

UWRA Annual General Meeting
May 23, 2018

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

1. The State of the UW Pension Funds as of January 1, 2018

The University's retiree pension benefits are paid out of two funds: the Registered Pension Plan (RPP) and the Payroll Pension Plan (PPP). Each is subject to a hard limit 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, 2017.

Actuarial valuations are carried out on several bases, each providing a different perspective: Going Concern, Solvency, and Wind Up.

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. The service costs below reflect the new funding rules of Section 2.

(i) RPP – Going Concern

As of January 1, 2018, the actuarial value of assets in the plan is \$1.632 b, up from \$1.474 b a year earlier. With estimated liabilities at \$1.664 b, the valuation shows a deficit (unfunded liability) of \$31.7 m compared to that of \$112 m at last filing in 2014 (includes funding reserve of \$44 m). It was thus 98% funded. The asset mix on December 31, 2017 was: Cash (10%), Fixed Income (38%), Equity (41%) and Alternatives (11%). For 2018 the current service cost to the university is \$70m, representing 8.42% of member pensionable earnings or 114.3% member required contributions.

(ii) PPP - Going Concern

As of January 1, 2018, the market value of assets was \$41.266 m. The accrued liabilities amounted to \$47.095 m, implying unfunded liabilities of \$5.829 m. The current service cost to the university is \$1.833 m or 0.41% of pensionable earnings. PPP valuation is not filed with the regulators.

For more details of these valuations, see:

<https://uwaterloo.ca/secretariat-general-counsel/committees-and-councils/pension-benefits-committee>

2. New Ontario Defined Benefit Pension Funding Rules

Under new regulations announced in late 2017, special payments are required to reduce funding deficits on a solvency basis only if needed to improve the fund's status to 85%; the UW RPP is funded at 87% on a solvency basis in the last valuation and the university will not have to make such payments. However, there *will* be special payments to increase *going concern funding* to include not only deficit elimination but also the funding of a reserve, called the Provision for Adverse Deviation (PfAD). According to current formula, the PfAD for our RPP will be 8.5% on non-indexed liabilities.

3. Benefits Adjustments

(i) The Cost of Living Adjustment (COLA) is automatically applied to pensions, and no action is required. Effective May 1, 2018, pension payments increased by 1.60% and 1.20% respectively for benefits earned before and after January 1, 2014.

(ii) The extended health care benefits maxima increased on January 1, 2018 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>

4. Government Pension Plan Initiative

The Ontario government continues to be supportive of the idea of jointly sponsored pension plans (JSPPs). There has been one concrete development: Queen's University, University of Guelph, and University of Toronto are working together to form a JSPP known as the University Pension Plan (UPP) – Ontario, and once it is established, other universities will be able to join.

<http://www.universitypension.ca>

5. Responsible Investing Working Group

The Responsible Investing Working Group (RIWG), constituted by the Board of Governors, was put in place in 2016. The Working Group will be reporting to the Board of Governors at its meeting of June 5, 2018, and will be publicly available when the agenda of that meeting is posted. The terms of reference for the working group can be found at <https://uwaterloo.ca/secretariat/news/responsible-investing-working-group>

6. Holistic Benefits Review

In 2017 a plan was developed and work initiated to review the benefits (pension and group benefits) offered to employees and retirees. This review will encompass plan benchmarking, potential options for plan redesign, and marketing of benefits. It is expected that input will be sought from stakeholders. It is anticipated that the entire process will run until 2019-20.

7. P&B Committee Report to the Community

A detailed report of the activities of the Pension & Benefits Committee in 2017 is available on the committee's website.

https://uwaterloo.ca/secretariat/sites/ca.secretariat/files/uploads/files/pb_report_to_the_community_2017_date_2018-01-26.pdf

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