UWRA Annual General Meeting

May 18, 2016

Report of the Pension & Benefits Committee Liaison

1. The State of the UW Pension Funds as of January 1, 2016

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 the 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 from January 1, 2014 are guaranteed indexation at only 75%.

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.

Actuarial valuations are carried out on several bases, each providing a different perspective: Going Concern, Solvency, and Wind-up. The Going Concern basis is mandatory for filing purposes in Ontario.

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 the most crucial.

<u>(i) Investment Performance</u>

Calendar 2015 was not a good year; the fund rate of return was 5.5% (8.2% excluding currency overlay/hedging), generating assets of $ 1.403 b at market value as of January 1, 2016. The asset mix on the last day of 2015 was: Cash (11.2%), Fixed Income (42.8%), Equity (37.8% including 3.3% in Canadian equities) and Alternates (8.1%). Although the return rate of 5.5% was marginally higher than the five year target rate (inflation plus 3.75%) of 5.3%, it was below expectations and not entirely satisfactory.

<u>(ii) RPP - Going Concern</u>

All of the crucial assumptions, except one, were exactly the same as those utilized in 2015; the expected real rate of return was lowered from 3.75% to 3.7%, resulting in a rate of 5.7% for discounting liabilities. Also, as in 2015, a sum of $44 m was set aside as a reserve for recognition in future years, implying the actuarial value of assets as of January 1, 2016 at $ 1.358 b. With liabilities estimated at $1.464 b, a plan deficit or funding shortfall of $106 ($62 m if the funding reserve was counted) would remain.

The university will maintain its contribution at the level of 163% of member contributions. Increasing the current service cost to the university to 7.96% of members' pensionable earnings or to 108.4% of members' required contributions.

<u>(iii) PPP - Going Concern</u>

With assets of nearly $34 m at market value and estimated liabilities of $35, a funding shortfall of $1.0 was forecasted. The resultant current service cost to the university was estimated at $1.6 m or 0.4% of pensionable earnings.

<u>(iv) RPP Solvency and Wind Up</u>

With assumed wind-up expenses of half a million and no funding reserve, the market value of assets turned out to be $1.402 b. The respective estimated liabilities were $1.690 b and

$2.290 b, suggesting corresponding funding shortfalls of $288 m and $888 m resulting in solvency ratio of 0.83 and wind-up transfer ratio of 0.61.

Greater details are available on
https://uwaterloo.ca/secretariat-general-counsel/committees-and-councils/pension-benefits-committee

2. Benefits
(i) As you have already been informed, COLA adjustments made to your monthly pension payments effective May 1, 2016 reflect 1.13% increase to benefits earned up to December 31, 2013, and 1.13 x 0.75=0.8475% to benefits earned thereafter. These are automatic adjustments.

(ii) There were no noteworthy developments re other benefits, namely, the extended health-care benefits. The continually increasing costs of these benefits, including claim settlements and admin charges, continue to be of concern. Details of current benefits and current maxima can be found at
https://uwaterloo.ca/human-resources/retirees

3. P & B Committee Governance
In February, the administration proposed to bring about changes in the Committee's governance aimed at significantly altering the composition and mandate of the Committee. The ensuing discussion revealed that all of the campus employee groups (FAUW, Staff Association, CUPE and St. Jerome's Faculty Association) and the retirees were of one voice in their surprise at and general dissatisfaction with the proposed changes. The Presidents of FAUW, The Staff Association, CUPE and UWRA and a representative of St. Jerome's Academic Staff Association subsequently met with President Hamdullahpur, successfully securing the assurance that the University would not bring about any of the proposed changes without full consultation with and agreement of all of the stakeholder groups, including the retirees.

4. Government Pension Plan Initiative
(i) The Wynn government remains committed to the ORPP as witnessed in its April 14, 2016 Bill 186. Earlier it had postponed its implementation of the plan by one year in the hope that Ottawa might decide to expand the CPP.

(ii) Six Ontario universities are seriously considering a joint plan.

Those interested in following the issue more closely may benefit by periodically checking out
http://www.ocufapensionreview.ca/

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