

University of Waterloo
Board of Governors
PENSION & BENEFITS COMMITTEE
Minutes of the Friday, 11 March 2016 Meeting

Present: Monika Bothwell, Lori Curtis, Stewart Forrest, Peter Forsyth, Mary Hardy, Dennis Huber, David Kibble, Ramesh Kumar, Ian Orchard [chair], Michael Steinmann, Christine Wagner, Marta Witer

Regrets: Marilyn Thompson, Karen Wilkinson

Secretariat: Sian Williams

Guests/Resources: Linda Byron, Sarah Hadley, Michael Herz (1,2,3,4,5), Lee Hornberger, Sue McGrath, Allan Shapira, Alfrieda Swainston

Regrets: Kenton Needham

Organization of Meeting: Ian Orchard acted as chair of the committee, but had to leave for another commitment before agenda item 7. Dennis Huber then acted as the chair. Sian Williams, secretary of the committee, acted as secretary. The secretary advised that a quorum was present. The agenda was approved without formal motion.

OPEN SESSION

1. APPROVAL OF THE 26 FEBRUARY 2016 MINUTES and BUSINESS ARISING FROM THE MINUTES

Two corrections were made to the minutes of the 26 February 2016 meeting in that item 4 “Preliminary Valuation Results” is noted as referring to annual results, and item 5 “Cost-of –Living Increases” is noted as referring to eligible deferred pensions.

Subject to these two corrections, the committee heard a motion to accept the minutes of the 26 February 2016 meeting. Wagner and Forsyth. Carried. There was no business arising.

2. EXECUTION AGAINST THE WORK PLAN

The report was received for information.

3. UPDATE ON GOVERNMENT PENSION PLAN INITIATIVES

Ontario University Sector JSPP. Shapira informed the committee that there was no progress to report on the university-sector plan.

4. GROUP BENEFITS ANNUAL RENEWAL EFFECTIVE MAY 1, 2016

a. Life Insurance

Hornberger presented the Group Benefits Program report to the committee. As stated by Hornberger per the written report, the 2016 group benefits program annual renewal reflects a deficit for the University Life Insurance Plan on an overall basis but the University of Waterloo generated a surplus in the May 1, 2014 to April 30, 2015 financial period. The overall deficit generated was offset by the Claims Fluctuation Reserve (CFR). The University’s share of the CFR continues to be fully funded and the Unrestricted Deposit Account (UDA) is estimated to be \$677,400 at April 30, 2016 (which was \$837,912 at April 30, 2015).

(i) Premium Rates

The University has been remitting premium to Sun Life Financial based on a rate that is subsidized by the UDA, the “paid rate”. At present, the paid rate is \$0.128 per \$1,000 which is 12% lower than the current contract rate but 2 % higher than the new contract rate. Due to the balance remaining in the UDA, the University has some flexibility with respect to the paid rate to be implemented effective May 1, 2016.

The committee heard a motion to accept Option 3 as outlined in the report, in that the paid rate would be \$0.113 per \$1,000 (versus the contract rate of \$0.126 per \$1,000) which is 10% lower than the current contract rate, resulting in an annual premium of \$1,085,580 (versus the contract rate of \$1,209,355). The Option 3 approach is consistent with historical practice. Forrest and Curtis. Carried.

(ii) Deposit Accounts

There are three separate deposit accounts with Sun Life Financial which amount to about \$753,560.57 on a combined basis; the first is the UDA in the amount of estimated \$677,440 as of April 30, 2016 generated through regular accounting that corresponds with the current retention underwriting method; the second is the Contingency Fund from demutualization proceeds in the amount of \$48,057.57 as of December 31, 2015 (demutualization proceeds in the amount of \$406,918.29 were withdrawn in October 2001 and used to fund student scholarships); and the third is the Deposit Fund in the amount of \$28,033 as of April 30, 2015 from regular accounting prior to 2002(earned \$95 in interest during May 2014 to April 2015 financial year).

The committee heard a motion to maintain the UDA with Sun Life Financial in its current state as presented in the report. Witer and Kibble. Carried.

The committee heard a motion to maintain the funds in the Contingency Fund and in the Deposit Fund in their current state with Sun Life Financial, and to bring the discussion forth in the next agenda as to whether the funds should be withdrawn, and if so, how the funds should be spent. Forrest and Curtis. Carried.

b. Long Term Disability

As stated by Hornberger per the Group Benefits Program written report, the Long Term Disability (LTD) benefit is insured by Great-West Life (GWL) and the underwriting method utilized is an experience-rated, non-refund basis. The LTD benefit is fully paid for by employees.

(i) Premium Rates

GWL proposed a rate increase of 13.9% for the upcoming year but based on Aon Hewitt's analysis of the University's claims experience, a decrease to the premium rate was warranted. Aon Hewitt negotiated a decrease of 1.6% to the premium rate effective May 1, 2016 with a special experience refund available to the University during the 2016/17 plan year if applicable.

The committee heard a motion to accept the decrease of 1.6% to the LTD premium rate effective May 1, 2016. Kibble and Bothwell. Carried.

The committee heard a motion to bring the two issues of a market study for this benefit and the effectiveness of the current carrier for the LTD rates forward on the agenda for the next meeting as discussion items. Hardy and Forrest. Carried.

(ii) Deposit Account

The 2016 renewal reflects a balance of \$35,062.74 in the UDA with GWL. The UDA is available for withdrawal by the University with no conditions. Members discussed whether the funds could be withdrawn and used to pay for consultant services. Members also discussed the idea that a study could determine the best use of the funds.

The committee heard a motion to maintain the UDA in its current state with GWL and to bring the issue of the best use of the funds forward on the agenda for the next meeting as a discussion item. Hardy and Kibble. Carried.

(iii) Indexing of Insured Earnings

Hornberger explained that the LTD plan design includes an annual indexing provision which is the same as that used for the indexation of pensions in payment. The new maximum insured salary is \$170,288 as of May 1, 2016. Members discussed that this is a high level of insurance and that it is a costly benefit. This item was for information only.

(iv) Illustration of Employee Impact

Hornberger provide a chart showing the impact of the LTD monthly premiums effective May 1, 2016 on employees earning varying salaries. This item was for information only.

c. Healthcare Benefits

As stated by Hornberger per the Group Benefits Program written report, healthcare benefits are provided by GWL on an Administrative Services Only (ASO) basis. With an ASO arrangement, the University is responsible for paying GWL for all claims paid plus their fees for providing this coverage. In addition, a pooling charge applies so that claims in excess of \$50,000 per year per individual are not charged to the University.

i) ASO Fees and Charges

On a combined basis, GWL's initial proposal included an increase of 22.6% to the fees and charges effective May 1, 2016, however Aon Hewitt was able to negotiate a lesser increase of 16.3%. It was noted that individual pooling protects the University by removing charges for health claims incurred inside or outside Canada totaling over \$50,000 per individual claimant in a calendar year.

The committee heard a motion to approve the ASO Fees and Charges effective May 1, 2016 as described on page 5 of the Group Benefits Program written report. Curtis and Bothwell. Carried.

ii) Budget Rates

Budget rates are calculated each year by Aon Hewitt and used to determine applicable cost sharing (with affiliates and part-time employees) and to generate funds in the account which is used to pay the monthly ASO bill from GWL. Projected claims analysis indicates changes to the budget rates for the extended health and dental benefits for 2016.

The committee heard a motion to increase the healthcare budget rates effective May 1, 2016 as shown in the chart on page 6 of the Group Benefits Program written report. Curtis and Bothwell. Carried.

5. NEW PENSION ADMINISTRATION SYSTEMS

a. Member Projection Tools

McGrath presented the Member Projection Tool Options report and accompanying PowerPoint to the committee. The report had previously been presented to the committee but McGrath returned to clarify the differences between the three pension projection tools "myPENSIONinfo", "Ariel Standard Projection" and "Retirement Horizon" in dealing specifically with the vacation exchange program (VEP).

The committee heard a motion to accept the Ariel Standard Projection tool without the \$50,000 upgrade, but with the generic wording option added to the tool at a cost of \$1,200 to restrict projections to the declared retirement date. Curtis and Forrest. Carried.

6. ACTUARIAL VALUATIONS (RPP and PPP)

Shapira briefly reviewed a PowerPoint presentation to the committee entitled "Preliminary Actuarial Valuation Results as of January 1, 2016" in regard to the Registered Pension Plan (RPP) and the Payroll Pension Plan (PPP). A hard copy report was in the materials before the committee. The committee had previously approved the assumptions as outlined by Shapira in the report.

The committee now heard a motion to approve the report for posting on the University website. Huber and Hardy. Carried.

7. REVIEW OF CONTRIBUTION AND PROTOCOL CAPS

Byron presented a report and PowerPoint which reviewed contribution and protocol caps. Byron explained that the Income Tax Act places a dollar limit cap on the benefits that may be paid to members from the RPP. This dollar limit is indexed each year by the increase in average industrial wage. Further, both the RPP and the PPP have annual indexed caps and maximum caps on the pension benefit payable from the Plans; the caps essentially limit the final average earnings that will be recognized under the defined benefit formula. Cap Protocol assists in managing liability. The committee discussed the chart showing the "Translation of Flat Dollar Maximums Into Salary Levels" on page 29 of the Aon Hewitt report, which

shows how the flat dollar amounts translate into salary levels at which the maximums are reached if the caps are not projected beyond the current hard dollar caps. The committee decided that the topic of contributions and protocol caps should be brought forward on the agenda for the next meeting as a discussion item.

8. REPORT FROM RPPI

Forsyth and Wagner presented a report to the committee on behalf of the RPPI subcommittee members. RPPI had met on March 1, 2016. Attached to the RPPI report was an Aon Hewitt Performance Review of RPP Investments as at 31 December 2015 (7 page excerpt), a UW RPP Investment Performance to 31 December 2015, and an AON Hewitt-Passive Global Equity Search dated January 2016. Highlights of the RPPI report were that the total return of the fund (including currency hedging) was 5.5% for the calendar year 2015, that Aon Hewitt recommended that the University of Waterloo Pension Plan invest in the TDM Global Equity ex. Canada Index pooled fund, that there are proposed changes to the investment governance process, and that the global investment managers have provided background on their ESG policies.

In regard to the recommendation of Aon Hewitt that the University of Waterloo Pension Plan invest in the TDM Global Equity ex. Canada Index pooled fund, the committee heard a motion that more analysis was required. Forsyth and Hardy. Carried.

9. REVIEW OF RISK MANAGEMENT DASHBOARD

Byron asked that this matter be deferred and brought forward on the agenda to the next meeting.

10. COMMITTEE SELF-ASSESSMENT

Williams asked the committee members to each complete an anonymous self-assessment survey for the purpose of determining the strengths of the committee and to identify where improvements could be made.

11. OTHER BUSINESS

There was no other business.

12. PROCEED INTO CONFIDENTIAL SESSION

With no other business in open session, the committee moved into confidential session.

13. NEXT MEETING

The next meeting will be held on Friday, 20 May 2016 from 9:30 a.m. to 12:00 p.m. in Needles Hall, Room 3318.

5 May 2016

Sian E. Williams
Associate University Secretary/Senior Legal Counsel