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Universities facing service cuts to climb out of 'pension abyss'

By JAMES BRADSHAW

Canadian institutions have found themselves in a collective $2.6-billion hole - and looking to provinces for exemptions on solvency rules

Canadian university pension plans have fallen into a collective $2.6-billion hole, and may have no choice but to cut services to begin climbing back out of it.

Most faculty and staff have defined benefit pensions, which promise a set retirement income based on service and salary. But those funds suddenly cratered when markets crashed in 2008, most losing 15 to 30 per cent of their value.

Now, provincial laws will force schools to find money to plug those holes - sometimes tens of millions of dollars a year - an untimely headache for institutions already warning of cuts to come due to static government grants, limits on tuition hikes and shaky endowment returns.

A Globe and Mail survey of more than 20 Canadian universities shows a combined pension plan solvency deficit of at least $2.59-billion, and since some schools last crunched their numbers before 2008, that figure could still grow.

Pension investments rebounded somewhat in 2009, but the long-term horizon is hardly any brighter. With a large proportion of long-serving faculty members across Canada nearing retirement, keeping plans fully funded costs more. Meanwhile, longer average lifespans have combined with rising wages and low interest rates to impose structural strains.

"I think [defined benefit] plans are suddenly going to cost more than they historically did," said Virendra Gupta, executive director of the Universities Academic Pension Plan (UAPP), which manages pensions for all Alberta universities.

Two years ago, Dalhousie University's $726-million pension plan lost 16 per cent of its value, leaving a $129-million solvency deficit - the amount that needs to be added so that if the university suddenly folded, it could honour the plan.

To comply with Nova Scotia law, Dalhousie would need to pump $12-million into its plan on top of regular contributions in 2011. That prompted university and faculty leaders to jointly ask for an exemption from solvency rules earlier this year. The province said no, instead granting a payment-free 2011 and ten years to make up the deficit, instead of the usual five years.

That still means some cuts are likely unavoidable, said Dalhousie assistant vice-president Katherine Sheehan.

"The only place that [money] could come from is our operating budget," she said.

The University of Toronto's pension fund was the hardest hit, losing 29 per cent in 2008. As a result, the school expects to owe an extra $50-million a year on top of $100-million it already contributes from a $1.5-billion operating budget. Since an arbitrator recently ruled against a proposed premium hike for faculty and librarians, cuts to services are the likely solution again.

This fall, Ontario temporarily eased pension requirements on universities to give them time to regroup, but U of T argues solvency tests make no sense for universities.

"We're not going to go out of business unless the government decides to put [us] out of business," said Cathy Riggall, U of T's vice-president of business affairs. "We can't just raise our prices to raise our revenue: The government controls our tuition levels, the government controls our grant funding, so they hold all the cards."

If exempted, U of T would only have to meet a potentially lower "going concern" threshold, which assumes the fund's continued survival when estimating how much money it needs. But its faculty association argues an exemption won't solve the problem.

"All that does is kick the can down the road," said George Luste, president of the University of Toronto Faculty Association.

Saskatchewan is in the midst of a three-year moratorium on solvency payments, while Manitoba and Quebec universities already enjoy permanent exemptions. So does Alberta's UAPP, which the employers and employees run jointly, making employees "part of the problem, part of the solution," Mr. Gupta said. But because UAPP lost 20 per cent in 2008, its employees now fork over nearly 2.4 per cent more of their salaries than they did two years ago.

The University of Western Ontario avoided the solvency dilemma by switching to a defined contribution plan, where eventual payouts are not guaranteed. Though Western's fund lost 20 per cent in 2008, the school has no obligation to restore it, a model some schools such as Simon Fraser University and McGill University are gradually adopting.

Come what may, Prof. Luste believes something must change to pull universities back from the "pension abyss," especially at U of T.

"[Our deficit] now is so large that I actually wonder whether the pension plan may not become, basically, the landlord of the university," he said.

A breakdown of the current outlook for select pension plans:

Toronto

Percentage loss, 2008: 29.1

Estimated solvency deficit: $1.1-billion

The University will seek temporary relief from Ontario on projected $50-million special payments.

Guelph

Percentage loss, 2008: 14.2

Estimated solvency deficit: $340-million

University officials hope relief from Ontario could cut annual special payments from $70-million to $15-million for three years.

Queen's

Percentage loss, 2008: 21.2

Estimated solvency deficit: $200-million

The deficit is based on 2009 estimates. Special payments have not yet been calculated.

Dalhousie

Percentage loss, 2008: 16.2

Estimated solvency deficit: $129-million

Dalhousie has negotiated relief with Nova Scotia's government to shrink projected $12-million payments.

Saskatchewan

Percentage loss, 2008: 11.1

Estimated solvency deficit: $100-million

A three-year solvency-payment moratorium imposed by the province has temporarily released the school from yearly $20-million infusions.

Manitoba

Percentage loss, 2008: 15.5

Estimated solvency deficit: $63-million

The University is exempt from provincial solvency laws, saving it from a $9.5-million annual special payment.

Waterloo

Percentage loss, 2008: 16.8

Estimated solvency deficit: $59-million

University officials expect to make special payments of $5.5-million per year.

Simon Fraser (Admin & Union)

Percentage loss, 2008: 15.9

Estimated solvency deficit: $21.7-million

This deficit is based on an outdated 2007 valuation and certain to change with the results of a 2010 review.

Trent

Percentage loss, 2008: 19.1

Estimated solvency deficit: $9.2-million

A Trent spokesman says the deficit figure, based on a 2007 evaluation, will "increase significantly" when new numbers come out at year end.

Western Ontario

Percentage loss, 2008: 20.2

Estimated solvency deficit: $0

Western operates a defined contribution plan for all new staff, while its old defined benefit plan is fully funded.

Sources: Canadian Association of University Business Officers and the universities.