Pension and Benefits
Report to the UWRA Annual General Meeting, May 15, 2024

1. Pension Indexing

Since inflation (computed according to the pension-plan formula) was 6.8% in 2022, exceeding the 5% indexing guarantee, P&B needed to make a decision on indexing last year. The decision was to index all pensions at 5%, which was nearly full indexing for pension earned in 2014 and later (indexing at 75% of inflation), but leaving a gap of 1.8% for pension earned earlier. There is a commitment, required by the pension plan, to make up the "missing" indexation later.

Inflation declined substantially in 2023, to 3.90%, so full indexing applies, that is 3.90% for pension earned prior to 2014 and 2.93% for pension earned later. Given the current financial state of the University, P&B decided not to catch up the missing indexation. The commitment still exists and the actuaries are valuing the pension fund on the basis that the missing indexation will be dealt with in the near future, but that doesn't guarantee it will happen next year.

2. State of the Pension Funds as of January 1, 2024

The consulting actuaries provide a full actuarial valuation of the pension fund annually and a "Pension Dashboard" update quarterly. In each case, four scenarios are considered: Going Concern, which assumes the University will continue to operate and investments will perform as expected; Risk-Free, which assumes only assets that are (nearly) risk-free will be used for investments rather than the actual asset mix; Hypothetical Wind-Up, which assumes the University ceases to operate and current and future pensions must be paid from current assets; and Solvency, which is like Hypothetical Wind-Up, but pension indexing is ignored in determining liabilities. Note that these are abbreviated descriptions, written by a non-actuary.

The value of the pension fund generally increased throughout 2023, increasing each quarter other than the third. Market conditions at the end of September affected the third-quarter valuation significantly, but improved by the end of the year, with the final quarter significantly higher than the second quarter. The value of the pension fund increased about $286M during the year.

I will focus on two of the valuations described above: Going-Concern and Solvency. Although Solvency seems rather artificial, it is of practical significance, as described below. The valuation effective January 1, 2023 showed a deficit for the Going-Concern valuation but a surplus for the Solvency valuation. During 2023, the Going-Concern valuation improved in most quarters, moving into a surplus by year end. The Solvency valuation ended the year with a slightly worse valuation than at the start of the year, but still with a significant surplus.

The Solvency valuation determines, in part, the University's premium payment to the Ontario Pension Benefit Guarantee Fund (OPBGF). This is essentially an insurance plan providing some modest assistance to employees and retirees when their employer is unable to meet defined-benefit pension obligations, e.g., by going bankrupt with an underfunded pension plan. Since the University does not have a Solvency deficit, the premium payment to OPBGF is quite small.

The above concerns the Registered Pension Plan (RPP). There is also a (non-registered) Payroll Pension Plan (PPP). It was created when the Income Tax Act (ITA) capped pension payments at a lower value than provided by our pension plan, for some higher-income employees. The PPP was created to provide a portion of the "missing" pension. Because of changes in the ITA, that is no longer a problem, so the PPP is required only to pay pensions to retirees affected by the ITA cap when they retired. It turned out that the PPP had assets more than double the amount required. P&B decided to transfer the excess gradually into the RPP, as additional University contributions, and the PPP now has assets about 50% above what is required.

The expectation is that employee contributions to the RPP will be $52.9M in 2023, with University contributions of $73.2M, amounting to 138% of employee contributions.

Some details about the Going-Concern and Solvency valuations (as of January 1, 2024) are presented below. Much more detail may be found on the P&B web site.

(i) RPP: Going Concern
The actuarial value of the assets was $2.416B and the liabilities were $2.316B. The computation of the surplus or deficit also involves a Provision for Adverse Deviation (PfAD), essentially an allowance that assumptions may be slightly optimistic. Here the PfAD is $188M, yielding an unfunded liability of $89M. This represents a funded ratio of 96.3%, which apparently contradicts the "surplus" in the summary above. The full actuarial valuation involves new interest-rate assumptions, which this year increase the liability and change a small surplus in the quarterly report into a small deficit in the full actuarial valuation. Those new interest-rate assumptions will be used in the quarterly reports for 2024.

(ii) PPP: Going Concern

The actuarial value of the assets was $34.5M and the liabilities were $22.2M. The funded ratio is very high at 155%. As indicated above, there are currently no contributions to the PPP; it is simply providing payments to some retirees.

(iii) RPP: Solvency
The actuarial value of the assets was $2.416B and the liabilities were $2.221B, giving a surplus of $193M and a funded ratio of 108.7%.

3. Possible Pension-Plan Changes

P&B spent considerable time during 2023 looking at possible structural changes to the pension plan: responding to changes in the Canada Pension Plan (CPP), possible changes in the way pensions are indexed, and looking at the University Pension Plan (UPP).

The CPP is adding a new Year's Additional Maximum Pensionable Earnings (YAMPE) to the existing Year's Maximum Pensionable Earnings (YMPE). The UW Pension Plan uses YMPE in determining both contributions and pension payments. P&B considered changing this to the new YAMPE but decided against making a change. The difference to employees and pensioners would not have been very large and making the change would have created ongoing complexity in managing the pension plan.

A proposal was presented to P&B to change the way pensions are indexed, making indexing for lower-paid employees more generous but less generous for higher-paid employees. When this proposal turned out to have very little support, P&B decided not to pursue it.

A really major change would be to move UW into UPP. After two presentations by UPP representatives in the preceding year, P&B had several presentations on UPP by our consulting actuaries. The presentations gave a clearer picture of the way UPP compares with our current pension plan. On the whole, they are quite similar in structure, with slightly higher premiums and pension payments in UPP, but with numerous differences of detail. Two important details: the higher premiums and pension payments are most significant at lower income levels and the UW plan has generally better provisions for early retirement.

Numerous aspects of UPP are concerning. (1) Indexing for pensions in pay is the same as for pension being currently earned in the UW plan: 75% of inflation. Unfortunately, when inflation is high, that is essentially an aspiration for UPP, whereas the UW plan must eventually make up any "missed" indexation. (2) If the pension plan gets into serious trouble, possibly resulting in the plan's being wound up, UW is required to make up any deficit when the plan is wound up, but no such guarantee exists for UPP. (3) The governance structure for UPP treats non-union staff rather poorly. ("Staff" in the narrow sense; for faculty, union versus non-union apparently doesn't make a difference.) Retirees are entirely unrepresented. (4) It is not clear the governance structure is adapting well as the number of universities in UPP increases.

4. Benefits Changes

I reported a year ago that there were problems with GreenShield (called Green Shield Canada at the time), our new carrier for extended-health coverage as of January 2023. GreenShield representatives attended the September P&B meeting. We obtained some clarity on their handling of off-label prescriptions, but did not reach a satisfactory resolution. For another key problem area, pharmaceutical compounding, GreenShield indicated they were developing a new policy that would (possibly) resolve our concerns. It was supposed to be available in early 2024, but they missed their own deadline and it is now promised by the end of June. An additional problem that has subsequently become prominent is the GreenShield call centre, which appears to be understaffed and at least occasionally is providing bad information. Of course, the call-centre problems were even worse when it was shut down by a seven-week strike during March and April. We have been informed that GreenShield is adding staff to the call centre.

As I said a year ago, plan members who are experiencing difficulties should discuss them with GSC. If that does not lead to a successful resolution, University HR should be contacted. They may be able to help and it is important that they have a complete picture of any problems individuals are experiencing.

P&B recommended some changes to the coverage for in-vitro fertilization, so that exhausting OHIP coverage first is no longer required. That apparently innocent requirement turned out to be problematic in practice. The Board accepted these changes.

By this time in the year, there normally would be a small suite of changes to extended-health coverage. This year, because of the University's financial situation and the lack of salary settlements, potential benefit changes (among other things) are on hold waiting for clarity once salary settlements are determined.

5. Miscellany

The membership of P&B has traditionally included representatives from the four "stakeholder" groups: faculty, non-union staff, CUPE 793, and retirees. The University police recently joined OPSEU (Ontario Public Service Employees Union) and P&B has agreed to add an OPSEU representative to the committee membership. There is concern that as the number of employee unions increases, P&B could become unworkably large.

A report of the activities of the Pension and Benefits Committee in 2023 is available on the Committee's web site:
https://uwaterloo.ca/secretariat/sites/default/files/uploads/documents/report-to-the-community-2023.pdf .

David Taylor, Retiree representative on the Pension and Benefits Committee