



# Bishop University's pension plan Bill 3

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Trinome conseils  
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# Introduction

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- Applicable to municipal plans
- Not yet adopted
- Currently being reviewed article by article
- Some articles are ambiguous
- Amendments were made October 2
- New amendments are possible
- Context of a majority government





# Introduction

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- We do not know at this time IF a corresponding Bill will be tabled for the University sector
  - We think there will be one
  - We heard rumors ranging from exactly the same Bill as the municipal sector to a separate Bill for each University
- We do not know at this time WHEN such a Bill would be tabled
  - We think it would be logical to wait until the Bill 3 is adopted but then again...not always logical

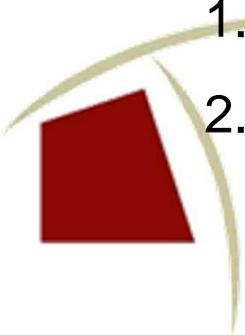




## Required actuarial valuation

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- Mandatory as at December 31, 2013
  - Prescribed demographic assumptions
    - prescribed mortality table
    - for the others : the same as for the preceding valuation
  - Maximum discount rate of 6 %
- Separation of the Plan between :
  1. Past service
  2. Future service





## Past service

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- Past service means : service before January 1, 2014
- Attribution of the deficit between active members and retirees in proportion to the going-concern liabilities
- Retirees include those who applied to retire between January 1, 2014 and June 12, 2014
- The June 12, 2014 date is important and corresponds to the date the Bill was tabled->Does not mean that it would be the tabled date for a University Bill



## ...Past service

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- We do not know at this time what is exactly meant by «applied to retire»
    - Could it be for a retirement date after the Bill was tabled ?
    - Is there a time frame ?
    - The Régie des rentes aren't sure either!
  - Active members : all members who are not retirees
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## Deficit associated with retirees

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- Indexing of pensions may be suspended (by an unilateral employer decision) starting January 1, 2017
- Deficit reduced by the suspended indexation value (no more than 50 % of the deficit)
- Residual deficit assumed by the employer and amortized over a 15-year period without the possibility of consolidation
- New deficits for past service assumed by the employer



## ...Deficit associated with retirees

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- «Without the possibility of consolidation» means that the employer will have to pay over 15 years his part of the Past service deficit at the time of the restructuring even if eventually the Past service component becomes in a surplus position -> it will be a fixed schedule
- For a plan without indexation of retirement benefits, all the deficit associated with retirees would be paid by the employer (this is mainly your case)



## Deficit associated with active members

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- 50%/50% between active members and employer
- Active members' share : reduction in ancillary benefits
  1. Elimination of indexation (mandatory)
    - Even if more than 50 % of the deficit
  2. If not enough, reduction of ancillary benefits between (your case)
    - a) Number of years in the calculation of the final average salary
    - b) Bridge benefit
    - c) Early retirement subsidy
    - d) Form of pension (guarantee after death)



## ...Deficit associated with active members

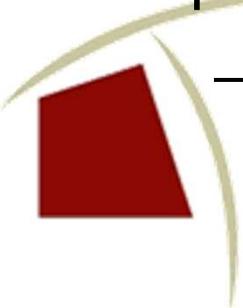
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- The reduction or elimination of ancillary benefit won't affect all active members in the same way
  - For example, the reduction or elimination of the early retirement subsidy (and/or the bridge benefit) won't affect a 65 years old compared to a 57 years old (with 80 points) who wants to retire in the near future
  - If you believe the current past service ancillary benefit are fair, maybe best to prioritize the number of years in the calculation of the final average earnings -> better if you have similar salary increases between employees
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## ...Deficit associated with active members

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- It is not possible to reduce the normal pension at retirement
    - For example the benefit calculation of 1.8 %/2.0 % can't be reduced in any way
  - Once the restructuring process is completed (a one time deal), it will not be possible to reduce the Past service benefit if that component becomes in a deficit position in the future
    - But then again, the Bill 3 is reducing benefits that weren't legally permitted to be reduced...
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## ...Deficit associated with active members

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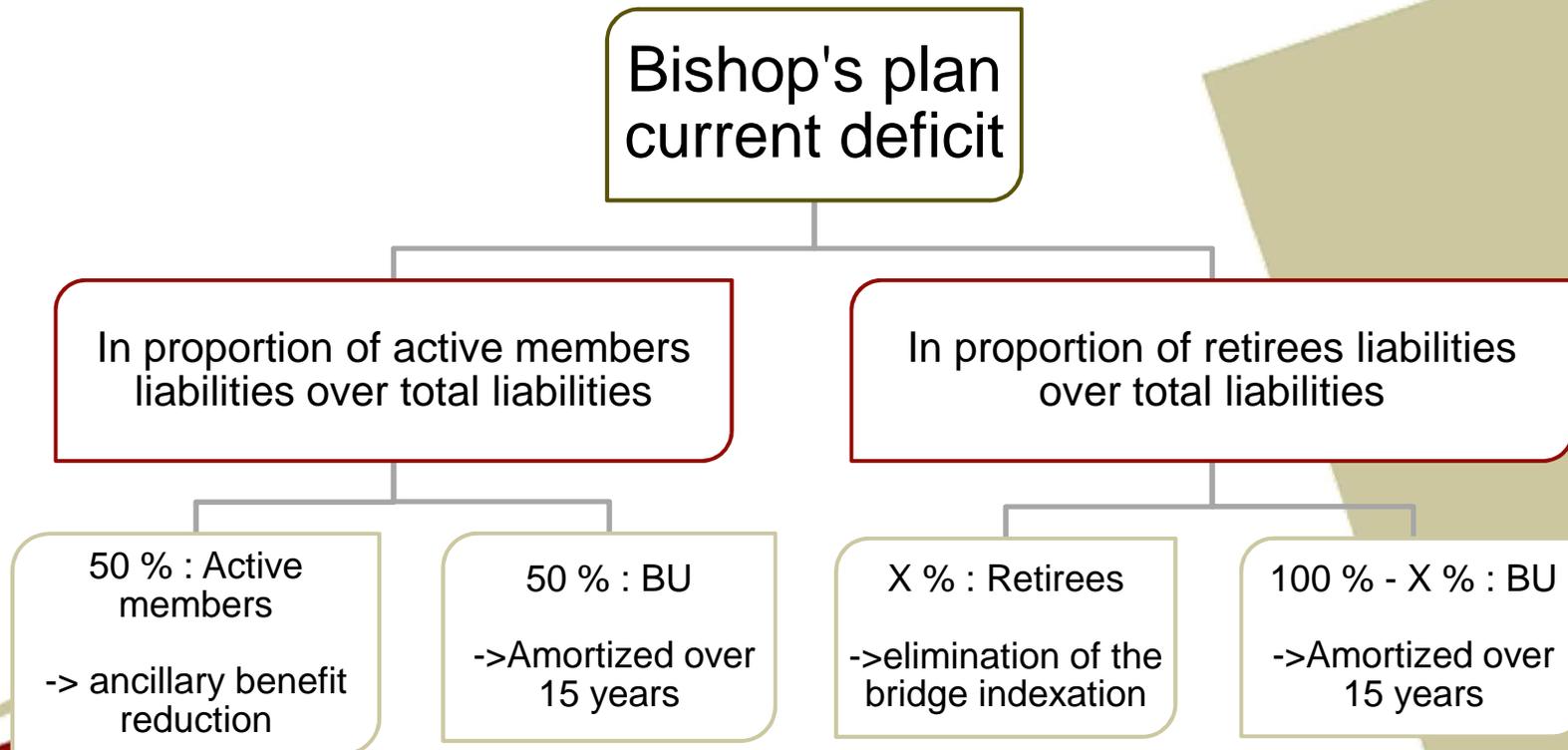
- Employer's share
    - amortized over a 15-year period without the possibility of consolidation
  - New deficits for past service assumed by the employer
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# Past service

## What would it mean for Bishop's plan ?

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## Future service

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- Future service means : service from January 1, 2014
  - Future service and Past service are segregated like if they were 2 different plans
  - No automatic indexation possible
  - Creation of a stabilization fund with a special contribution of at least 10 % of the current service cost
  - 50%/50% cost sharing between active members and employer for current service cost, stabilization fund and deficit relative to future service
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## ...Future service

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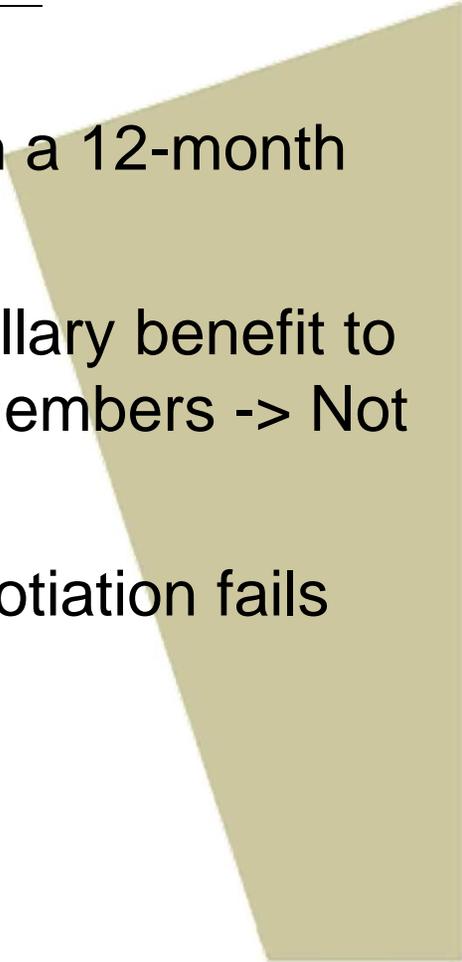
- Current service cost is limited to 18 % of payroll
  - Cap is increased by 0.6 % for each full year that the average age exceeds 45
  - Cap is increased by 0.5 % if women represent more than 50 % of active members
- No future contribution holidays will be permitted (unless the tax limit is attained -> going-concern surplus > 25%)





## Negotiation process

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- A negotiation process is introduced with a 12-month period to reach an agreement
  - Not much to negotiate except what ancillary benefit to reduce and/or eliminate for the active members -> Not sure of the employer's involvement
  - An arbitration process is possible if negotiation fails
    - 6 months to reach a decision
    - Arbitrator jointly selected
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## Restructuring past service Who would benefit ?

- For illustration purposes, we assume the pensions are not indexed at all although in reality, the bridge benefit is indexed
- Example (based on hypothetical results)
  - 45 % of the liabilities for the active members
  - 55 % of the liabilities for the retirees
  - Let's say the liabilities = \$ 100
  - Plan's going-concern ratio = 80 % (deficit = \$ 20)
  - Cost sharing : 40 % members and 60 % employer





## ...Restructuring past service Who would benefit ?

- Before Bill 3:
  - Active members financed 40 % of the \$ 20 deficit = \$ 8
  - Retirees financed \$ 0
  - Employer financed 60 % of \$ 20 deficit = \$ 12





## ...Restructuring past service Who would benefit ?

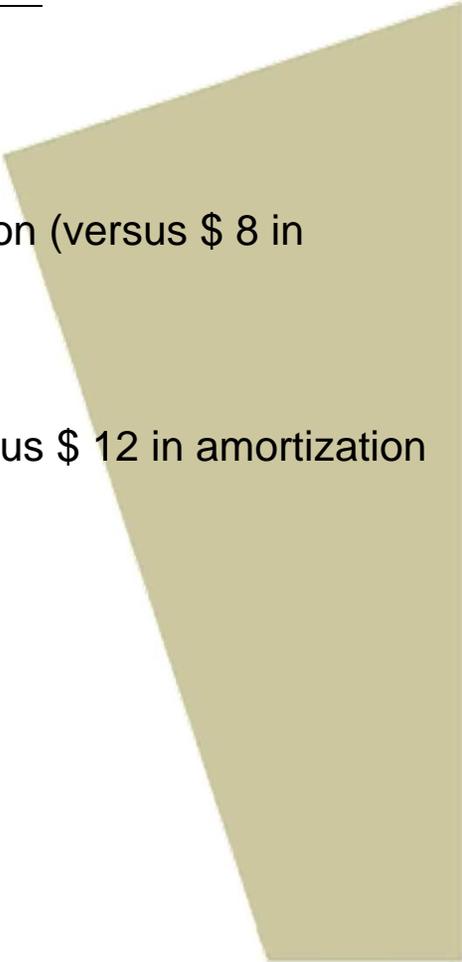
- With Bill 3:
  - Active members share of the deficit (45 % of \$ 20 = \$ 9)
    - Active members will suffer benefit reduction of 50 % of \$ 9 deficit = \$ 4.5  
-> an average of 10 % (4.5 benefit reduction/45 in liabilities) reduction in value on the accrued past service ancillary benefits
    - Employer will finance 50 % of \$ 9 deficit = \$ 4.5
  - Retirees share of the deficit (55 % of \$ 20 = \$ 11)
    - Retirees will suffer no benefit reduction = \$ 0
    - Employer will finance 100 % of \$ 11 deficit = \$ 11





## ...Restructuring past service Who would benefit ?

### – Total

- Active members = \$ 4.5 in ancillary benefit reduction (versus \$ 8 in amortization payments Before Bill 3)
  - Retirees = \$ 0
  - Employer = \$ 15.5 in amortization payments (versus \$ 12 in amortization payments Before Bill 3)
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# Past service in numbers

## What would it mean for Bishop's plan ?

Bishop's plan current deficit =  
\$ 20  
Going-concern ratio = 80 %

In proportion of active members  
liabilities over total liabilities  
 $(45/100) \times 20 = \$ 9$   
Going-concern ratio = 80%

In proportion of retirees liabilities  
over total liabilities  
 $(55/100) \times 20 = \$ 11$   
Going-concern ratio = 80 %

50 % : Active  
members  
\$ 4.5 or 10 %  
(4.5/45)

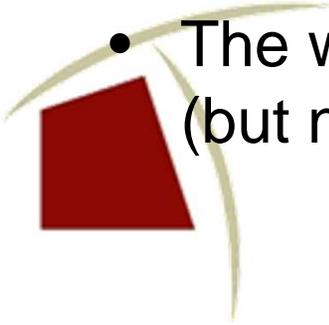
50 % : BU  
\$ 4.5

X % : Retirees  
\$ 0

100 % - X % : BU  
\$ 11



## ...Restructuring past service Who would benefit ?

- With the current cost sharing of the service cost and deficit (40 % / 60 %) the employer will clearly not be the one benefiting from a «Bill 3»
  - In addition, the employer will be 100 % responsible for any new deficit for past service in the future
  - The retirees will somewhat be indifferent to the Bill (except for the indexation of the bridge benefit)
  - The winners would then be the active members globally (but not everyone would benefit)
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## ...Restructuring past service Who would benefit ?

- Depending on the ancillary benefit reduced/eliminated, some employees will have a bigger/smaller reduction than others
- From the example, on average, will amount to a 10 % reduction
- The active member who wanted to retire the day following the tabled of the Bill would be the significant loser (because he/she won't benefit from the lower deficit to finance from active members)



## ...Restructuring past service Who would benefit ?

- In general, for active members

- Before Bill 3

- Contributions : 40 % of the entire deficit (\$ 8)

In exchange for

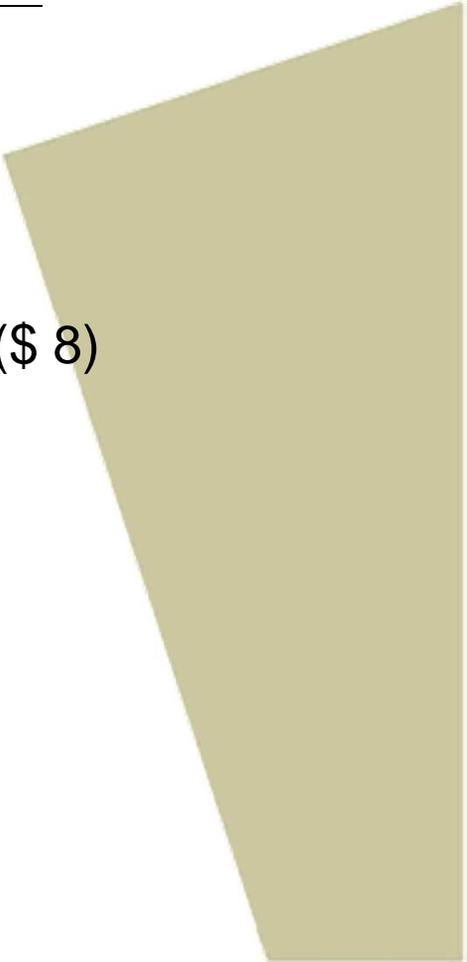
- With Bill 3

- A cut on average of 10 % of their past service ancillary benefit corresponding to 50 % of the active members' only share of the deficit (\$ 4.5)





## ...Restructuring past service Who would benefit ?

- For a new employee, we have
    - Before Bill 3
      - Contributions : 40 % of the entire deficit (\$ 8)
    - In exchange for
    - With Bill 3
      - No past service = no cut
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## ...Restructuring past service Who would benefit ?

- For an employee who will retire the next day, we have
  - Before Bill 3
    - No contributions
  - In exchange for
  - With Bill 3
    - A cut on average of 10 % of their past service ancillary benefit





...Restructuring past service  
Who would benefit ?

- There would be a cut-off age for which «a Bill» or «no Bill» would be equivalent (for an uniform cut across employee in ancillary benefits)





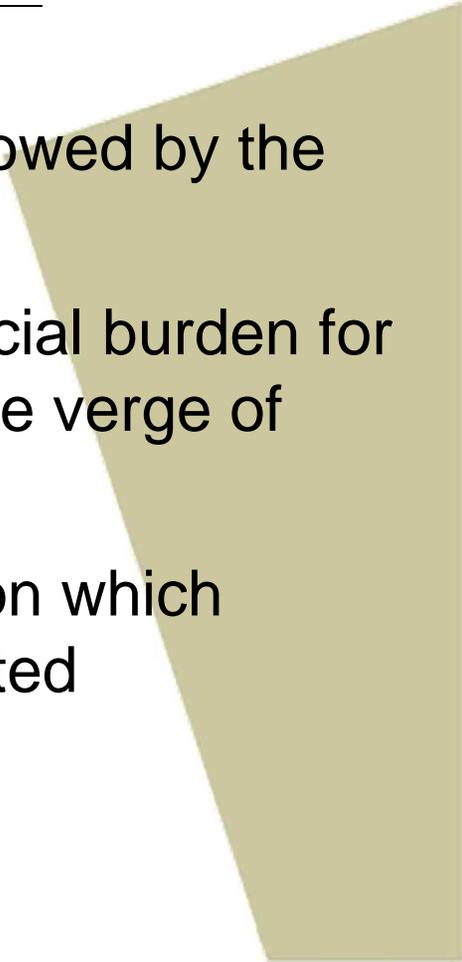
## Restructuring future service Who would benefit ?

- With the current cost sharing of 40%/60% the employer would be the one benefiting from a «Bill 3» with a new cost sharing of 50%/50%
- For example, for a \$ 4M annual cost, the BU would save about 400 000 \$ a year and the active members would pay the difference





All in all (Past and Future service)  
Who would benefit ?

- Depending on the level of the deficit showed by the mandatory valuation (for a «Bill 3»)
  - More of a deficit means more of a financial burden for BU (and more for active members on the verge of retirement)
  - Between active members, will depend on which ancillary benefit will be reduced/eliminated
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...All in all (Past and Future service)  
Who would benefit ?

- At the limit, if there is no deficit, BU would benefit from the new cost sharing without any deficit to finance (although would now be 100 % liable for any new deficit in the future for Past service)
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# Questions

