Pension and Benefits
Report to the UWRA Annual General Meeting, May 17, 2023

1. Pension Indexing

We are fortunate that the University of Waterloo has a defined-benefit pension plan, with inflation indexing for pensions. The indexing is for the full rate of inflation for pension earned prior to 2014, but 75% of the rate of inflation for pension earned subsequently. Indexing, however, is only guaranteed up to 5% inflation, beyond that, indexing is at the discretion of the Pension and Benefits Committee (P&B), although when indexing is not according to the full rate of inflation, there is a commitment to make up the "missing" indexation when the state of the pension fund allows. It is possibly surprising that the indexing is not limited by the usual 75% ratio between pension earned in the two periods.

According to the formula in the pension plan, inflation for 2022 was 6.8%, so an indexing decision was required for the first time in many years. The eventual decision was to index all pensions at 5% this year. This is nearly complete indexing for pension earned in 2014 and later (75% of 6.8% is 5.1%), but is significantly less for pension earned earlier. P&B felt it was the best way to help all pensioners cope with the high rate of inflation, while not drawing excessively from the pension fund.

2. State of the Pension Funds as of January 1, 2023

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.

In retrospect, it turns out that the value of the pension fund at January 1, 2022 was a high point. (It was technically December 31, 2021; you don't want to know why and I will ignore the one-day discrepancy for simplicity of presentation.) The value declined in each of the first three quarters of 2022, recovering slightly in the final quarter. This probably surprises no one, given the financial news over the last year, with both inflation and interest rates rising dramatically. In all, the value of the pension fund declined about $250M 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, 2022 showed that on the basis of each of these valuations, the pension plan was more than 100% funded. For each, that was the first time in many years. The decline in value of the pension fund, unsurprisingly, resulted in a decline in the going-concern valuation, which is again below 100%, although not worryingly so. The solvency valuation, however, continued to improve. The primary reason is that the solvency valuation effectively assumes that pension-plan assets will be used to purchase annuities, which will then yield interest to pay pensions. The increase in interest rates means that a smaller annuity principal amount is needed to yield a given return.

The practical significance of the Solvency valuation is that it 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 a year ago reduced the University's premium payment to OPBGF from about \$3.5M to \$0.5M.

Since there is now a Going-Concern deficit, the University is obliged to make additional contributions to eliminate the deficit, with two qualifications. One is that there is no effect until the University files the valuation with pension regulators, which only needs to be done every three years. The other is that the University consistently makes pension-plan contributions beyond its legal minimum obligation, sufficient to cover the notional "extra" contributions without making any changes. P&B has not yet decided whether to file the valuation this year.

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 some 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 has decided to transfer the excess gradually into the RPP, as additional University contributions.

The expectation is that employee contributions to the RPP will be \$49.0M in 2023, with University contributions of \$68.0M, amounting to 139% of employee contributions.

Some details about the Going-Concern and Solvency valuations (as of January 1, 2023) 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 \$2.130B and the liabilities were \$2.086B. 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 \$168M, yielding an unfunded liability of \$124M. This represents a funding ratio of 94.5%.

(ii) PPP: Going Concern

The actuarial value of the assets was \$36.2M and the liabilities were \$22.2M. The value of the assets decreased substantially during 2022, as some of the excess was transferred into the RPP, but the funding ratio is still a rather astonishing 163%. 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 \$2.130B and the liabilities were \$1.968B, giving a surplus of \$162M and a funding ratio of 108.3%.

3. Investment Policies and Procedures

In 2021, there were significant changes to Investment Policies and Procedures, including the creation of two new documents: the Fund Implementation Procedures and the Responsible Investment Policy. No dramatic changes occurred in 2022, but one further document was created: Funding Policy & Guidelines for the pension plan. The motivation was the impending retirement of Dennis Huber, after his many years of service as Vice President, Administration and Finance. There was serious concern about loss of institutional memory, so key principles used by Dennis were captured in the document.

4. Benefits Changes

On May 1, 2022, Long-Term Disability (LTD) coverage for employees was changed from Canada Life to Sun Life. At the end of 2022, the provider for Extended Health and Dental was changed from Canada Life to Green Shield Canada (GSC). As far as can be determined, the transition for LTD and for Dental went quite smoothly. Unfortunately, the transition for Extended Health, the only one of these benefits that directly affects retirees, has not gone as smoothly. While most retirees (and employees) have not experienced problems, a significant minority have. Some of these problems have been resolved and discussion at P&B continues concerning the remaining ones. If plan members are experiencing difficulties, they 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 may be experiencing.

An issue of interest, but likely of direct relevance to few retirees, is coverage for in-vitro fertilization (IVF). A subcommittee investigated, in particular looking at the possibility of extending the coverage to include surrogacy. They determined, first, that our coverage for IVF is as good as or better than coverage provided by the other universities they looked at and that none of them currently provide coverage for surrogacy.

A basic problem with covering surrogacy is that it was not a tax-deductible medical expense. As the subcommittee was doing its study, federal legislation was approved making surrogacy a tax-deductible expense. At this point, P&B is waiting for benefit carriers, such as GSC, to react to this legislative change, so that we can explore options for the University. The subcommittee also identified some possibilities for improving the existing IVF coverage, which will also be examined.

5. Government Pension Plan Initiative

In 2022, P&B had two meetings with representatives of the University Pension Plan (UPP), one of them a joint meeting of P&B and the Pension Investment Committee. UPP is intended to be a pension plan for many Ontario universities, although a rather small number have joined so far. The meetings were clearly intended to “sell” the UPP, although they were not entirely convincing.

P&B is planning to have several meetings during 2023 to examine UPP in more detail. This should be understood as due diligence, since we shouldn’t reject something we know little about, rather than indicating that we are on a trajectory to joining UPP. All or most of these meetings will involve just P&B and the consulting actuaries. Further discussion with UPP representatives is expected to occur, if at all, only at the end of this process.

6. Annual P&B Report to the Community

A report of the activities of the Pension and Benefits Committee in 2022 is available on the Committee’s web site:
https://uwaterloo.ca/secretariat/sites/default/files/uploads/documents/report-to-the-community-2022.pdf .

David Taylor, Retiree representative on the Pension and Benefits Committee