By Jennifer Paterson

JOINING THE CLUB

The Youth Services Bureau of Ottawa is among employers merging their pension plans with bigger players

Facing a $10.3-million pension deficit in 2016, the Youth Services Bureau of Ottawa had some tough decisions to make. It felt that closing its defined benefit plan, converting to a defined contribution arrangement or cutting benefits were all out of the question.

But with the Ontario government having enacted regulations in 2015 to permit the merger of certain single-employer plans with jointly sponsored arrangements, the organization had another option.

It opted to merge with the Colleges of Applied Arts and Technology pension plan because it would administer the smaller plan up to the date of the merger, at which point everyone would enrol in CAAT. "The other plans wanted us to buy in as of Day 1 as if we were part of their plan," says Wes Richardson, the Youth Services Bureau's director of finance. "When we did some calculations, a lot of our members would lose about 40 per cent of their earned service, which is just too significant for a lot of people."

Under the arrangement, a member's total pension benefit calculation will include the amounts earned under the two plans. The merger also addressed the organization's pension deficit. "In the YSB plan, the $10.3-million deficit is related to the solvency," says Richardson.

"Since we are merging with a multi-employer plan, there is no requirement to fund solvency moving forward. The YSB plan did have a going-concern surplus, and a portion of this surplus was used to buy into the CAAT plan, as well as to phase in the contribution increase to CAAT and to restore some lost benefits to our current members."

Regulatory issues

Prior to the 2015 changes, the regulations allowed for single-employer pension plans to merge with each other and with multi-employer schemes, but the mergers were subject to fairly strict rules, says Mitch Frazer, a partner at Torys LLP.

The Youth Services Bureau isn't the only plan to have taken advantage of the new rules. CAAT welcomed the Royal Ontario Museum plan in 2016 and, during an earnings announcement in February 2018, Torstar Corp.'s chief financial officer said the company was exploring a similar merger.

Despite the flurry of activity, it hasn't been all smooth sailing since Ontario's regulations took effect in 2015. Jim Keohane, president and chief executive officer of the Healthcare of Ontario Pension Plan, notes there were a few regulatory hurdles, including the commuted-value test set out in the original rules. "The legislation reads that you have to be at least as well off in the plan you're moving to as the one you're in," he says. "So under certain scenarios, like if you took early retirement and HOOPP didn't have early-retirement benefits for two years or something, there was a handful of people that didn't qualify. They weren't better off under that particular circumstance. . . . So the regulator said, based on that, we can't approve the merger."

The amended rules, which took effect in 2017, allow a jointly sponsored plan to use an alternative method of calculating commuted values for the purpose of a merger. The change ensured any transfer of pension assets didn't penalize plan members, says Frazer.

"That's the challenge, because you've got surplus and deficits and you're trying to make sure people's benefit moves with them exactly as it should," he adds.

The updated regulations also provided further clarity on a scenario in which a single-employer plan has insufficient assets to satisfy the amount needed for a merger by requiring the sponsor to pay any deficiency on or after the effective date of the transfer.

Benefits for everyone

Among the benefits for a single-employer plan of merging with a jointly sponsored one is the ability to hand over the administration and management of its pension arrangement. "Being able to move that to some of these bigger plans that have a much more robust governance structure, people that live it and breath it every day, is a welcome concept," says Mike Werbowecki, partner and vice-president of operations at CBA Canada.

In the case of the Youth Services Bureau, Richardson lists inflation protection, better communications, greater predictability of pension costs and portability as being among the benefits of joining the CAAT plan. Where plan members have had multiple employers, they can bring all of those funds into the plan, possibly changing the formula for their early-retirement date, he says. "With our plan, we could never consider doing buyback of previous service because we were just too small."

HOOPP members can have portable service among 550 different employers, says Keohane, who also lists a wider array of investment options at lower fees as a benefit. "Our costs are much lower in terms of operating, just because of our scale . . . and we have a much larger set of investment choices available because of our scale."

Only a few single-employer plans have made the move so far, but Frazer says more are considering a merger. "Consolidation is a positive trend for the pension industry. It makes it much more cost-efficient to run the plan by having one administrator rather than 10 administrators, and anything that makes it more cost-efficient is more likely to ensure that the recipients can continue in a defined benefit plan much longer."

Other issues to consider

While each jointly sponsored arrangement has its own requirements, one potential issue can arise with plans that are no longer open to new members, says Werbowecki, noting some larger organizations prefer to take an entire employee group. "I've heard conflicting things, that some of the multi-employer plans are saying absolutely no to a closed group, [that] it has to be all the employees at that employer or nothing. And I've heard some others [that would] have to look at it before considering whether taking it or not. That's potentially a roadblock for some plans coming over."

That's not an issue for CAAT, says Derek Dobson, chief executive officer and plan manager of the jointly sponsored plan. "We're actually excited about those types of situations, where they had a closure and they're running essentially two different benefit programs . . .. The employers are quite excited about getting back to one plan for all members . . .. There's no complexities there."

Other changes to consider are Ontario's proposed regulations around solvency funding, which may make it easier for single-employer plans to continue on their own, says Werbowecki. "Smoothing it out, having whatever they're going to end up with, some kind of going concern with a cushion in there is a welcome relief for some of the plans that we deal with, and it may slow down the move into the multi-employer plans."

But with the closure of Sears Canada Inc. demonstrating that the promise of a defined benefit plan is only as good as a company's longevity, Dobson notes the value of a merger with a jointly sponsored arrangement. "If any of our employers cease operations, there's zero impact on their benefit security." he says.

Jennifer Paterson is the managing editor of *Benefits Canada*: jennifer.paterson@tc.tc.

Wes Richardson is the director of finance at the Youth Services Bureau of Ottawa

ROUSSAKIS PHOTOGRAPHY

A CLOSER LOOK AT CAAT

Plan membership

46,300: Active, retired and deferred members as of Dec. 31, 2017

41: Employers in the plan as of Dec. 31, 2017

61.8: Average retirement age in 2017

21.7: Average years of service for members retiring in 2017

Contribution rates from each of employers and employees

11.2%: Contributions on earnings below the year's maximum pensionable earnings

14.8%: Contributions on earnings above the yearly threshold

Annual pension formula

1.3% of highest average pensionable earnings up to the year's maximum pensionable earnings, times pensionable service, plus **2%** of those above the yearly threshold

Plan status

$10.8 billion: Net assets as of Dec. 31, 2017

118%: Funded status on a going-concern basis as of Dec. 31, 2017