

UWRA Annual General Meeting
May 20, 2020

Report of the Pension & Benefits Liaison Member of the Board of Directors

1. The State of the UW Pension Funds as of January 1, 2020

The University's retiree pension benefits are paid out of two funds: the Registered Pension Plan (RPP) and the Payroll Pension Plan (PPP). Each has been subject to a hard limit (cap) on maximum pension payable per year of service. In addition, RPP is subject to yet another limit specified by the Income Tax Act, which is indexed annually by the increase in the average industrial wage. Pension benefits earned prior to January 1, 2014 are fully protected against inflation rates of 5% or less, while those earned after January 2014 are guaranteed indexation of 75% for the same rates.

The state of a pension plan may be gauged by the market value of fund assets as well as its actuarial valuation. The University must periodically (once in three years) file with the government the results of its actuarial valuation of the RPP. Such submissions are not required for the PPP. The most recent valuation filing concerned the state of the plan on January 1, 2018.

Actuarial valuations are carried out on several bases, each providing a different perspective: Going Concern, Solvency, and Wind Up. The Going Concern basis assumes the University will remain in operation for the foreseeable future.

Of necessity actuarial valuations are based on a number of demographic and economic assumptions that combine actual experience with future expectations. Among these, assumptions regarding the rate of return on pension assets, the rate of inflation and the interest rate are perhaps the most crucial.

This year, the mortality table has been updated to reflect greater longevity, and there are new retirement assumptions using rates by age. As well, the impact of recently-approved changes to member contributions and the RPP cap are included in the assumptions.

The draft January 1, 2020 valuations below were presented in March 2020.

(i) RPP – Going Concern

As of January 1, 2020, the actuarial value of assets in the plan was \$1.941 b, up from \$1.694 b a year earlier. With estimated liabilities at \$1.869 b plus Provision for Adverse Deviation, the valuation showed a deficit (unfunded liability) of \$73.7 m compared to that of \$147.3 m on January 1, 2019. The asset mix on December 31, 2019 was: Cash (11%), Fixed Income (35%), Equity (45%) and Alternatives (9%).

(ii) PPP - Going Concern

As of January 1, 2020, the market value of assets was \$43.660 m. The accrued liabilities amounted to \$28.492 m, implying a funding excess liabilities of \$15.168 m. The PPP valuation is not filed with the regulators.

(iii) University contribution for 2020

The University will in 2020 contribute 1.58 times the total of member contributions, to pay the University current service cost under RPP, plus statutory special payments to amortize unfunded liability, plus additional contributions allocated to fund the unfunded liability.

2. Benefits Adjustments

(i) The Cost of Living Adjustment (COLA) is automatically applied to pensions, and no action is required. Effective May 1, 2020 pension payments increased by 1.95% and 1.46% respectively for benefits earned before and after January 1, 2014.

(ii) The extended health care benefits maxima increased on January 1, 2020 based on one-year inflation results for the various services. The new maxima can be seen at:

<https://uwaterloo.ca/human-resources/support-employees/benefits/annual-benefit-maximums>

3. Government Pension Plan Initiative

The Ontario government is supportive of the idea of jointly sponsored pension plans (JSPPs). The University Pension Plan (UPP) has now been established, with members Queen's University, University of Guelph, and University of Toronto. The Board of Trustees was appointed as of January 1, 2020, and the UPP is expected to be in operation on July 1, 2021.

<http://www.universitypension.ca>

4. Pension Investment Committee (PIC)

The new Pension Investment Committee, with mandate to advise the Pension and Benefits Committee on investments and related matters, has now been formed. The UWRA appointee to this committee is University Professor Emeritus Phelim Boyle.

5. Holistic Benefits Review

In 2017 a plan was developed and work initiated to review the benefits (mainly the group benefits) offered to employees and retirees. This review was to encompass plan benchmarking, potential options for plan redesign, and marketing of benefits. The benchmarking exercise (comparison with plans of other employers) was completed in 2018, and a Working Group was formed last year to consider and investigate possible plan changes on the health care and insurance side. UWRA Board member Stewart Forrest and I are alternating members of this group. The Working Group carried out a survey of active employees and retirees to learn how they viewed the current benefits and what they might be willing to trade for improvements. The Working Group is now considering options for plan redesign, their cost and feasibility.

6. P&B Committee Report to the Community (annual)

A detailed report of the activities of the Pension & Benefits Committee in 2019 is available on the committee's website.

As noted in that report, a major effort of 2019 concerned changes to the design and funding of the pension plan, based on recommendations by a working group of the committee and led by the plan's consultant Aon. The aims were to improve the funding of the plan and to return to an equal sharing of current service costs between the university and plan members. This led to a proposal to increase employee contributions and reduce the number of employee contribution levels from three to two, while maintaining the employer contributions. Consultation sessions led by Aon and open to all employees and retirees were carried out in December 2019. The Board of Governors approved the changes at its February 2020 meeting. **None of the changes has any impact on the pensions of those already retired.**

Mary Thompson (Pension and Benefits Liaison Member)