DFA
Dalhousie Faculty Association

Bargaining Bulletin

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DFA 2020 Bargaining Team

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Dalhousie Board of Governors Revises Monetary Offer

At our bargaining session on August 17, 2020, the Board presented a modified monetary offer that tied together their wage proposal and their pension proposals. The offer has five options, which are outlined later in this document. They all include:

- a three-year term with a reduction in salary in year one;
- no increase in salary in year two;
- no increase in salary in year three; and
- their proposal for "Cessation of Transfers" (referred to as a "limit on future indexing of pensions" in this article).

Each of the five options relates to the treatment of Canada Pension benefits in calculating pensions under the Dalhousie University Staff Pension Plan. All of these options refer to the formula used to calculate the amount of your pension when you retire. Other than Option 1, they would all reduce the pensions paid to DFA members.

This is a non-starter for your DFA Bargaining Team but it is nevertheless important that you understand what is being proposed.

Context

As you work at Dalhousie, you accrue a retirement pension. Changes to the pension rules cannot take away accrued rights to a pension. Any changes in pension rules apply to time worked after the change in the rules. This means that your pension at retirement will be calculated under the old rules for the years before a change, and under the new rules for years worked after the change. A change in rules will not affect those who have retired before the change, and it will affect members early in their careers more than those later in their years of service at Dalhousie.

Under the Pension Plan today, your pension is calculated by factoring the average of your best three years of salary, your years of service (to a maximum of 35), and a 2% multiplier for each year of service. For example, if your best three years' average salary is $150,000 and if you

served 35 years, your Dalhousie Pension would be $105,000 (i.e., 70% of $150,000). Your retirement income also includes a Canada Pension benefit, which is now roughly $14,000 per year starting at age 65. Members are also entitled to Old Age Security benefits, but in this example most of any Old Age Security benefits would be taxed back. In this example, you would retire with roughly 80% of your best average three years' salary (i.e., $105,000 from your Dalhousie Pension and $14,000 from Canada Pension for a total of $119,000). The addition of the Canada Pension benefit to your Dalhousie Pension is referred to as 'stacking' and it is a rare but attractive feature of our Pension Plan.

Canada Pension is funded only to cover incomes up to a certain amount - the Yearly Maximum Pension Entitlement (YMPE). This year, that amount is $58,700. Contributions are made by employees and employers to fund the Plan. In 2020, employers and employees will each contribute 5.25% of earnings up to the YMPE.

Canada Pension Plan (CPP) Integration

The Board's proposal to integrate the Canada Pension benefit with the pension calculated under the Dalhousie University Staff Pension Plan means that your pension under the Dalhousie Plan would be reduced by the Canada Pension benefit accrued after the rule change. Eventually, all Canada Pension benefits would be subtracted from the Dalhousie Pension. In the example above, overall annual retirement income would be reduced by roughly $14,000, assuming constant dollars: your pension would now be 70% of your best three years' salary rather than almost 80%. In other words, existing provisions for pension stacking would be reduced or eliminated.

Greatly oversimplified, this means that the pension calculation formula in the Dalhousie Plan would remain at 2% of your best three years' salary for service before integration with the CPP, but 2% would be reduced to 1.3% for earnings up to the YMPE for service after CPP integration. The full impact of Canada Pension Plan Integration on your retirement income would only be felt over time, depending on your age and years of service at the time of the CPP integration. Approximately half of the membership of the DFA Bargaining Unit is under age 50. Those members would see a more significant reduction in their retirement income than members who are close to retirement now.

CPP Enhancement

The context is more complicated due to recent enhancements to the CPP that are being phased in gradually. Improvements have been enacted in the CPP, which will increase the maximum pension from the equivalent of approximately $14,000 to $21,000 (in present dollars) over a 40-year period. This CPP enhancement is paid for by an increase in contributions from employers and employees to fund the CPP. Essentially, your Canada Pension contributions will increase from 5.1% of your earnings up to $53,900 in 2009 to 5.95% of your earnings in 2025 plus $388 based on a new second YMPE. Your contributions and those of the employer (Dalhousie) will each increase from $2,749 in 2019 to $4,327 in 2025.

These increases in CPP contributions will result in a very modest increase in Canada Pension benefits for retirees, which gradually improves over 40 years: returning to our example, after the phase-in is completed and if existing stacking provisions were to continue, your pension would be $105,000+$21,000 = $126,000 or 84% of

your best three years' salary. A new Dalhousie employee today will see an increase in their Canada Pension equivalent of roughly $8,000 in today's dollars after 40 years of service. Most of today's members will see little increase in the Canada Pension.

Any benefit of CPP integration to DFA Members would need to be viewed in the context of the reduction in Pension benefits (due to the removal of stacking) versus gains in wages that could be bargained because the Board would need to contribute less money to service the Dalhousie Pension Plan – in effect, the CPP would be used to subsidize rather than supplement your pension. Another way to analyze the cost/benefit relationship of CPP integration is to think about short-term gains (in the form of, perhaps, a better wage package) versus long-term losses (in the form of reduced pension amount, due to the loss of stacking). This trade-off forms the basis for the various monetary 'options' or 'packages' outlined below.

Board Proposal

It is important to note that each option below includes the Board's proposal to cease transfers within the Pension Fund (i.e., limitations to future indexing of pensions).

- Option 1
  Option 1 of the Board's proposal on August 17, 2020, repeats the now familiar demand for reduction in salary of 5% followed by two years of no increase in salary and the Cessation of Transfers proposal (limitations on future indexing of pensions) but no change to the "CPP status-quo". In effect, with Option 1, the Board has maintained its salary proposal but dropped CPP integration. Of course, it is important to remember that the initial proposal for a wage reduction was predicated on a 29% reduction in enrolment which has now been shown to be wildly inaccurate: enrolment is currently 3% higher than the same time last year although we await final numbers toward the end of September.

- Option 2
  Option 2 proposes to reduce salaries by 2% in year one, no increase in year two and no increase in year three, along with the proposed limitation on pension indexing, in return for integration of current (but not enhanced) CPP benefits and with the possibility of negotiating reduced employee contributions to the Dalhousie Plan.

- Option 3
  Option 3 of the Board's proposal is a salary reduction of 1% in year one, no increase in salary in years two and three, along with the proposed limitation on indexing, and full CPP integration including the CPP enhancement with the possibility of negotiating employee contributions to the Dalhousie Plan.

- Option 4
  Option 4 provides for the integration of the CPP enhancement only and a 4% reduction in salary in year one, no increase in salary in years two and three, the possibility of negotiating employee contributions to the Dalhousie Plan and the proposed Cessation of Transfers (i.e., limitation on future indexing of pensions).

- Option 5
  Option 5 is difficult to explain. It provides for a reduction of 1% in salaries for year

one, no increase in salary in years two and three, the possibility of negotiating employee contributions, and the proposed limitation on indexing in return for "reduced accrual in tiers". This means changing the pension formula for future earnings to 1.3% up to the second YMPE in the enhanced CPP.

The Board's perspective on all of these options is that each of them reduces the "Current Service Cost" required to be paid each year to fund the pension benefits in the Dalhousie Plan accrued during that year. In 2019, the employer contribution to the current service cost was $24,283,000. Each option reduces the employer contribution. For example, Option 3 of full CPP integration is calculated to require employer contributions of $14,921,000.

In discussions between the DFA and the Board on August 17, 2020, the DFA indicated that CPP integration was a non-starter. The DFA Bargaining Team rejects a reduction in retirement income by changing the pension formula, which has been in place for decades. The Dalhousie Staff Pension Plan is a critical part of the compensation for academic staff. We can see no valid reason to reduce future pensions.

Next Steps

Bargaining Dates: The teams meet again on August 31. Additional dates for September are being scheduled.

In the meantime, if you have questions or comments, you can email dfa@dal.ca or DFA President Dave Westwood at david.a.westwood@gmail.com.

Please stay in touch and up to date!

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