DALHOUSIE UNIVERSITY

Inspiring Minds

SUBMISSION TO
LAW AMENDMENTS COMMITTEE

BILL 96 – PENSION BENEFITS ACT

December 2, 2011

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Introductory Remarks

Thank you for this opportunity. In the time available, we want to provide some background on Dalhousie and our pension plan, provide support to the proposed changes to the Pension Benefits Act, particularly related to Jointly Sponsored Pension Plans and retirees, and we wish to underline that a solvency funding exemption is essential to enable Dalhousie to continue its contribution to our community. We will cover each in turn.

Dalhousie Information

Dalhousie University is one of the largest enterprises in Nova Scotia. We provide important public benefits in a variety of ways. We spend $600 million annually on our operations. We employ 5,750 full-time and part-time faculty and staff. This year we spent $75 million on construction activities, and over the next 5 or 6 years we plan to spend an additional $350 million – money that will be spent almost entirely in Nova Scotia.

According to a study recently completed by Gardner Pinfold and Associates, the impact of our activities is huge. Dalhousie generates $1 Billion of Nova Scotia's total GDP. We create over 10,000 jobs. And these jobs generate almost $600 million in wages for Nova Scotians.

Dalhousie purchases goods and services worth another $116 million annually. We currently do business with over 2,000 Nova Scotia companies. In the local businesses community, Dalhousie students spend an additional $88 million a year on rent, food, products and services. Visitors to our campus spend another $15 million annually.

While the province provides us with an operating grant of $168 million, our activities generate $243 million in tax revenue, $134 million for the Province and another $109 million for the federal government.

The provincial operating grant is approximately 30% of our revenue. The other 70% comes from a variety of sources – tuition fees, competitive research grants and contracts, our ancillary businesses and earnings on our endowment. We do not run deficits and we are aggressive at leveraging every cent of investment in our institution.

Dalhousie is in a competitive business. We belong to the U15 – the leading research intensive universities in Canada. We are the only university in Atlantic Canada that belongs to this group. Last year, Dalhousie's professors earned $132 million in competitive research grants and contracts, accounting for about three-quarters of the provincial university sector's research income. These grants essentially pay for research equipment and people working in labs and hospitals. These grants enable us to create an additional 1,100 research jobs on campus.

Dalhousie competes nationally, and increasingly internationally, for the best faculty, staff and students. In order to compete successfully and continue to deliver benefits for our community, we also have to ensure that Dalhousie is not disadvantaged relative to its peers by the pension regulatory system in Nova Scotia.

Dalhousie Pension Plan

Dalhousie offers a defined benefit pension plan to its employees. This is an important part of our total compensation package assisting us in recruiting and retaining high quality staff in all areas of our organization. The pension plan currently has just over 3000 active members, nearly 900 people drawing a pension, and nearly 800 former employees who retain an entitlement to a pension from the plan – nearly 5000 people with an interest in this plan.

Dalhousie currently pays annual pensions totalling $26.5 million directly from the plan. This does not include amounts that are transferred to those employees who, on retirement, withdraw their pension entitlements from the plan.

Both Dalhousie and its employees make significant annual contributions to the pension plan. Total contributions for this year are about $38 million, amounting to 18.36% of payroll. Dalhousie makes approximately $25 million in contributions, with employees providing the remaining $13 million.

As we noted, the plan is an important part of Dalhousie's commitment to its employees. The amounts paid to its staff following retirement are significant in allowing staff to enjoy their retirement years in dignity, as well as providing an additional economic contribution to our community. It is worth pointing out that the Dal pension plan has been in existence since 1960 and over the past 50 years, Dalhousie has consistently delivered on its pension promise to its employees and intends to continue doing so.

Current Funding Status

Regrettably, recent adverse events in the financial markets, beginning in 2008, have put Dalhousie's pension plan under significant financial strain. This is not unique to Dalhousie. Other large defined benefit pension plans in Canada and around the globe are facing very real challenges. We want to speak briefly about the current funded position of the Dalhousie plan so that members of the committee have some sense of the extraordinary challenges Dalhousie is facing.

Recently, we obtained an updated projection of the plan's financial position to the end of September of this year. At that point, our assets were approximately $735 million. Although a substantial amount, our pension plan liabilities are much greater. As of the end of September, the deficit in the plan, when calculated on a solvency basis, was approximately $270 million. If we had to file a valuation today under current solvency rules, Dalhousie's required contributions would more than triple, which would require us to find an additional annual contribution of $50 million.

An additional annual contribution of $50 million would present tremendous challenges. Under such a burden, Dalhousie would have to close programs and Faculties and lay off substantial numbers of people. $50 million is equivalent to the entire Faculty of Medicine, plus over half the programs in the Faculty of Health Professions. An additional annual contribution of $50 million would inevitably undermine our ability to compete, and endanger the public benefits that Dalhousie provides to our province. As a result, Dalhousie needs to evaluate this proposed legislation on the basis of its impact on Dalhousie's required pension contributions, ensuring both the sustainability and viability of the pension plan over the longer term.

New PBA

The Act currently proposed does provide an opportunity for solutions, but we do want to clearly state that much more work will need to be done to ensure regulations are enacted that are appropriately in the public interest, considering the broader contribution that Dalhousie makes to the province.

Recognition of Jointly Sponsored Pension Plans Welcome

The first major improvement is the recognition of new categories of pension plans. In particular, the formal recognition of jointly sponsored pension plans and the ability to prescribe new funding rules for those pension plans is a welcome innovation. Dalhousie wishes to enter into a jointly sponsored pension plan with its employees. This form of pension plan will enable a risk sharing arrangement with its employee groups in which the oversight and operation of the pension plan is fully shared between Dalhousie and its employee groups. This will lead to a regular and cooperative consideration of the benefits and costs of the pension plan, within the overall compensation program for the university.

Solvency Exemption Sought

Government has indicated a willingness to reduce the solvency funding for pension plans that are risk shared to 80% from the current 100%. Although this is obviously an improvement from the current full funding that is required, Dalhousie continues to seek an exemption from solvency funding.

Universities stand apart from private sector employers. Universities are stable, mature institutions. The risks of instability or closure that face other private sector employers do not threaten universities. Dalhousie has been in operation for 193 years. We have lands, buildings and endowments conservatively valued at $2 billion. The notion that under some remote theoretical scenario, the pension entitlements of Dalhousie employees may be at risk and therefore need the security of onerous additional solvency funding is simply ludicrous. In stark contrast, the requirement to provide solvency funding will cause impacts that are tangible, real, and immediate. The impacts will be felt by students, staff and our community.

Many provinces have recognized the stability of universities and have made changes to pension legislation specific to their needs. While Nova Scotia has provided some temporary measures, other provinces have gone further. Universities in Alberta, Quebec, New Brunswick and Manitoba are currently exempt from solvency funding valuations. Ontario is offering substantial additional flexibility. The absence of comparable relief for Nova Scotia universities offering defined benefit plans is a competitive disadvantage. It diverts operating expenses that should be spent improving academic achievement and enhancing the student experience. It is a policy that will have a real and negative impact on Dalhousie and all Nova Scotians.

The university sector in Nova Scotia competes with its peers beyond the borders of our province. To be nationally and internationally competitive, Nova Scotia universities must be able to attract students, faculty and research opportunities.

Further detailed discussions will be needed with government in order to ensure that the regulations, when enacted, are properly supportive of the interests of Dalhousie, its employee groups, and the public interest. In our submission, the framework should be fully supportive of the critical role of Universities in our community and not detract from it.

Government has also indicated that it presently intends to maintain the current funding standard for plans that operate on the employer sponsored model, as Dalhousie currently does. This new legislation underlines that it is imperative that Dalhousie and its employee groups move to a jointly sponsored arrangement. Dalhousie believes that a jointly sponsored governance model, combined with a solvency exemption, is the best option for ensuring the ongoing sustainability of Dalhousie's pension plan. A solvency exemption in these circumstances is fully justified and in the public interest based on the reality that the employer and the employee groups will be sharing the risk. The regulatory framework in these circumstances should enable the employer and employee groups to strike the appropriate balance. This sort of facilitative regulatory approach is in the public interest for an institution such as Dalhousie. An option of paying the additional annual contributions of $50 million is simply not in the interest of Dalhousie, its employee groups, nor in the public interest.

Recognition of Retirees

The Act also changes the status and treatment of retirees. There is now a new definition of "retired member" consisting of those who currently receive a pension from the pension plan. Dalhousie welcomes this change and considers this recognition to be appropriate. The Association of Dalhousie Retired Persons is an active association of retirees. They participate in our pension governance presently. There are nearly 800 people receiving a pension from the Dalhousie Plan and these individuals have a substantial stake in the success of the pension plan. We welcome this change.

Consultation on the Regulations Welcomed

We want to underline that we welcome the government's commitment to full consultation on the regulations. We understand that the regulations will be released in draft on December 7th. Based on the government's statement of principles to date, we expect that further significant discussions will be needed to ensure that the regulations, when ultimately enacted, are appropriate. Nonetheless, the government's commitment to consult with all significant stakeholders is welcome and appropriate.

Concluding comments

We hope we have provided some useful background on Dalhousie and our pension plan. We support the proposed changes to the Pension Benefits Act, particularly related to Jointly Sponsored Pension Plans and retirees, but wish to emphasize that a solvency funding exemption is essential for Dalhousie to continue to make its many contributions to our community. Thank you for this opportunity to provide these comments. We would be pleased to take any questions.