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

OPSEU Pension Plan Trust Governance & Plan Expansion

January 24, 2018

– CONFIDENTIAL –

Ontario Public Service Pension Plans

The Centre for Public Sector Labour Relations and Compensation of Treasury Board Secretariat (TBS) supports the government's stewardship of pension plans provided for Ontario Public Service (OPS) employees and the Judiciary.

- Ontario Public Service Employees Union (OPSEU) Pension Plan
- Public Service Pension Plan (PSPP), includes Ontario Provincial Police, Justices of the Peace and Case Management Masters
- Provincial Judges Pension Plan (PJPP)

The President of the Treasury Board represents the Province as:

- the sole-sponsor of the PSPP and PJPP
- joint-sponsor of the OPSEU Pension Plan (along with OPSEU)

Responsibilities of the Province for the OPSEU Pension Plan include:

- Making joint decisions with the OPSEU-Sponsor about plan design, membership and funding
- Approving Ontario-Sponsor's appointees to the Board

OPTrust Background

Mandate: OPTrust

- The OPTrust, established in 1994 under the Ontario Public Service Employees Union Pension Act, 1994, is responsible for the administration of the OPSEU Pension Plan, the investment of the OPSEU Pension Fund and the adjudication of the plan.
- The Province of Ontario and Ontario Public Service Employees Union (OSPEU) are joint sponsors.

The Board of Trustees

- The board is comprised of ten members, five of whom are appointed by each sponsor.
- The President of the Treasury Board appoints the Ontario-Sponsor trustees by Ministerial letter.
- Minister’s appointments are generally 3-year terms.
- List of current Ontario-Sponsored trustees provided in Appendix C.

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).

- 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’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.

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

Foundation of Good Governance

- The Government should 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 strong governance framework will mitigate some of the risks associated with service or plan expansion

Approval Requirements

- Select proposal requires amendments to the plan text which can be approved by the President of Treasury Board
- Trust agreement amendments to enable the Governance framework can also be approved by the President of Treasury Board
- Given the magnitude of the changes to both documents it is recommended that these amendments be taken to TB/MBC together

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:		Critical to Plan Expansion Proceeding
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	These amendments are not considered critical, but can be agreed to

OPTrust Request to Amend the Trust Agreement (continued)

Summary Of OPTrust Proposed Amendments (continued):		Critical to Plan Expansion Proceeding
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	More information is required to determine criticality

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:		Critical to Plan Expansion Proceeding
Suggested best practice proposals include:	• A code of conduct for the Trustees, including a conflict of interest protocol	Yes
	• A process for setting compensation for certain executive positions that aligns with the principles of the BPS Executive Compensation Framework	No
	• 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	No
	• A requirement for pre-approval from the Board for out of country travel for all non-Investment Division OPTrust employees	No

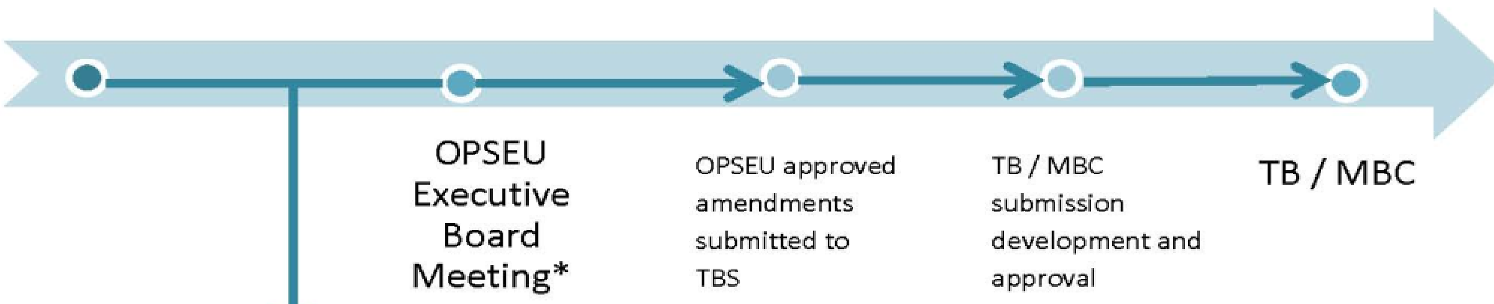
TBS Proposed Trust Amendments (continued)

Summary Of TBS Proposed Amendments (continued):		Critical to Plan Expansion Proceeding
Suggested best practice proposals include:	• A requirement to produce and disclose to both Sponsors a detailed Annual Operating Expense Report, by division (Investment and Plan Administration)	Yes
	• A Sponsor shared protocol to assure an independent, competent board, including Board member composition and professional qualifications, (competency, skills, knowledge & experience)	Yes
	• 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	No

Next Steps: Governance

- Draft recommended governance-related amendments for joint approval by TBS and OPSEU
- Finalize Plan Text amendments through technical working group (OPTrust, OPSEU and TBS)
- Seek Treasury Board / Management Board of Cabinet approval if required on amendments

Timeline for Trust Agreement & Plan Text Amendments to Enable Plan Expansion



Steps Required to amend Trust Agreement & Plan Text:

- discussion and agreement with OPTrust & OPSEU on required amendments
- Amendment drafting between the parties and their legal advisors
- Agreement from all parties on final amendments
- OPSEU approval through OPSEU Executive Board

*Next OPSEU Executive Board Meeting Dates: March 21-22, 2018

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

Appendix C: Ontario-Sponsored Trustees

Ontario-Sponsored Trustee	Position	Date Appointment Ends
Victoria Ringelberg	Chair	July 28, 2018
Patricia Li	Trustee	February 20, 2018
Sharon Pel	Trustee	February 14, 2020
Louise Tardif	Trustee	February 26, 2020
Don Wilkinson	Trustee	June 21, 2020