UWRA Annual General Meeting

May 27, 2015

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

**1. The State of the UW Pension Funds as of January 1, 2015**

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 only 75% for the same rates.

The state of the funds is reflected in their actuarial valuations. By necessity such valuations are based on a number of demographic and economic assumptions that combine actual experience with future expectations. Among these, the rate of return on pension assets, the rate of inflation and the interest rate are perhaps the most crucial.

The actuarial valuations may be 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.

(i) RPP Going Concern

The rate of return for calendar 2014 was 9.43%, generating assets of $ 1.316 b at market value as of January 1, 2015. The asset mix on December 31, 2014 was: Cash (11%), Fixed Income (45%), Equity (35%) and Alternatives (8%). Out of this fund, a sum of $44 m is being kept as a reserve for recognition in future years, implying the actuarial value of assets as of January 1, 2015 at $ 1.272 b. The funding reserve is nearly equal to the capital gains realized from the sale of real return bonds held in the fund. The annual rate of inflation, as determined by CPI, was set at 2.0%; implying increase in YMPE (Yearly Maximum Pensionable Earnings under Canada Pension Plan) of 2.75%, increase in employee salaries of 4.0% and the liabilities discount rate of 5.75%. With most other variables unchanged from the previous valuation, total liabilities amounted to $ 1.384 b, leaving unfunded liability or deficit of $ 112 m compared to $ 149 m last year. However, if the funding reserve is taken into account the unfunded liability or deficit declines to $ 68 m on market value basis.

The implicit university current service cost of the RPP increased to 7.92% of members’ pensionable earnings, or to 107.8% of members’ required contributions.

(ii) PPP Going Concern

PPP is an internally managed fund and is not required to file. As of January 1, 2015, the fund had a funding excess of $ 2.5 m, with market value of assets at $ 34.0 m and accrued liabilities of $ 31.5 m.

The implicit university current service cost was 0.44% of pensionable earnings. This implied combined university service cost of 8.36% of pensionable earnings.

The university, however, would continue to contribute at the rate of 163% of the members’ contributions with all of the contributions going to the RPP.

(iii) RPP Solvency and Wind Up

Under these calculations liabilities increased to $ 1.521 b for solvency and $ 2.251 b for Wind Up, with unfunded liabilities rising to $ 205 m and $ 935 m respectively on market value basis. Total assets of

$1.316 b net of wind up expenses implied solvency and transfer ratios of 0.87 and 0.58, both slightly lower than at last filing.

(iv) The return rate of 9.43% is not something to sniff at. Yet, in the light of recommended benchmarks and the state of the market, it was not very satisfactory either. Fund managers’ performance and the overall investment strategy have been constant sources of worry and discussion to the Registered Pension Plan Investment subcommittee (RPPI).

For more details of these valuations, check out:

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

**2. Benefits**

(i) The costs of extended health-care benefits have continued to increase steadily. At the last review, 70% of these costs were accounted for by prescription drugs and the top 10 therapeutic classifications by amount paid were responsible for 57% of the claims. While this might raise issues of lifestyle choices, the experience was not different from that of other businesses.

(ii) At its September 19, 2014 meeting, the Committee passed a motion on eliminating the extended health lifetime maxima for pensioners residing outside Ontario. These maxima for the three categories of retirees were: $30,000 inside and outside Ontario for those retired before January 1, 1996; $50,000 inside and $40,000 outside Ontario for retired January 1,1996 to June 6, 2000; and $80,000 inside and $40,000 outside Ontario for retired after June 6, 2000. An important motivation for the motion was to protect the interests of a small, but increasing, number of university employees who might spend their entire working life outside Ontario.

(iii) As we all have now been formally informed, the extended health plan benefit maxima for January1, 2015 were increased based on the past three year inflation. This was the first adjustment in five years. Dental maxima were also enhanced at the same time to the 2013 dental fee guide in keeping with the existing two-year lag in fee guide plan design. The latter change has no implications for us. For greater details, visit <https://uwaterloo.ca/human-resources/retirees>

**3. Government Pension Plan Initiative**

(i) Ontario Retirement Pension Plan: The government remains committed to implementing its plan by January 1, 2017. Under the current proposal individuals participating in comparable workplace plans would not be required to join, though it is, by no means, the final word. Discussions on design and implementation continue.

The University Sector Joint Plan: The voluntary cooperative effort of OCUFA and the COU is now at the exploratory design stage. The approved Jointly Sponsored Pension Plan (JSPP) would be a DB plan and apply to future years of employment only. Three preliminary JSPP models are being discussed: the best of all currently available plans that will require a combined member and employer contribution of 26% of earnings, a plan with a combined contribution of 18%, and the CAAT plan. Administrative structures with equal representation from employer and employee groups and dispute resolution mechanisms are also under discussion. Retiree representation is not likely to come about.

Those interested in following the issue more closely may benefit by exploring the OCUFA website on pensions: <http://www.ocufapensionreview.ca/>

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