March 17, 2008

Negotiating a Better Pension Plan for UPEI Employees

A memo issued by the four employee unions at UPEI.

Canadian Union of Public Employees, CUPE local 1870
Canadian Union of Public Employees, CUPE local 501
International Brotherhood of Electrical Workers, IBEW local 1432
University of Prince Edward Island Faculty Association, UPEIFA

The University's pension plan has been in place since 1967 for all of its eligible employees. The Plan is a "defined benefit" plan which means that retirement benefits are paid to retirees based on a formula which takes into account their best earnings levels and their time in the Plan.

Contributions to the Plan are made by both the employees and the employer. Each employee's contribution is currently about 4.5% of earnings. As required by a "defined benefit" plan, the employer must then contribute the balance required to ensure that its entire obligation to ongoing payable benefits to retirees can be met.

The collective agreements of the campus unions typically lack any details regarding the obligations of the employer to a pension plan. The University's Human Resources website states that the University *reserves the right to amend or terminate the Plan, either in whole or in part, if conditions warrant*. Given this, it is vital that language be negotiated by the unions to ensure that a pension plan is provided which serves the needs of their members.

Presently, the collective agreements for four of the five bargaining units on campus have been expired since May 1, 2007. This includes those for the UPEIFA Bargaining Unit #2, CUPE 1870, CUPE 501 and IBEW 1432. The UPEIFA Bargaining Unit # 1 collective agreement remains in effect until 2010. Negotiations with the employer by these bargaining units are ongoing.

While each union is independently working towards its new contract with the employer, they are also collaborating on the pension issue. Through a Memorandum of Agreement, the unions have agreed to a common set of pension improvements to be negotiated and have agreed to negotiate as a single voice at a single table with the employer.

It goes without saying that this strategy is the key to success in obtaining pension plan improvements. The unions are committed to this strategy and have proposed to the employer that pension negotiations be carried out in this manner. To date, the employer has refused to negotiate on this issue with the unions jointly as a single voice via the collective bargaining process. We are still optimistic, however, that we will be able to negotiate improvements at the bargaining table in this manner. At this point, the unions are awaiting further response from the employer.

Plan to attend one of the following
Pension Information Sessions
jointly offered by the campus unions.

Wed, March 26, 2008, 7:00 pm
Thurs, March 27, 2008, 4:00 pm
Thurs, March 27, 2008, 7:00 pm
Fri, March 28, 2008, 12:00 pm noon

All Sessions are in AVC Lecture Theatre 'A'

The following summarizes the improvements that have been proposed by the unions.

<u>Improvement #1:</u> ***An improvement to the pension benefits formula to eliminate, on a go-forward basis, the post-1990 adjustment factor, and to retroactively compensate for reduced pension benefits due to this adjustment factor back to January 1, 1990.***

At UPEI, the retirement pension benefit is calculated according to a complex formula which is summarized in the box below. Most people think that it provides for a benefit of 2% of your best salary for every year of service.

<u>UPEI pension formula</u>

Benefit = 2% x (Best Three-Year Salary Average) x (Years of Pre-1990 Service)
PLUS
2% x (Best Three-Year Salary Average) x (Years of Post-1989 Service) x (***Adjustment Factor***)

However, many people do not know that the pension benefit is determined differently for service prior to January 1, 1990 than it is for service after December 31, 1989. **For service after December 31, 1989, the benefit is further reduced by an *adjustment factor* such that the actual benefit for service during this time period is significantly below the 2% value.**

The *adjustment factor* for post-1989 service reflects the integration of Canada Pension Plan (CPP) benefits with the UPEI pension plan benefits (*integrated formula*). Effectively, this means that an individual's UPEI pension benefit is reduced by an amount so that when the individual's CPP benefit is included the total benefit from the two sources is 2% of salary per year of service.

For pre-1990 service, the formula considers that CPP benefits are paid to the individual in addition to the UPEI pension plan benefits (*stacked formula*) so that the CPP benefit is over and above the 2% of salary per year of service paid by the UPEI pension plan.

Since more and more employee service is post-1989, the *adjustment factor* has a significant impact on an individual's future pension benefit. The value of this factor is difficult to quantify as it depends on an individual's own contributions and their own years of service.

To illustrate, two examples are provided in the *Pension Plan Summary* found on the Human Resources website. In one, the *adjustment factor* is found to be approximately 74%. In another, it is approximately 78%. In these cases, the total UPEI pension plan benefit for post-1989 service would be approximately 1.5% of salary per year of service.

In collaborating, the unions' intention is to negotiate 1) the elimination of this *adjustment factor* from the formula so that the pre-1990 calculation applies to all service and 2) a retroactive compensation to make up for reduced pension benefits due to this *adjustment factor* back to January 1, 1990. The intent of this retroactive compensation is to improve individual pension benefits as if the *adjustment factor* never existed in the first place.

Improvement # 2: ***An improvement to the pension indexing formula to ensure that the benefits are increased by 2.0% annually for service after January 1, 2000.***

Presently, retirement benefits are only protected from future inflation through indexing under certain limited circumstances. The level of indexing, and, indeed, if it is applied at all, depends on the investment earnings on a portion of the pension fund. If a four-year running average of these earnings exceeds a certain basic rate of return, the excess is used to provide indexing. This improvement would apply to all current and future retirees. In the case of current retirees, it would apply to any years of retirement since January 1, 2000.

Improvement # 3: ***An improvement to "partner benefits" such that any plan member with a partner receives full (100%) pension benefits for life, and her/his partner would receive a pension benefit of 2/3 of the full pension benefit for the life of the partner should the plan member predecease the partner.***

Should an employee desire to have a pension benefit continue to her/his surviving partner, the employee must agree to a reduced pension depending on the level of benefit that is desired to continue to the surviving partner. This improvement is typically guaranteed as a minimum standard by pension legislation in other provinces. Unfortunately, though, PEI does not have such legislation at this time. If it did, this would not be an issue for negotiation.

Improvement # 4: ***An improvement to provide any employee who is eligible for participation in the pension plan with the option of buying back years of service in the UPEI pension plan.***

Improvement # 5: ***An improvement to manage how any plan surplus can be used which would allow for a maximum of 2% reserve above liability with the remainder of any surplus used according to the following:***

- *Surplus funds shall not be withdrawn by the employer under any circumstances nor shall they be used by the employer to lower its contributions to the plan.*
- *Surplus funds shall be held in reserve and set aside for separate accounting.*
- *Surplus funds shall be used only to improve plan benefits.*
- *The first priority on using surplus funds will be to improve the pension benefits formula for service after January 1, 1990.*
- *The second priority on using surplus funds will be to provide indexing of pension benefits.*

Deliver to: