TBS

Centre for Public Sector Labour Relations and Compensation

Total Compensation Strategies Branch

OPSEU Pension Plan Expansion

April 10, 2018

Deputy Minister, Treasury Board Secretariat

President of the Treasury Board

Date

Date

Summary of Proposal

The OPSEU Pension Trust (OPTrust) implement the establishment of a new schedule to the OPSEU Pension Plan (the "Plan") entitled OPTrust Select.

1. Treasury Board Secretariat (TBS) as representative of the Government of Ontario as joint sponsor to the Plan is seeking approval to the President of the Treasury Board to proceed to implement the establishment of OPTrust Select under the following terms and directions:

    i. Obtain written confirmation from OPSEU in its role as co-sponsor of the Plan of its approval to establish OPTrust Select as set out in the design document

    ii. Obtain feedback from FSCO to indicate that the status of the Plan as a Single Employer, Jointly Sponsored Pension Plan under the Pension Benefits Act is not impacted by the implementation of OPTrust Select

    iii. Obtain written agreement by the Plan sponsors and OPTrust that sufficient provisions are present in the funding policy to mitigate the risk of cross-subsidization between the Plan and OPTrust Select on an ongoing basis

See Appendix I for Proposed Minute

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2. Direct the President of the Treasury Board, subject to the completion of the items under paragraph 1 above, to amend the Plan documentation as necessary in order to establish OPTrust Select as a schedule to the Plan subject to the written agreement of OPSEU to such documentation, in accordance with the following:
   i. The Letter of Agreement
   ii. The Plan text
   iii. The Sponsorship Agreement
   iv. The governance related provisions of the Agreement and Declaration of Trust of OPSEU Pension Trust Fund
   v. A new Participation Agreement and Letter of Acknowledgement

3. Direct the President of the Treasury Board, subject to the completion of the items under 1 above, to recommend an amendment to the *OPSEU Pension Act, 1994* to expand the definition of "employer" for consistency with the definition in the *Pension Benefits Act* so that regulatory measures to enforce employer payments would apply to new OPTrust Select employers

See Appendix II for Proposed Documents

Purpose of Request

- OPTrust, as administrator of the OPSEU Pension Plan (Plan), is proposing the expansion of plan membership under a reduced defined benefit schedule called Plan Select (Select).
- OPTrust's rationale for expansion is to:
  i. spread the Plan's investment volatility risk across increased numbers of active members in an effort to support Plan sustainability; and
  ii. provide greater pension coverage for Ontario workers who do not have access to a defined benefit pension plan

See Appendix III for Proposed Schedule of Benefits

Critical Mass

- OPTrust has determined a critical mass of 20,000 Select members would be needed for Select to positively impact OPSEU Pension Plan’s long term sustainability.
- OPTrust also advises that even signing up a minimum of a few hundred employees would cover the necessary increase in administration costs as existing technology can be leveraged.

Policy Commitment

TBS

Government of Ontario Mandate

- Build retirement security by providing a retirement option to a lower income target market.

Economies of Scale

- OPTrust has existing infrastructure in place to provide pension administration to OPTrust Select providing economies of scale for both schedule of benefits.

Pooled Assets

- Supports the government’s commitment to pooled asset management and pension administration consolidation.

Key Considerations

Security	Cross Subsidization between Schedules	Vetting Potential Employers
• Risk that a Select employer may default on submitting employee / employer contributions • **OPSEU, OPTrust and TBS require security provisions to mitigate risk that other plan members and employers would have to cover a defaulting employer's liabilities.**	• Risk that Select members will be subsidizing the main plan members as both schedules will be valued together • **OPSEU, OPTrust and TBS require sufficient provisions are present in the funding policy to mitigate risk of cross-subsidization on an ongoing basis.**	Risk that an Employer may not be suitable or meet the criteria for Plan Select • **OPSEU, OPTrust and TBS require sufficient vetting to mitigate risk of ineligible employers admitted to Plan Select.**

Jointly Sponsored Pension Plan status under the Pension Benefits Act
• Risk that Select employers will not be represented under the governance structure may jeopardize the Plan's JSPP status under the PBA. • **MOF, OPSEU, OPTrust and TBS require agreement on expanding representation to Select Employers and Select Employees on the Board of Trustees** • **OPSEU, OPTrust and TBS require agreement on an Advisory Committee(s) for Select Employers and Select Employees**

Financial Analysis

Recommendation	Financial Analysis
OPS Financial Arrangement	• Approval to join OPTrust will have no fiscal impact on the Government of Ontario. • Participating employers included in the consolidated XXX, will have a net zero impact • Participating employers not in the consolidate XXX, will reflect pension expense on their financial statements
OPSEU Pension Plan	• TBS is not requesting any funding from TB/MBC for the OPSEU Pension Plan as a result of this request. • The cost of employee participation in the PSPP and PSSBA if applicable is expected to be fully borne by FSRA and LPASC and there is no intended fiscal impact on the government. • A liability for the Crown as joint sponsor of the OPSEU Pension Plan could materialize if, a Select employer is not able to cover its pension expenses related to the Plan, and the security provision in place fails to cover the obligation. • Approval would not materially change the results of the most recent valuation of the OPSEU Pension Plan at December 31, 2016 or materially affect future funding valuations. • The impact to the government's OPSEU pension accounting expense under the Public Sector Accounting Board reporting standards is negligible.

Communications Plan

- If OPTrust Select is approved for implementation:
  - OPTrust would be able to promote OPTrust Select to the defined potential employer market.
  - Provide potential employers with the necessary application and documentation.

Appendices

Appendix I: Proposed Minute – OPTrust Select

Treasury Board / Management Board of Cabinet (TB/MBC) provide approval to the President of the Treasury Board to proceed to implement the establishment of a new schedule to the OPSEU Pension Plan (the "Plan") entitled OPTrust Select that would provide a separate Plan benefit to employees in the Broader Public Service and not-for-profit sector, including registered charities in accordance with the design document attached hereto as Appendix "A" and with the following terms and directions:

1. Direct the Treasury Board Secretariat to proceed as follows:

    i. Obtain written confirmation from OPSEU in its role as co-sponsor of its approval to establish OPTrust Select;
    ii. Obtain feedback from FSCO to indicate that the status of the OPSEU Pension Plan as a Single Employer, Jointly Sponsored Pension under the *Pension Benefits Act* is not impacted by the implementation of OPTrust Select;
    iii. Obtain written agreement by the Plan sponsors and OPTrust on the provisions of the funding policy with a view to the mitigation of the risk of cross-subsidization between the Plan and OPTrust Select on an ongoing basis.

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2. Direct the President of the Treasury Board, subject to the completion of the items under paragraph 1 above, to amend the Plan documentation as necessary in order to establish OPTrust Select as a schedule to the Plan in accordance with the following:
   i. The Letter of Agreement
   ii. The Plan text to be authorized by both Plan sponsors;
   iii. The Sponsorship Agreement to be authorized by both Plan sponsors;
   iv. The governance related provisions of the Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund to be authorized by both Plan Sponsors, the key terms of which are attached hereto as Appendix "B";
   v. A new Participation Agreement and Letter of Acknowledgment to be executed by non-OPSEU bargaining agents in order to waive their collective bargaining rights in respect of the terms and conditions under OPTrust Select.

3. Direct the President of the Treasury Board, subject to the completion of the items under paragraph 1 above, to recommend an amendment to the *OPSEU Pension Act, 1994* to expand the definition of "employer" for consistency with the definition in the *Pension Benefits Act* so that regulatory measures to enforce employer payments would apply to new OPTrust Select employers.

Appendix II

[reserved for plan design documents once confirmed]

"OPTrust Select Employer" means an employer

a) in respect of employees for whom it applies to participate in OPTrust Select, are not members of, or eligible to be members of, the OPSEU Pension Plan pursuant to Article 3 of the OPSEU Pension Plan or another registered defined benefit pension plan by virtue of their employment with the employer; and
b) that at the time it applies to commence participation in OPTrust Select:

    is a charity in Ontario registered under the *Income Tax Act,* (Canada),

    is a not for profit corporation in Ontario incorporated under Part III of the *Corporations Act* or successor legislation, is an organization at which employees who are represented by OPSEU are employed and is set out in the list of organizations attached as Schedule "X" to the Sponsorship Agreement as may be amended in writing by the Sponsors from time to time, or is a Broader Public Sector Organization; and
c) has entered into a Participation Agreement with the Board.

“Broader Public Sector Organization” means:

1. Every public hospital and the University of Ottawa Heart Institute/Institut de cardiologie de l’Université d’Ottawa.

2. Every school board.

3. Every university in Ontario and every college of applied arts and technology and post-secondary institution in Ontario whether or not affiliated with a university, the enrolments of which are counted for purposes of calculating annual operating grants and entitlements.

4. Every agency, authority, board, commission, committee, corporation, council, foundation or organization that received public funds of the Government of Ontario in the previous fiscal year ending March 31, of an amount that is at least equal to (a) $1,000,000; or (b) 10 per cent of the organization’s gross revenues for the year if that percentage is $120,000 or more but does not include,

(i) the Office of the Lieutenant Governor,

(ii) the Office of the Assembly or the office of an officer of the Assembly,

(iii) a ministry of the Government of Ontario,

(iv) an agency of the Government of Ontario, or

(v) an organization that undertakes its activities for the purpose of profit to its shareholders.