

## Recommendation to Joint Pension Board: Board Member Exhibit II Administration Fees for Former Members with Funds in the Plan

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### Summary

The Pension Plans allow for former staff and faculty who have terminated or resigned from their employment contract, to leave their funds invested in the pension plans, subject to an administrative fee, which is applied bi-annually to their pension accounts. Currently these members pay \$200 per annum, and this fee rate has not changed for 10 years. The actual cost of administering the program per active member of the plan is closer to \$348. It is recommended that the per annum fee be increased to \$400 to ensure the University is recovering the costs incurred relating to this arrangement.

### Recommendation

The administrative expense charge referenced in Section VI 5. of each of the Pension Plan for Administrative Staff and the Pension Plan for Academic Staff, be \$400 per annum or \$200 semi-annually, effective January 1, 2012. The first application of this new fee will be on June 30, 2012.

### Rationale

- These former members of our community are benefiting significantly from our services and our institutional investment management fees
- Some of these former members may have complex reporting and/or transaction issues that add to the administrative costs (e.g. FBAR for US citizens, marriage breakdown, service buy back information)
- Additional postal and hard copy supplies are incurred for these members who are not on campus
- The University and the Pension Board assume a risk associated with these members that is difficult to quantify in monetary terms. For example, as pension statute changes, we may need to report all plan amendments to these former members and respond to any objections they may voice.
- There are many alternative investment choices and significant portability options available to former member who have small accounts, such that this should not continue to be an attractive investment option for them
- The Human Resource department does not get allocated additional operating budget to support the services to these former members

### Relevant Policies and Statutes

*Pension Plan for Academic Staff, Pension Plan for Administrative Staff*

#### **Section VI Regular and Voluntary Contributions:**

The Regular Account or, if there is no Regular Account, the Voluntary Account of a Former Member of the University or a Participating Employer who terminated membership in the Plan before becoming eligible to retire in accordance with subsection (1) of Section VII **shall be charged semi-annually with an administrative expense charge in an amount to be determined by the Pension Board from time to time.** Such charge shall be effected by transferring units of one or more Investment Accounts from the Former Member's Regular Account or Voluntary Account, as applicable, to the General Account of the Pension Fund in such manner as may be determined from time to time by the Pension Board.

Recommendation to Joint Pension Board: *Board Member Exhibit II Administration Fees for Former Members with Funds in the Plan*

*Pension Benefits Act(Ontario) and Regulations*

“Default” pension statute is that the former employee is entitled to a deferred pension (written with Defined Benefit plans in mind) – but portability statute provisions allow for transfer out of the plan. We may force members to purchase a deferred annuity (however that is not currently in our plan documents). The Regulations allow for the administrator of the plan to paid a reasonable fee.

**Pension Benefits Act R.S.O. 1990,**

**Payment of administrative fees and expenses**

**22.1 (1)** The administrator of a pension plan is entitled to be paid from the pension fund the administrator’s reasonable fees and expenses relating to the administration of the pension plan and the administration and investment of the pension fund. 2010, c. 24, s. 8 (1).

**Data**

	Academic Plan	Staff Plan	Total
Number of Former members with \$	467	791	1,258
Total Account Value	\$42.0 million	\$39.5 million	\$81.5 million
Average Account Balance	\$90,200	\$50,000	\$64,800
Current Annual Fees	\$93,400	\$158,200	\$251,600
Projected Annual Fee	\$186,800	\$316,400	\$503,200
Current Annual Fee as % of Average Account	0.22%	0.40%	0.31%
Proposed Annual Fee as % of Average Account	0.44%	0.80%	0.61%

**Pension Administration Actual Expenses 2010 (from Published Financial Statements)**

	2010	2009
Administrative expenses incurred:		
Salaries and benefits	\$ 933,718	\$ 979,376
Other professional fees	522,631	423,525
HST accrual on deemed services	113,520	-
Systems and software	134,184	120,846
Office supplies and equipment	23,387	12,612
Filing fees	38,448	33,061
Audit fees	55,732	45,127
Professional development and membership	7,227	8,594
Member communications and education	7,473	11,309
	1,836,320	1,634,450

Cost per active member in 2010 \$348. \$400 per annum is a reasonable estimate of the administrative costs going forward, considering the operational costs have risen from year to year and the additional risk assumed through this relationship.

Recommendation to Joint Pension Board: *Board Member* Exhibit II  
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**Problems/Issues**

- Some former members will need to pay a higher cost (as a % of their account) to keep their funds in the plan

**Conflicts**

None declared.

**Implementation**

- Notify Former members of proposed fee increase in January 2012
- Build a web page to refer the former members to help them evaluate the advantages and disadvantages of keeping funds invested in the plan
- Prepare HR staff and forms to support potentially high volume requests for transfers for smaller account holders
- Modify projected recoveries for offset of expenses in the Corporate Benefits accounts