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To mark its 15th year of publishing, **Benefits and Pensions Monitor** is featuring a series of conversations with people who have made a significant contribution to the industry.

Heather Gavin is uniquely qualified to head up the OPSEU **Pension** Trust. As a member of OPSEU's senior staff, she was a lead negotiator in establishing the trust prior to its launch in 1995 and served on its board for 10 years. Today, OPTrust administers one of Canada's largest plans with 77,000 plan members and **pensioners** and assets under management exceeding \$13.1 billion.

The following is an edited version of the conversation between Gavin and **Benefits and Pensions Monitor** Executive Editor Joe Hornyak.

BPM: You've actually come full circle. You worked on the labour side, helped with the creation of this plan, and now you're heading up the administrative side.

Heather Gavin: Actually, it's funny when you think about it that way. I moved from advocacy at the sponsor level to the other side, to the board of trustees. I was a board member up until shortly before I decided to throw my hat into the ring for this job. I left the board so that I could do that without a conflict. Then, I was lucky enough to be chosen to be the administrator of the plan in January 2006.

When I started out with OPSEU, the Ontario Public Service Employees' Union, I worked very closely with the membership, specifically, on pensions and benefits issues. In the '90s, there was a lot that was happening with public sector plans and OPSEU was in the lead in the areas of governance, plan design, and the running of large plans. I spent a lot of my time dealing with those issues.

BPM: How much have things changed during your time in the industry?

HG: I think that pensions and Defined Benefit plans, in particular, have certainly come a long way since the '80s. There were laws and regulations, but with the 1987 rewrite of the Pension and Benefit Act, I really think that spurred the development of specialization in the industry.

Plans have become larger and more complex to try and meet the needs of the individual members and, from the company perspective, to offer something to help attract and retain employees.

My experience has been with public sector plans which are, by and large, very different. They have always been designed as Defined Benefit plans and there has always been more of a public policy perspective with these plans.

BPM: Do employee attitudes towards pension plans differ in the public sector, compared to the private sector?

HG: I have yet to hear anybody say they came to work for the government because they have a good pension plan. What you will discover is that they later come to understand the value of having a good secure pension for their retirement in the future.

In large measure, I think that's because, and this is not uncommon in public sector plans, there is a matching employee contribution which creates a real sense of ownership. They put a significant amount of their wages into their pension and they see that coming off their pay cheque. It's not uncommon in these plans for that employee contribution to be anywhere from eight to 10 and, these days, 12 per cent.

BPM: How else do you feel that your background at OPSEU has helped you?

HG: I have an in-depth knowledge of both of the sponsors. Our board has two – the union and the government. I know what the needs of both sponsors are. I know their bargaining history, their approaches to pension governance, and how decisions that would affect the plan would likely be made. I think that certainly has helped.

BPM: In terms of the dividing line between sponsor decisions and your administrative decisions, do you find it's always clear cut or are there mechanisms in place here that ensure that they're clear cut?

HG: At OPTrust the roles and responsibilities of the sponsors, the trustees, and management are clearly defined based on the sponsorship agreement that the government and OPSEU worked out way back in the early stages. For instance, responsibility for questions such as the plan design, benefit levels, funding decisions, and the allocation of surplus falls specifically on the sponsors.

The trust, through our board of trustees, is responsible for the plan's funding valuations, the investment decisions to meet the pension obligations, and administering the benefits, as well as advising the sponsors on questions of plan design.

It is very clearly articulated as to who does what and it works out very well.

BPM: You report to the board on the administrative side of the trust and Morgan Eastman handles the investment side. What prompted this arrangement?

HG: OPTrust's governance structure was designed that way to create checks and balances.

This approach permeates our whole organization, starting right at the board. We have 10 trustees with an equal number appointed by the government and the union. The board's chair and vice-chair include one government and one union trustee. It is a model that requires trustees to work together to make decisions effectively.

With our internal structure, the administration and the investment divisions each have senior people reporting to the board through its various committees.

Our governance structure is also designed to take into account that we have a lay board. As with all boards, our trustees need to have the tools and information they need to make decisions in an appropriate and professional manner. To do this, our trustees receive an intensive orientation and ongoing education, and have access to information and advice from staff in both divisions and from independent professional advisors hired directly by the board.

BPM: What about lay boards? About 10 years ago, there was a lot of talk about requiring board members to get some sort of certification. In your view and experience, is there any benefit to this?

HG: I think it's a non-issue. Certainly there has been a lot of discussion in the industry on this issue, but I think it's now been dealt with and it's gone.

What you have to ensure in your governance structure is that the rules are clearly articulated as to who gets to do what and who's accountable for what. Under OPTrust's model, the board has the authority, the tools, and the support it requires to make prudent decisions in a timely fashion.

As an example, when I was a trustee, we determined that in the investment division, we wanted to implement more of a multilayer diversification process. In order to do that, we commissioned detailed research on a wide range of alternatives – including real estate, private equity, and infrastructure – to help and assist us in deciding the best way to implement that process.

BPM: Going forward, what is the next challenge for the administrative side of the trust?

HG: During our first 10 years of operation, we spent a lot of energy and effort setting up the cultures and the systems that we needed to make the plan successful. We had to develop our administration systems for the plan, clean and manage our member data, and provide quality services and communications to meet the needs of our members and employers.

More recently, we have adopted a proactive, life cycle approach to delivering services where we provide members with the information they need about their pensions and their options at the time they need it. We are also continuing to expand our use of web-based communications and interactive online services which give members the ability to log on and receive real time access to their data.

Increasing members' ability to access services and initiate transactions online is clearly the next wave.

BPM: Your plan has managed to stay in the black and to hold the line on contribution rates. To what do you attribute this success?

HG: OPTrust has been able to avoid the funding problems experienced by many other plans as a result of sound management of the plan's liabilities and prudent funding decisions by the sponsors. In particular, the sponsors adopted a conservative approach to the use of previous funding gains. That approach included setting aside approximately \$450 million in separate contribution stabilization reserves and avoiding permanent benefit improvements that could create major funding problems down the road.

Like other plans, we did experience significant investment losses in 2001 and 2002. However, the sponsors were able to use the stabilization reserves to make payments against the unfunded liability. As a result, we are on track to retire our unfunded liability by the end of 2007, without having had to either increase member and employer contributions or reduce benefits.

BPM: Will you be making a submission to the Ontario Expert Commission on Pensions?

HG: We will be making a detailed submission to the commission and are hopeful that this process will create an opportunity to address some of the significant issues facing the pension sector and Ontario's workers and employers.

One of the broad issues we are interested in addressing is the need to expand the coverage of DB plans. It is clear that, as a province, we are facing a serious problem as increasing numbers of Baby Boomers approach retirement without sufficient savings or pension income. Ensuring better access to DB pension plans offers an important way to provide income security to more workers in their retirement.

We'd also like to see some streamlining and clarification of the regulatory requirements under the Pension Benefits Act to reduce the administration costs that are often cited as a barrier to establishing new DB plans. ■

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Heather Gavin is chief administrative officer and plan manager for the OPSEU Pension Trust (OPTrust), which manages one of Canada's largest pension funds, with \$13.1 billion in assets under management and more than 77,000 members and retirees. Prior to joining OPTrust in January 2006, she spent 18 years as a senior administrator with the Ontario Public Service Employees Union (OPSEU). During her career with OPSEU, Gavin served as the union's lead negotiator in the establishment of joint trusteeship governance models for both OPTrust and the Hospitals of Ontario Pension Plan (HOOPP). She also served on the pension committees of both the Ontario Federation of Labour and the National Union of Public and General Employees. She has a wealth of direct experience in pension plan governance and administration, having served as a trustee and board chair at the Hospitals of Ontario Pension Plan from 1993 to 1994, and as a member of OPTrust's board of trustees from 1995 to 2005. She is currently a member of the Financial Services Tribunal of Ontario.