

UWRA Annual General Meeting
May 19, 2021

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

As background to some items of this report, it may be noted that in 2019 the Ontario government passed **Bill 124: *An Act to implement moderation measures in respect of compensation in Ontario's public sector.*** Under this Bill, the University has entered a “moderation period” of three years during which salary rate and compensation increases are limited to a maximum of 1 per cent for each of the years.

1. The State of the UW Pension Funds as of January 1, 2021

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 starting 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. Following changes made in 2019, contributions to the Payroll Pension Plan are now being phased out, as its cap is expected to be reached by the Income Tax Act maximum by 2023. 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. The most recent valuation filing was made last year and concerned the state of the plan on January 1, 2020.

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. The Solvency and Wind Up valuations assume that the University is closing the RPP, and measure the extent to which the liabilities can be met. The Wind Up valuation includes the indexation under the plan, while the Solvency valuation does not.

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.

Last year, the mortality table was updated to reflect greater longevity, and new retirement assumptions using rates by age were introduced. As well, the impact of 2019 changes to member contributions and the RPP cap are included in the assumptions.

The January 1, 2021 valuations below were presented in March and May 2021.

(i) RPP – Going Concern

As of January 1, 2021, the actuarial value of assets in the plan was \$2.105 b, up from \$1.939 b a year earlier. With estimated liabilities plus Provision for Adverse Deviation (PfAD), the valuation showed a deficit (unfunded liability) of \$89.4 m compared to that of \$76.0 m on January 1, 2020. The asset mix on March 31, 2021 was: Cash (1.8%), Fixed Income (33.5%), Equity (55.7%) and Alternatives (9%).

(ii) PPP - Going Concern

As of January 1, 2021, the market value of assets was \$45.872 m. The accrued liabilities amounted to

\$25.300 m, implying funding in excess of liabilities of \$20.572 m. The PPP valuation is not filed with the regulators.

(iii) RPP – Solvency

As of January 1, 2021, the solvency ratio (extent to which liability is funded) was 87%, down from 90% at January 1, 2020.

(iv) University contribution for 2021

The University will in 2021 contribute \$65,289,000 to the RPP. Under a set of assumptions taking Bill 124 into account, the University will be paying 1.23 times employee contributions for benefits accrued during the year, but also allocating \$9,264,000 to pay statutory special payments to amortize unfunded liability, and an additional voluntary \$2,033,000 to further amortize the unfunded liability. In total, the University will be paying 1.48 times employee contributions.

2. Benefits Adjustments

(i) The Cost of Living Adjustment (COLA) is automatically applied to pensions, and no action is required. Effective May 1, 2021 pension payments increased by 0.717% and 0.538% respectively for benefits earned before and after January 1, 2014.

(ii) The extended health care benefits maxima increased on January 1, 2021 based on one-year inflation results for the various services, and some were increased further as of May 1, 2021, as a result of the Holistic Benefits Review. 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 on track 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, was formed in 2020. It is chaired by Sheryl Kennedy of the Board of Governors. The UWRA appointee to this committee is University Professor Emeritus Phelim Boyle.

This committee and the Finance and Investment Committee are working together to implement the University’s ESG (Environmental, Social, Governance) policy. In fact, F&I now has an Advisory Group on Responsible Investment, and this group aims to present a report with recommendations to the Board of Governors at a forthcoming meeting of the Board.

An asset-liability study has been completed, and recommendations for a new target asset mix have been brought to the Pension and Benefits Committee.

The PIC is reviewing the other parts of the Statement of Investment Policies and Procedures (SIPP) as well, and expects to come forward with recommended changes in the Fall of 2021.

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 in 2019 to consider and investigate possible plan changes on the health care and insurance side. UWRA Board member Stewart Forrest and I have served as alternating members of this group. In 2019 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. In December 2020 the Working Group brought forward to the Pension and Benefits Committee and the community a set of changes to the Group Health Benefit. These changes were approved by the University Board of Governors on February 2, 2021. An additional vision care (eye examination) benefit was approved by the Board of Governors on April 6, 2021. All of these changes took effect May 1, 2021. The Working Group is now tasked with looking at possibilities for implementation of some of its supplementary recommendations, to the extent that the limits of Bill 124 would allow.

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

A detailed report of the activities of the Pension & Benefits Committee in 2020 is available on the committee's website.

Mary Thompson (Pension and Benefits Liaison Member)