidence that there are interested parties to provide sufficient membership to achieve the minimum sustainability of Select

Appendices

Appendix A: Attributes of the Regular OPSEU Pension Plan, and Plan Select

	OPSEU Pension Plan	Plan Select
Contribution Rates (Employer Matched)	9.4% to YMPE + 11% above YMPE	3%
Accrual Type	Based on best 60 consecutive month average earnings	Based on entire career earnings
Accrual Rate	1.345% to YMPE + 2% above	0.7%
Early Retirement Benefits	• 90 Factor (age + service = 90) • 60/20 (minimum age 60 with 20 years of service)	None
Bridge Benefits	0.655% of 5-yr average YMPE per year of credit	None
Joint and Survivor Benefits	Survivor Benefits funded at 60%	None – Life Only pension
Indexation	100% Indexing	100% - Conditional Indexing. Only paid if plan is sufficiently funded

Appendix B:
Ontario Public Sector Pension Plans

	Primary Membership	Trustees	Type of Plan*	Net Assets (in Billons)	Risk Share on Wind Up or Insolvency	Solvency Valuation	DB Asset Transfers	Guarantee	Contributions
PSPP	OPS (excluding OPSEU), OPP, Provincial Judges, OLG	Members nominated by BA's and appointed by Govt of Ont	SEPP	24.4	Govt of Ont	Required	"Same benefit" and "grow in provisions" required for DB asset transfers	Exempt from PBG Fund	6.4%/9.5% Employer Matched Plus added CS Cost Plus unfunded liability
OPSEU Pension Plan	OPS OPSEU represented; BPS Employers with OPSEU represented	OPS and OPSEU appointees	JSPP	19.0	Joint	Not Required	"Value" test only for DB asset transfers	Exempt from PBG Fund Benefits can be reduced on plan wind up or insolvency	9.4%/11.0% Employer Matched
OMERS	45% of participants are Municipalities, Boards of Education 28%, Police Services Board 10% (All other represent 17%)	Nominated by OMERS employers, members	JSPP	85.2	Joint	Not Required	"Value" test only for DB asset transfers	Exempt from PBG Fund Benefits can be reduced on plan wind up or insolvency	9.0%/14.6% Employer Matched

Appendix B: Ontario Public Sector Pension Plans (continued)

	Primary Member-ship	Trustees	Type of Plan	Net Assets (in billions)	Risk Share on Wind Up or Insolvency	Solvency Valuation	DB Asset Transfers	Guarantee	Contributions
OTPP	Ontario Teachers	Nominated by MoE and OTF	JSPP	175.6	Joint	Not Required	"Value" test only for DB asset transfers	Exempt from PBG Fund Benefits can be reduced on plan wind up or insolvency	11.5%/13.1% Employer Matched
HOOPP	Hospitals and Healthcare	OHA appointees and appointees of 4 unions	JSPP	70.4	Joint	Not Required	"Value" test only for DB asset transfers	Exempt from PBG Fund Benefits can be reduced on plan wind up or insolvency	6.9%/9.2% 1.26 x member Employer Matched
CAAT	Colleges & Universities (ROM 2016)	Board and Sponsor Committee appointed by Colleges Ontario, OCASA & OPSEU	JSPP	8.9	Joint	Not Required	"Value" test only for DB asset transfers	Exempt from PBG Fund Benefits can be reduced on plan wind up or insolvency	11.2%/14.8% Employer Matched