Pension and Benefits
Report to the UWRA Annual General Meeting, May 18, 2022

1. State of the Pension Funds as of December 31, 2021

University of Waterloo pensions are paid from two funds the Registered Pension Plan (RPP) and the Payroll Pension Plan (PPP). For each, there is a cap limiting the maximum pension payable per year of service. For registered pension plans, there is a limit specified in the Income Tax Act (ITA) as well as any limit specified in the particular organization's plan. For many years the ITA cap was not increased, meaning that eventually U of W could not pay higher-earning employees the full pension determined by provisions of our pension plan. The PPP was created as a non-registered plan, allowing a portion of that additional pension to be paid. In recent years, the ITA pension cap has increased and now exceeds the cap in our pension plan. The PPP is thus no longer required, except to provide pension payments to those who were affected by the ITA cap at the time they retired. Finally, since the ITA limit was no longer overriding the limit specified in the pension plan, the Pension and Benefits Committee (P&B) decided to increase the limit in the pension plan from $3400 per year of service to $4000 per year of service.

The health of the pension plan continues to improve. In general, the health depends on the relative value of the assets in the plan and the liabilities of the plan in paying pensions to current and future retirees. The value of plan assets is fairly straightforward, but determining the liabilities involves many assumptions (age at which employees will retire, mortality of current retirees, interest rates, performance of the stock market, etc.). In addition, there are multiple scenarios that can be considered.

The consulting actuaries provide a full actuarial valuation of the pension fund annually and a quarterly "Pension Dashboard" update. In each case, four scenarios are considered: Going Concern, which assumes the University will continue to operate and investments will perform as expected; No-Risk, 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.

I will focus on two: Going-Concern and Solvency. Although Solvency seems rather artificial, it is of practical significance, as described below. It is definitely good news that, for the first time in many years, the pension plan is more than 100% funded in both of these scenarios. When there is a Going-Concern deficit, the University is required to make additional pension contributions, sufficient to eliminate the deficit in ten years. Those additional contributions are no longer required, but the University will continue to make additional contributions for the immediate future, according to the established percentages. The size of the solvency deficit 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. Eliminating the Solvency deficit will reduce the University's premium payment to OPBGF from about $3.5M to $0.5M.

The expectation is that employee contributions to the RPP will be $46.4M in 2022, with University contributions of $65.4M, amounting to 141% of employee contributions.

Some details about these two valuations (as of December 31, 2021) 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 $2.382B and the liabilities were $2.100B. 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 $161M, yielding a surplus of $120M. For official purposes, the increase in the pension cap from $3400 to $4000 is included in a January 1, 2022 valuation, which then has a slightly smaller surplus of $77M. Thus, the December 31, 2021 valuation shows a funding ratio of 105.3% and the January 1, 2022 valuation, 103.3%.

(ii) PPP: Going Concern

The actuarial value of the assets was $49.7M and the liabilities were $22.9M. This yields a rather astonishing funding ratio of 217%. 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 $2.382B and the liabilities were $2.364B, giving a surplus of $18M and a funding ratio of 100.8%.

2. New Investment Policies and Procedures

The pension fund is very large and must be invested responsibly, attempting to achieve good investment returns but without excessive risk. Investment decisions are guided and constrained by a Statement of Investment Policies and Procedures (SIPP). A major review of the SIPP was initiated more than a year ago and the Board of Governors had previously established a Responsible Investment Advisory Group to recommend ways of including Environmental, Social, and Governance (ESG) factors in investing both the endowment and pension funds.

The Pension Investment Committee (PIC, which reports to both P&B and the Finance and Investment Committee of the Board of Governors) is most directly guided by the SIPP and plays a major role in recommending revisions. The SIPP is sufficiently important, however, that P&B also carefully examines proposed revisions. One concern of both P&B and PIC was whether inclusion of ESG factors in investing might conflict with the fiduciary responsibility we have. That is, the pension fund is held in trust for current and future retirees, which imposes significant legal restrictions that do not apply to endowment funds. For example, we can decide not to invest in petroleum stocks because we believe dealing with climate change will make them less profitable, but we cannot make such a decision if we disapprove of their activities but have no reason to believe that will influence profitability.

The issues are more subtle, of course, than in the example just given and P&B and PIC were uncertain whether the proposed policy was consistent with our fiduciary responsibility. The University administration was quite reluctant, but we insisted on obtaining a new legal opinion on this specific issue before we felt comfortable in approving the policy revisions.

The revisions have split the SIPP into three documents. The revised SIPP contains the high-level principles. The Fund Implementation Procedures (FIP) contains lower-level detail describing the ways PIC and the investment managers will work, within the principles set out in the SIPP. Finally, the Responsible Investment Policy (RIP) addresses the way ESG factors will be taken into account. A key reason for splitting out some material into the FIP is that the Board was asked (and agreed) to delegate responsibility for it to P&B. That is, FIP can be modified by P&B as required, whereas changes to the SIPP and RIP require approval by the Board.

3. Benefits Changes

A major change that has just taken place and will be taking place at the end of this year is that the University will no longer be using Canada Life as the provider of Long-Term Disability (LTD), Extended Health, and Dental benefits. For LTD, the change has taken place effective May 1. It doesn't directly affect retirees but it is likely of interest that for current employees, there is a major change in LTD premiums, which are paid by the employee. Canada Life increased the premiums very substantially a year ago. The new carrier, Sun Life, has much lower premiums, taking them back to roughly what they were two years ago.

Configuring a system to handle the complexities of Extended Health and Dental benefits is a major task, so those will continue to be provided through Canada Life until the end of 2022. As of next January, the carrier will be Green Shield Canada (GSC). A strength of GSC is their process for making the transition from a previous carrier. I expect a smooth transition, although for something as complex as this, it is unreasonable to expect no problems at all.

For those currently receiving a pension, the annual increase is usually automatic, based on the change in the consumer price index. The increase as of May 1 is 3.4% (75% of that for pension earned after 2013). For deferred pensions (people no longer employed by the University but who left their contributions in the pension fund), the increase is at the discretion of P&B. The overall calculation is remarkably convoluted, but P&B chose to use the same 3.4% increase as the basis of those calculations.

It isn't of direct concern to retirees, but P&B decided to increase the pensionable earnings for those on LTD by 1%. That is the increase allowed for current salaries under the provisions of Ontario Bill 124 (Protecting a Sustainable Public Sector for Future Generations Act).

Also not of direct concern to retirees, the University renewed the contract for the pension-administration system (Ariel). MyPensionInfo is the part of this system visible to ordinary employees. When the University switched to Ariel some years ago, MyPensionInfo lost the ability to provide the commuted value of an employee's pension. We determined that it is now possible to bring that feature back, at a fairly modest cost, so that will happen shortly.

4. Government Pension Plan Initiative

After many years of planning and negotiation, the University Pension Plan (UPP) is now operational. The current members are the University of Toronto, the University of Guelph, Queens University, Trent University, and UPP itself. (For Trent, only the faculty pension plan is currently in UPP. Many universities, unlike Waterloo, have multiple pension plans, for different employee groups.) The University of Waterloo is not planning to join UPP, but a meeting with representatives of UPP is planned, so that we can be better informed.

5. Annual P&B Report to the Community

A report of the activities of the Pension and Benefits Committee in 2021 is available on the Committee's web site. P&B had a discussion this year on the value of the report. If you have any comments, you can send them to the secretary of P&B or to me.

David Taylor, Retiree representative on the Pension and Benefits Committee