2012 Ontario Budget

Ontario

BACKGROUNDER

Ministry of Finance

PUBLIC SECTOR COMPENSATION

March 27, 2012

A Long-Term Plan for Public Sector Compensation

Ontario's economy is now growing in the wake of the global recession, but the Province is facing new economic and fiscal challenges. The economy is growing at a slower pace than projected in the 2011 Budget and the Province has a substantial deficit.

Today, the cost of servicing Ontario's debt is approximately $10 billion, the third-largest annual expense and one of the fastest-growing expenditures. To put this in perspective, Ontario spends more on interest each year than on colleges and universities. And for every one per cent increase in interest rates, the cost to service the debt would increase by $467 million in the first year of the increase. If no action is taken to balance the budget, Ontario would pay almost as much to service debt in 2017–18 as it spends on education today.

The status quo is not an option. Given the impact of the recession and the ongoing uncertainty in the global economy, Ontario cannot rely on economic growth alone to balance the budget.

If no action is taken, the deficit would increase, which would hurt Ontario's ability to continue focusing on its priorities: education, health care and smart, strategic investments to spur job creation. Escalating deficits would also impair the Province's ability to set and control its future priorities, choices and actions.

The government's five-year plan, which will keep Ontario on track to balance the budget by 2017–18, requires spending growth of less than one per cent a year on average between now and then, while ensuring long-term sustainability of core public services.

The Costs of Public Sector Compensation

Compensation costs account for over half of Ontario's program spending, either paid directly through the Ontario Public Service or as part of the government's transfer payments to schools, hospitals and other broader public sector partners.

A balanced approach must be taken to ensure that labour agreements are linked to public sector sustainability and improved productivity, that fiscal goals are met, the deficit is eliminated, and key services such as education and health care are preserved.

Compensation Framework

Agreements with three key groups will expire in 2012:

- ***Ontario Teachers and Other Education Stakeholders:*** the government has begun facilitating negotiations and discussions with school boards and unions. The government is proposing parameters that, if accepted, would allow full-day kindergarten to roll out as scheduled, keep class sizes at current levels and continue the focus on students and classrooms. This will help protect nearly 10,000 teaching positions, including 3,800 for full-day kindergarten and nearly 10,000 non-teaching positions, while sustaining and improving educational achievements.

- ***Ontario Doctors:*** payments to doctors under Ontario's health insurance plans represent $11 billion or 23 per cent of health care costs. The government has begun discussions with doctors in connection with the fee schedule for insured services and other issues, and is aiming, through discussions, to make health care better for patients while keeping total physician compensation at current levels.

- ***Ontario Public Service Employees:*** later this year, the government will be setting mandates to negotiate with OPS employees, represented by the Ontario Public Service Employees Union and the Association of Management, Administrative and Professional Crown Employees of Ontario. The government intends to negotiate agreements that are consistent with the fiscal plan while enhancing productivity and facilitating public sector transformation.

The government will continue to respect existing collective agreements in the broader public sector (BPS).

As agreements expire, the government expects all BPS partners to bargain responsibly, reflecting the fiscal circumstances of the Province and significant income and employment gains made over the past eight years.

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In future negotiations, the priority must be to ensure the long-term sustainability of Ontario’s public services and to protect the recent gains made. Public sector employers and bargaining agents should seek compensation agreements that allow the government to live within its fiscal plan while preserving results in Ontario’s schools, health care system and broader public services. As such, the government expects its partners to consider not only current and future compensation, but also those aspects of collective agreements that enhance productivity and facilitate public sector transformation.

Where collective agreements cannot be negotiated that are consistent with the fiscal plan and the shared objective of ensuring the long-term sustainability of public services such as education and health care, or in the face of significant disruption, the government is prepared to propose necessary administrative and legislative measures.

Beyond current and upcoming bargaining, there is a need over the long term to streamline public sector collective bargaining in Ontario. Currently, there are nearly 4,000 collective agreements in the BPS. To increase effectiveness and value for money, the government will move towards greater centralization of bargaining over time, reducing transaction costs for all parties to negotiations. It will conduct a review of collective bargaining best practices to determine the most appropriate path forward.

The government also recognizes the need for more transparency in collective bargaining outcomes. This includes the need to ensure that bargaining will be supported by better, publicly available data related to all elements of compensation, including wages, benefits and pensions.

The government’s fiscal plan provides no funding for incremental compensation increases for new collective agreements.

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Interest Arbitration

To make arbitration more transparent, accountable and efficient, the government is proposing legislation that would:

- Require written submissions by both parties in arbitration
- Require written rationales by the arbitrator when requested by either party
- Require that arbitration decisions be delivered in less than 12 months, subject to extension in exceptional circumstances.

In cases where a decision is not delivered within 12 months, the Ontario Labour Relations Board would issue the final award for the parties.

The government will also begin a dialogue with those employers with automatic access to arbitration about additional tools they may need to live within their funding envelopes while protecting services.

Ensuring the Sustainability and Affordability of Public Sector Pensions

Sustainability and affordability are key pillars of any pension system.

The Commission on the Reform of Ontario's Public Services forecast that, if no changes were made, the cost of pensions would nearly double between this fiscal year and 2017–18. Pension costs are one of the fastest-growing line items in the Budget. These rising costs, made worse by the global recession's impact on the pension plans' assets and low interest rate environment, make it more difficult to meet future pension obligations and maintain the results achieved in education and health care.

Strong action today will limit taxpayer exposure to pension costs, protect priority public services such as education and health care, and put pensions on a sustainable track for the future. The government is proposing the following actions to make public sector pensions more affordable for taxpayers and sustainable for pension plan members:

- ***Jointly Sponsored Pension Plans:*** the government will consult with its partners to develop a legislative framework involving the following parameters:
  - In case of a deficit, plans would be required to reduce future benefits or ancillary benefits before further increasing employer contributions
  - In exceptional circumstances, a limit would be set on the amount or value of benefit reductions before additional contribution increases could be considered
  - Any benefit reductions would involve future benefits only, not those that have already been accrued. Current retirees would not be affected
  - Where employee contributions are currently less than employer contributions, increased employee contributions would also be available as a tool to reduce pension deficits

  - Where plan sponsors cannot agree on benefit reductions through negotiation, a new third-party dispute resolution process would be invoked
  - The framework would be reviewed after the budget is balanced.

- ***Single-Employer Public Sector Pension Plans:*** as with jointly sponsored pension plans, the government believes that single-employer public sector plan members should share the ongoing cost of their pension benefits equally with the employer. These increasing employer pension costs are absorbing funding that is critically needed for public services.

  The government expects that single-employer public sector pension plans will move to a 50–50 cost sharing formula for ongoing contributions within five years.

  Building on the temporary solvency relief measures already in place, the government will create additional incentives for plans to move to equal contribution-sharing.

  Employers would continue to be responsible for plan deficits.

- ***More Efficient, Effective Pension Asset Management:*** research shows the benefits of scale in pension plan management. Larger size allows for more efficient internal management, as well as access to a broader range of investment options.

  - The government intends to introduce framework legislation in the fall of 2012 that would pool investment management functions of smaller public sector pension plans in Ontario. Under this framework, management of assets could be transferred to a new entity or to an existing large public sector fund. The government will appoint an adviser to develop recommendations for this framework, working with affected stakeholders and building on Ontario's internationally recognized model for pension plan management.

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Extending the Freeze on Executive Compensation

The government is continuing to take action to manage compensation costs by proposing to extend the pay freeze for executives at hospitals, universities, colleges, school boards and agencies for another two years. This would mean their pay will have been frozen for four years.

Regulations would also be proposed to capture certain other organizations and agencies such as Ornge, Local Health Integration Networks, the LCBO and the OLG. The extended freeze would also apply to office holders of these organizations who are full-time members of their governing boards.

It is also proposed that MPP pay would be frozen for another two years, bringing the total length of the pay freeze to five years.

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