TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ontario

Ministry:	Finance
Meeting Date:	April 17, 2018
Agenda Class:	Consensus
Last reviewed by: LRC – April 16, 2018	**Tracking to:** Cabinet - April 18, 2018

BASED ON LRC REQUEST AND MOF ISSUE NOTE – NO SUBMISSION

SUBMISSION TITLE:	Regulatory Amendment for Proposed Torstar/CAAT Pension Plan Mergers

I. DECISION BEFORE THE BOARD

- Recommend an OIC for a regulatory amendment under the *Pension Benefits Act* (PBA) to allow eight Torstar private sector pension plans to be merged into the Colleges of Applied Arts and Technology (CAAT) pension plan.

II. RECOMMENDATIONS:

• Recommend an OIC for an amendment to Regulation 311/15 under the *Pension Benefits Act* to allow eight Torstar Corporation (Torstar) private sector single-employer pension plans to proceed with a merger process to join the Colleges of Applied Arts and Technology public sector jointly-sponsored pension plan.	*Recommend*

III. FINANCIAL SUMMARY

$ Millions	**2018-19**	**2019-20**	**2020-21**
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

The Ministry of Finance (MOF) is proposing to amend Regulation 311/15 under the *Pension Benefits Act* (PBA) to allow eight Torstar Corporation (Torstar) private sector single-employer pension plans (SEPPs) to use the PBA merger consent framework so that they can join the Colleges of Applied Arts and Technology (CAAT) public sector jointly-sponsored pension plan (JSPP), using the SEPP to JSPP mergers and conversions framework.

<u>Background</u>

The PBA merger framework is limited to public sector plans and to any specific pension plans prescribed in the regulations under the PBA, which can include private sector plans.

On February 23, 2018, CAAT and Torstar signed a Memorandum of Understanding (MOU) setting out their intent to negotiate an agreement to merge the eight Torstar private sector

IV. Key Comments and Considerations (Continued …)

SEPPs into CAAT. The Minister of Finance approved proceeding with the amendments to the PBA on March 23, 2018.

As the Torstar pension plans are not public sector pension plans, a regulation is required to prescribe them, so that they are able to request the consent of the plan members to transfer their assets and liabilities to the CAAT pension plan (a merger would occur only if they are otherwise able to satisfy the requirements of SEPP to JSPP conversion and asset transfer framework in the PBA).

The proposed regulatory amendments were brought to the Legislation and Regulation Committee on April 16, 2018.

The PBA merger process sets out requirements that must be satisfied for a merger to occur. This includes a member consent process.

The parties are seeking to initiate the member consent process in July 2018. Assuming members are in agreement with the merger, a target date to begin new benefit accruals for the transferring Torstar members under CAAT is October 1, 2018. Final approval of the proposed merger would be contingent on the approval of the Superintendent of Financial Services, of the Financial Services Commission of Ontario, whose approval is not subject to specific timelines.

The proposed amendment would come into effect on July 1, 2018 listing the following Torstar Corporation pension plans:

Item	Defined Benefit Plan Name	Registration Number
1.	Toronto Star Pension Plan	0346171
2.	Torstar Pension Plan	0969873
3.	Pension Plan for Employees of Metroland West Media Group	1050871
4.	Metroland Employees' Retirement Savings Plan	0691287
5.	Metroland Pension Plan for Senior Management Employees	0691295
6.	Metroland Pension Plan	0394288
7.	Retirement Plan for Employees of Metroland	0569939
8.	The Pension Plan for Employees of the Guelph Mercury and the Cambridge Reporter, Divisions of the Metroland Media Group Ltd.	1050863

If approved, the Torstar members of the above noted plans would have their benefits replicated in CAAT and would participate under the CAAT plan formula for future service.

<u>Analysis</u>

CAAT is actively seeking new membership growth beyond its original scope and has indicated that the proposed merger would expand CAAT's employer and membership base allowing for risks to be spread more broadly across more members and more employers. CAAT will receive a significant premium above the value of the liabilities assumed which will further improve the funded status of the pension plan.

Other pension plans are taking a similar approach as plans look to consolidate to reduce costs and improve investment.

While strengthening retirement security is a key pillar of the government's agenda and supporting consolidations and conversions is consistent with government policy to encourage movement towards the JSPP model, this proposal would be the first instance of private sector SEPPs merging existing pension liabilities into a public sector JSPP. Currently, private sector employers are not prevented from joining public sector plans for new benefit accruals. No regulation is required when a private sector plan joins in respect of new accruals.

There is a process in place for a SEPP to merge with an existing JSPP, including:

- A notice requirement for the SEPP administrator to disclose to it plan's members the intention to convert or merge into a JSPP;
- 90 days for plan beneficiaries to consent or object to the proposal;
- A requirement for at least two thirds of active members to consent;
- No more than one third of retired, former members to object; and
- Approval of the Superintendent of Financial Services.

There is no requirement for the existing JSPP to have the consent of its members or to address the risk of a participating employer becoming insolvent. As a JSPP, participating employers and employees in CAAT are jointly responsible for making plan decisions including approving membership of new employers. Fiduciaries, such as the plan's Board of Trustees (which includes member and employer representatives), are required to act in the best interest of the plan and its members, and will be required to approve the Torstar merger.

CAAT has provided letters to MOF on behalf of Torstar and its unions requesting MOF's support for the proposed regulation. Torstar and the transferred members would not have representation on the Board of Trustees or the Sponsors' Committee because their proportion of the assets is small in comparison with other plan sponsors.

MOF has indicated that the assets proposed for transfer from the Torstar pension plans are below one-sixth of the CAAT pension plans assets. Torstar would benefit from the transaction because the CAAT pension plan's larger membership and employment base would spread Torstar's pension risk. Also, Torstar would benefit from reduced costs and greater contribution stability as the contributions in a JSPP are fixed and employers and member are equally responsible for funding. Torstar would no longer be required to pay Pension Benefits Guarantee Fund (PBGF) assessments because JSPP pension benefits are not guaranteed by the PBGF.

<u>Fiscal Implications</u>

MOF has indicated that this proposal is not expected to have costs to government because the liabilities of the Torstar plans would be excluded from the provincially consolidated expenses of the CAAT. This is consistent with the consolidation exclusions made with respect to the Healthcare of Ontario Pension Plan's (HOOPP's) non-public sector participants.

The Province is not a sponsor nor does it directly fund the CAAT plan. The pension benefits earned each year by college employees are consolidated.

Commented [HK(1]: Can we please add a separate point on the circumstances under which the CAAT plan impacts the fiscal plan.

In order to negatively impact the fiscal plan, a number of events would have to occur:

1. Future investment underperformance eliminates CAAT's funding surplus, including the additional amount received under CAAT's pricing for the Torstar transaction; and,
2. The funding level deteriorates to the extent that benefit reductions are insufficient to bring the Plan into balance (conditional benefits must be reduced before employer and member payments are increased), and
3. Sponsors decide to implement special payments from members and employers to address a deficit: and,
4. Special payments increases materially impact existing college operating budgets, potentially increasing pressure for larger grants from government; and,
5. Torstar as a participating employer in the CAAT plan becomes insolvent and is unable to make special payments; and,
6. Government agrees to provide additional funding in response to a request from colleges (which may arise regardless of Torstar's status).

Commented [KA(2]: No contribution increases are permitted under the CAAT funding framework until conditional benefits are invoked; deficits are required to be addressed through benefit reductions first. 20% of CAAT liabilities are in the form of conditional indexation

To date, the government has not funded pension costs in the Broader Public Sector (BPS), including additional contributions currently being paid by colleges to the CAAT reserve.

<u>Risks</u>

1. The proposed regulatory amendment would be precedent setting because it is not only on a "go-forward" basis, but includes current members and the associated existing liabilities.
   - The amendment is only applicable to the Torstar plans. Other private sector SEPPs interested in a merger with a public sector JSPP would need to request a similar amendment, and requests could be evaluated on a case by case basis.
2. There is a potential risk that the CAAT plan could, in merging with the Torstar plans, be negatively impacted in the future if Torstar became insolvent and was unable to make additional contributions to address future plan deficits.
   - As a hedge against future risks, CAAT has included a premium in the Torstar merger pricing (see Appendix C for the Merger proposal). Under the proposed merger, the Torstar plans must transfer enough assets, upon approval by the Superintendent of Financial Services, "to ensure sufficient cost recovery and that the Plan's transfer ratio and reserves are maintained".
3. Since Torstar and its employees will not have representation on the Board of Trustees or the

Sponsors' Committee, there is a risk that the Superintendent may find that the CAAT plan is not meeting criteria under the PBA to be considered a JSPP.

- This finding would require the CAAT to change its sponsorship and governance structure.

4. CAAT is a large well-established plan with sophisticated governance and investments and unlikely to wind-up, but there is still a risk for plan members that future financial challenges facing the plan could lead to benefit reductions if the plan was forced to wind-up underfunded, or contribution increases if future plan deficits arose.

- This risk would exist whether or not Torstar votes to merge with the CAAT. These risks would be clearly communicated to members of the Torstar plans during the notice period. (See Appendix D for background on the CAAT and Torstar plans).

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Date:	April 13, 2018	**Log number:**	
Branch / Division:	Health, Social and General Government/OEMD		

Appendix A: Proposed Minute

The Board reviewed a request related to the merger of Torstar defined benefit pension plans with the Colleges of Applied Arts and Technology pension plan.

In this regard, the Board:

i) Recommend an Order in Council for an amendment to Regulation 311/15 under the *Pension Benefits Act* to allow eight Torstar Corporation (Torstar) private sector single-employer pension plans to be merged into the Colleges of Applied Arts and Technology public sector jointly-sponsored pension plan.

APPENDIX B: FINANCIAL TABLE

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
			Fiscal Plan Basis		*Appropriations Basis*
$ Millions		**2018-19**	**2019-20**	**2020-21**	**2018-19**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

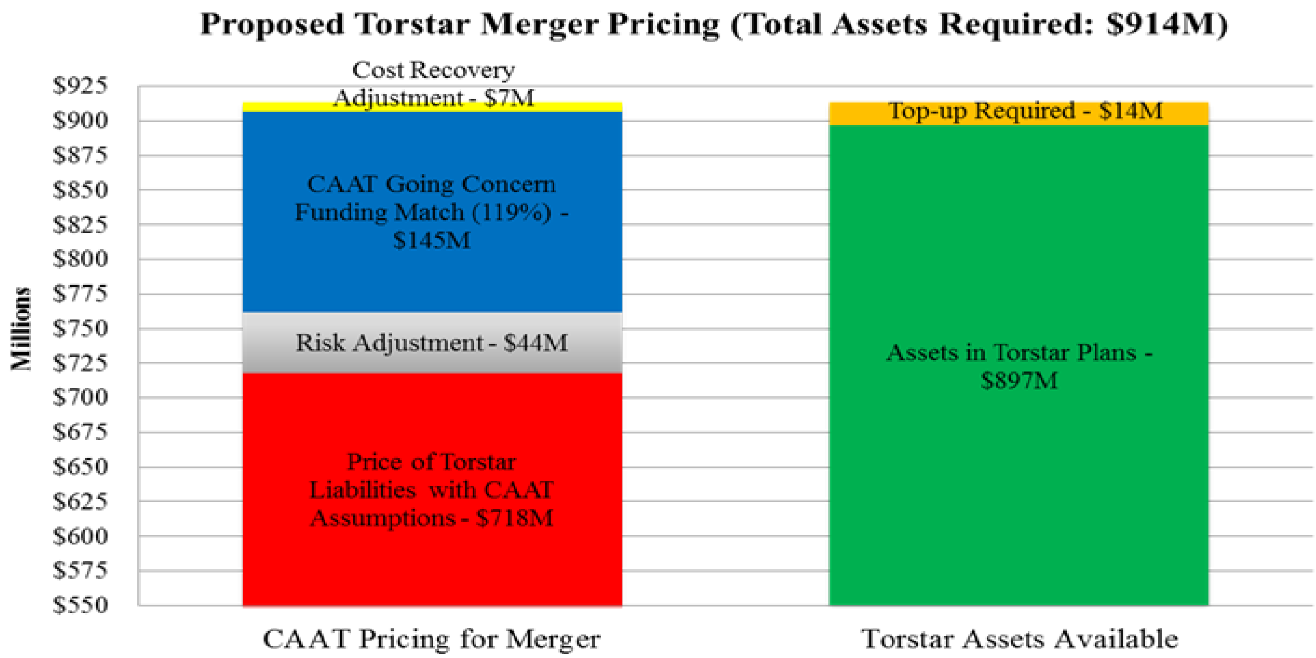
Appendix C: Merger Proposal

- A regulation is required to allow the Torstar plans to access the SEPP to JSPP framework, which outlines requirements and member protections (Appendix) that must be satisfied for a SEPP to merge into a BPS JSPP.
  - If a regulation is approved, Torstar intends to initiate the consent process for members in July 2018, with a target date for merging plans on October 1, 2018.
  - Final approval of the merger is contingent on the approval of the Superintendent of Financial Services.
- If approved, the Torstar DB members would have their benefits replicated in CAAT and could participate under the CAAT plan formula for future service.
  - A noted benefit is that CAAT is not dependent on the health of a single contributing employer.
- The proposed merger would expand the CAAT plan's employer and membership base, diversifying more broadly across more members and more employers. The CAAT plan could also benefit from efficiencies and economies of scale potentially leading to reduced costs and improved diversity of portfolio and investment scale. As a hedge against future risk, CAAT has structured its pricing so that merging with Torstar provides cost recovery and maintains CAAT's funding ratio and reserves. The pricing model for the Torstar merger is based on CAAT's existing actuarial assumptions and projected return on assets.
  - The CAAT plan is funded at 119%, with approximately $10 billion in assets.
  - Torstar is required to pay a premium above CAAT's funded level, including the current funding surplus, based on CAAT's more conservative actuarial assumptions (for example, CAAT longevity estimates were used).
  - The CAAT plan includes conditional benefits (e.g. indexation) which provide greater funding flexibility if future plan deficits arise.
  - The transaction represents less than 10% of CAAT's plan assets and liabilities.
- Based on the CAAT plan's pricing assumptions, $914 million in assets would be transferred to CAAT along with the liabilities of the Torstar plans.
  - This includes $196 million more than CAAT's valuation of the Torstar liabilities.
- Under CAAT's actuarial assumptions, the accrued liabilities of the Torstar plans are valued at $718 million.
- CAAT's proposed pricing breakdown is as follows:

Commented [KA(3]: Some employees are in a DC and may prefer to keep their pension in that form.

Commented [DM(4]: And actuarial assumptions (exiting CAATPP member mortality)? Return on assets?

Commented [DM(5]: Has the government reviewed this analysis? As at what date? (Comment from Cindy)


Proposed Torstar Merger Pricing (Total Assets Required: $914M)
Cost Recovery Adjustment - $7M
CAAT Going Concern Funding Match (119%) - $145M
Risk Adjustment - $44M
Price of Torstar Liabilities with CAAT Assumptions - $718M
Top-up Required - $14M
Assets in Torstar Plans - $897M
Millions
$925
$900
$875
$850
$825
$800
$775
$750
$725
$700
$675
$650
$625
$600
$575
$550
CAAT Pricing for Merger
Torstar Assets Available

APPENDIX D: BACKGROUND ON CAAT & TORSTAR PLANS

The CAAT pension plan is a defined benefit (DB) BPS JSPP.

- CAAT is currently funded at 119% on a going concern basis, with approximately $10 billion in plan assets.
- CAAT is exempt from solvency funding, but reported a solvency ratio of 92% as of December 31, 2016.

CAAT's mandate and membership currently focuses on education entities:

- It has 40 participating employers (including Ontario's 24 publically funded colleges and small private employers), and approximately 45,000 members.

CAAT has been actively exploring potential mergers as a strategy for growth. CAAT has previously brought forward merger proposals, including:

- Sears Canada Pension Plan;
- A wound-up New Brunswick plan; and,
- A federally regulated plan.

These three proposed mergers have legislative impediments, and did not proceed.

The Torstar SEPPs (closed to new members) have approximately $900 million in assets, and 3,700 members and retirees. The plans are well funded on a going-concern basis.

Torstar also has three defined contribution (DC) plans, which will not be merged with CAAT, but members can choose to participate on a go forward basis in CAAT's DB plan.

The composition and funding status of each Torstar DB SEPP is as follows:

Pension Plan Name (2016 Data)	Going-concern Funded %	Solvency Funded %	Approximate Assets (MV)	Members
Toronto Star Pension Plan	106.9%	92%	$405.5M	1,604
Torstar Pension Plan	103.2%	88.8%	$225.8M	644
Pension Plan for employees of Metroland West Media Group	102.4%	90%	$118.2M	555
Metroland Employees' Retirement Savings Plan	94.9%	76.5%	$95.9M	710
Metroland Pension Plan for Senior Management Employees	104.2%	85.9%	$35.3M	39
Metroland Pension Plan	103.9%	81.9%	$14.3M	139
Retirement Plan for Employees of Metroland	95.4%	82.9%	$1.4M	28
Pension Plan for Employees of the Guelph Mercury and the Cambridge Reporter, Divisions of the Metroland Media Group Ltd.	143.1%	111.9%	$590K	19
Total			**$897M**	**3,738**