



Actuarial Valuation as at January 1, 2021 for University of Waterloo Pension Plan

Canada Revenue Agency Registration Number: 0310565

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DRAFT

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Executive Summary

An actuarial valuation has been prepared for the University of Waterloo Pension Plan (the "Plan") as at January 1, 2021 for the primary purpose of establishing a funding range in accordance with legislative requirements for the Plan until the next actuarial valuation is performed. This section provides an overview of the important results and the key valuation assumptions which have had a bearing on these results. The next actuarial valuation for the purposes of developing funding requirements should be performed no later than as at January 1, 2024.

Summary of Principal Results

Financial Position

	January 1, 2021	January 1, 2020
Going Concern		
Assets	\$ 2,105,435,000	\$ 1,938,502,000
Liabilities	<u>2,036,523,000</u>	<u>1,868,707,000</u>
Financial Position	\$ 68,912,000	\$ 69,795,000
Adjustments ¹	<u>(158,269,000)</u>	<u>(145,837,000)</u>
Surplus/(Unfunded Liability)	\$ (89,357,000)	\$ (76,042,000)
Solvency		
Assets ²	\$ 2,104,935,000	\$ 1,938,002,000
Liabilities	<u>2,423,689,000</u>	<u>2,146,037,000</u>
Financial Position	\$ (318,754,000)	\$ (208,035,000)
Adjustments ¹	<u>59,453,000</u>	<u>50,680,000</u>
Surplus/(Unfunded Liability)	\$ (259,301,000)	\$ (157,355,000)
Hypothetical Wind Up		
Assets ²	\$ 2,104,935,000	\$ 1,938,002,000
Liabilities	<u>3,247,257,000</u>	<u>2,909,749,000</u>
Surplus/(Unfunded Liability)	\$ (1,142,322,000)	\$ (971,747,000)

Legislative Ratios

	January 1, 2021	January 1, 2020
Funded ratio ³	1.03	1.04
Solvency ratio	0.87	0.90
Transfer ratio	0.65	0.67

¹ Adjustments include Provision for Adverse Deviation (PfAD), prior year credit balance, and all solvency liability and solvency asset adjustments, where applicable

² Net of estimated wind up expenses

³ Before application of PfAD

Normal Cost

	January 1, 2021	January 1, 2020
Normal cost	\$ 89,236,000	\$ 81,378,000
Required member contributions	(44,027,000)	(39,855,000)
Provision for non-investment expenses	1,560,000	1,500,000
PfAD	<u>7,223,000</u>	<u>6,611,000</u>
University Normal Cost	\$ 53,992,000	\$ 49,634,000
As a % of pensionable earnings	10.30%	9.82%
As a % of member contributions	122.6%	124.5%

Minimum Contribution Requirements

Considering the funding and solvency status of the Plan, the minimum University contributions for the period from January 1, 2021 to December 31, 2023 in accordance with legislative requirements, are as follows:

	January 1, 2021 to December 31, 2021	January 1, 2022 to December 31, 2022	January 1, 2023 to December 31, 2023
Normal cost	\$ 89,236,000	\$ 91,913,000	\$ 94,670,000
Required member contributions ¹	(44,027,000)	(47,749,000)	(49,969,000)
Provision for non-investment expenses	1,560,000	1,607,000	1,655,000
PfAD	<u>7,223,000</u>	<u>7,440,000</u>	<u>7,663,000</u>
University normal cost	\$ 53,992,000	\$ 53,211,000	\$ 54,019,000
Special payments toward amortizing unfunded liability	9,264,000	10,860,000	10,860,000
Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Minimum Required University Contribution	\$ 63,256,000	\$ 64,071,000	\$ 64,879,000
Additional contribution to bring University contribution to Funding Commitment	<u>2,033,000</u>	<u>3,176,000</u>	<u>4,386,000</u>
Total Required University Contribution under University Funding Commitment²	\$ 65,289,000	\$ 67,247,000	\$ 69,265,000
As a % of required member contributions	148.3%	140.8%	138.6%

¹ Reflects increases in required member contributions coming into effect May 1, 2021 and May 1, 2022

² The University has committed to maintaining a contribution of 12.45% of pensionable earnings throughout valuation period

Membership Data

	January 1, 2021	January 1, 2020
Active members	4,905	4,891
Disabled members	104	90
Suspended members	1	2
Retired members and beneficiaries	2,176	2,092
Deferred vested members	<u>632</u>	<u>586</u>
Total	7,818	7,661

Key Assumptions

The principal assumptions to which the valuation results are most sensitive are outlined in the following table.

Going Concern	January 1, 2021	January 1, 2020
Discount rate	5.30% per year	5.60% per year
Provision for adverse deviation	9.00% of non-indexed liabilities and normal cost	Same
Inflation rate	2.00% per year	Same
Increase in pensionable earnings	3.00% per year for 3 years; 4.00% per year thereafter	4.00% per year
Mortality table	2014 Canadian Pensioners' Public Sector Mortality ("CPM2014Public") Table with mortality improvement Scale MI-2017	Same
Increase in Year's Maximum Pensionable Earnings	2.75% per year	Same
Increase in maximum pension	\$3,245.56 in 2021; increased after 2021 at 2.75% per year subject to a dollar cap of \$3,400 which increases at 0.92% per year beginning in 2022	Same
Solvency/ Hypothetical Wind Up	January 1, 2021	January 1, 2020
Discount rate - Solvency	Annuity purchases: 2.50% per year Transfers: 1.20% per year for 10 years, 2.80% per year thereafter	Annuity purchases: 2.96% per year Transfers: 2.50% per year for 10 years, 2.60% per year thereafter
Discount rate – Hypothetical Wind Up (Pre-2014 Accrued Pension)	Annuity purchases: -0.78% per year Transfers: 0.60% per year for 10 years, 0.80% per year thereafter	Annuity purchases: -0.29% per year Transfers: 1.20% per year for 10 years, 1.20% per year thereafter
Discount rate – Hypothetical Wind Up (Post-2013 Accrued Pension)	Annuity purchases: 0.04% per year Transfers: 0.80% per year for 10 years, 1.30% per year thereafter	Annuity purchases: 0.52% per year Transfers: 1.50% per year for 10 years, 1.60% per year thereafter
Mortality table	2014 Canadian Pensioners' Combined Mortality ("CPM2014") Table with mortality improvement Scale CPM-B	Same

Section 1: Introduction

Purpose and Terms of Engagement

We have been engaged by the University of Waterloo (the “University”) Pension and Benefits Committee (the “Committee”), to conduct an actuarial valuation of the Plan, registered in Ontario, as at January 1, 2021 for the general purpose of determining the minimum and maximum funding contributions required by pension standards, based on the actuarial assumptions and methods summarized herein. Specifically, the purposes of the valuation are to:

- Determine the financial position of the Plan on a going concern basis as at January 1, 2021;
- Determine the financial position of the Plan as at January 1, 2021 on a solvency and hypothetical wind up basis;
- Determine the funding requirements of the Plan as at January 1, 2021; and
- Provide the necessary actuarial certification required under the *Pension Benefits Act (Ontario)* (the “Act”) and the *Income Tax Act*.

The results of this report may not be appropriate for accounting purposes or any other purposes not listed above.

The next required valuation will be as at January 1, 2024.

Summary of Changes Since the Last Valuation

The last such actuarial valuation in respect of the Plan was performed as at January 1, 2020. Since the time of the last valuation, we note the following changes have occurred:

- As reported in the January 1, 2020 actuarial valuation, the Plan was amended May 1, 2020 to increase required member contributions and to increase the hard dollar pension cap. The impact of these amendments was included in the January 1, 2020 valuation and continues to be included in this valuation report. In accordance with the amendment, required member contributions will increase as follows over the period covered by this valuation report:

Effective Date	Not in Excess of Year's Maximum Pensionable Earnings (YMPE)	In Excess of YMPE
May 1, 2020	6.95%	9.95%
May 1, 2021	7.40%	10.60%
May 1, 2022	7.80%	11.20%

- The Canadian Institute of Actuaries has amended the Standards of Practice related to pension plans effective December 1, 2020. In particular, the amended Standards of Practice revise the way that commuted values are determined. The changes impact the interest rates and the retirement age assumption used in the determination of commuted values. The changes are included in this valuation report.

University Information and Inputs

In order to prepare our valuation, we have relied upon the following information:

- A copy of the previous valuation report as at January 1, 2020;
- A copy of the Statement of Investment Policies and Procedures for the Plan;
- Membership data compiled as at January 1, 2021 by the University;
- Asset data taken from the Plan's unaudited and audited financial statements ; and
- A copy of the latest Plan text and amendments up to and including January 1, 2021.

Furthermore, our actuarial assumptions and methods have been chosen to reflect our understanding of the University's desired funding objectives with due respect to accepted actuarial practice and regulatory constraints.

Subsequent Events

As of the date of this report, we have not been made aware of any subsequent events which would have an effect on the results of this valuation. However, the following points should be noted in this regard:

- Actual experience deviating from expected after January 1, 2021 will result in gains or losses which will be reflected in the next actuarial valuation report.
- To the best of our knowledge, the results contained in this report are based on the regulatory and legal environment in effect at the date of this report and do not take into consideration any potential changes that may be currently under review. To the extent that actual changes in the regulatory and legal environment transpire, any financial impact on the Plan as a result of such changes will be reflected in future valuations.

Section 2: Going Concern Valuation Results

Going Concern Financial Position of the Plan

The going concern valuation provides an assessment of the Plan's financial position at the valuation date on the premise that the Plan continues on into the future indefinitely.

The selection of the applicable actuarial assumptions and methods reflect the Plan's funding objectives, as communicated by the University, actuarial standards of practice, and pension standards.

On the basis of the Plan provisions, membership data, going concern assumptions and methods, and asset information described in the Appendices, the going concern financial position of the Plan as at January 1, 2021 is shown in the following table. The results as at January 1, 2020 are also shown for comparison purposes.

Going Concern Financial Position

	January 1, 2021	January 1, 2020
Actuarial Value of Assets	\$ 2,105,435,000	\$ 1,938,502,000
Going Concern Liabilities		
Active members	\$ 1,117,509,000	\$ 1,014,559,000
Disabled and suspended members	24,076,000	17,412,000
Retired members and beneficiaries	840,980,000	779,799,000
Deferred vested members	46,683,000	40,261,000
Additional voluntary contribution balances	413,000	491,000
Member flex contributions	811,000	967,000
Cost of living increase effective May 1st	6,051,000	15,218,000
Total Liabilities	\$ 2,036,523,000	\$ 1,868,707,000
Going Concern Position	\$ 68,912,000	\$ 69,795,000
Additional liabilities due to PfAD	158,269,000	145,837,000
Prior year credit balance	-	-
Surplus/(Unfunded Liability)	\$ (89,357,000)	\$ (76,042,000)
Funded Ratio (Before PfAD)	1.03	1.04
Funded Ratio (After PfAD)	0.96	0.96

The PfAD is not required to be applied to the liabilities in respect of post retirement indexation of \$277,978,000 as at January 1, 2021 and \$248,299,000 as at January 1, 2020.

Going Concern Normal Cost

On the basis of the Plan provisions, membership data, going concern assumptions and methods, asset information and legislative requirement described in the Appendices, the going concern normal cost of the Plan as at January 1, 2021 is shown in the following table. The normal cost as at January 1, 2020 is also shown for comparison purposes.

	January 1, 2021	January 1, 2020
Normal Cost		
Normal cost	\$ 89,236,000	\$ 81,378,000
Provision for non-investment expenses	1,560,000	1,500,000
Additional normal cost due to PfAD	<u>7,223,000</u>	<u>6,611,000</u>
Total Normal Cost	\$ 98,019,000	\$ 89,489,000
Required member contributions	<u>(44,027,000)</u>	<u>(39,855,000)</u>
University Normal Cost	\$ 53,992,000	\$ 49,634,000
Total pensionable earnings (in year following valuation date)	\$ 524,407,000	\$ 505,660,000
University Normal Cost		
As a % of total pensionable earnings	10.30%	9.82%
As a % of member contributions	122.6%	124.5%

The PfAD is not required to be applied to the normal cost in respect of post retirement indexation of \$10,551,000 as at January 1, 2021 and \$9,426,000 as at January 1, 2020.

Change in Financial Position

The major components of the change in the Surplus/(Unfunded Liability)¹ for the period from January 1, 2020 to January 1, 2021 are summarized in the following table.

	January 1, 2020 to January 1, 2021
Surplus/(Unfunded Liability) as at Beginning of Plan Year	\$ (76,042,000)
Total normal cost in inter-valuation period	(87,989,000)
Member contributions in inter-valuation period	39,033,000
University contributions in inter-valuation period	61,791,000
Expected interest on surplus (unfunded liability)	<u>(3,904,000)</u>
Surplus/(Unfunded Liability) as at End of Plan Year	\$ (67,111,000)
Change in Liabilities Due to Experience Gains/(Losses)	
Return on investment earnings greater/lower than expected	34,329,000
Increase in salaries	2,870,000
Increase in ITA maximum pension	(3,190,000)
Increase in YMPE	1,894,000
Indexation experience	10,463,000
Retirement experience	5,006,000
Mortality experience	(2,386,000)
Termination experience	(2,859,000)
Data adjustments / article 12 transfers	(197,000)
Additional year of deferred COLA	(594,000)
Net gain/(loss) due to other experience and miscellaneous items	<u>1,608,000</u>
Going Concern Position After Experience Gains/(Losses) as at End of Plan year	\$ (20,167,000)
Change in discount rate	(89,363,000)
Change in salary increase rate	<u>20,173,000</u>
Surplus/(Unfunded Liability) as at End of Plan Year	\$ (89,357,000)

¹ Prior to the application of the Prior Year Credit Balance

Discussion of Changes in Assumptions

Economic Assumptions

- The following economic assumptions were changed effective January 1, 2021:
 - Discount rate was changed from 5.60% per year to 5.30% per year; and
 - Salary increase rate was changed from 4.00% per year to 3.00% per year for the first three years and 4.00% per year thereafter.

These changes in economic assumptions increased the going concern liabilities by \$69,190,000 and the University normal cost by \$4,927,000.

Going Concern Valuation Sensitivity Results

In accordance with the CIA Standards of Practice specific to pension plans, the table below presents the sensitivity of the going concern liabilities and the total normal cost (prior to the application of the Provision for Adverse Deviation) of using a discount rate 1% lower and 1% higher than that used for the going concern valuation.

January 1, 2021	Effect		
		\$	%
Going concern liabilities	\$ 2,036,523,000		
Going concern liabilities (discount rate – 1%)	\$ 2,365,454,000	\$ 328,931,000	16.2%
Going concern liabilities (discount rate + 1%)	\$ 1,776,033,000	\$ (260,490,000)	(12.8)%
Normal cost	\$ 89,236,000		
Normal cost (discount rate – 1%)	\$ 111,900,000	\$ 22,664,000	25.4%
Normal cost (discount rate + 1%)	\$ 72,424,000	\$ (16,812,000)	(18.8)%

Plausible Adverse Scenarios

In accordance with the Canadian Institute of Actuaries Standards of Practice specific to pension plans, below is summarized scenarios of adverse but plausible assumptions, relative to the best estimate assumptions otherwise selected for the valuation.

Interest Rate Sensitivity

The table below presents the sensitivity of the going concern position and the total normal cost of using interest rates 1% lower than the current level. In order to calculate the impact on the Actuarial Value of Assets, the decrease in interest rates only impacts fixed income assets (35.0% of total assets) and an assumed duration of 8.48 for overall domestic bond index was considered.

	Base Scenario	Adverse Scenario	Impact (\$)
Actuarial value of assets	\$ 2,105,435,000	\$ 2,167,993,000	\$ 62,558,000
Going concern liabilities	<u>2,036,523,000</u>	<u>2,365,454,000</u>	<u>328,931,000</u>
Going concern position	\$ 68,912,000	\$ (197,461,000)	\$ (266,373,000)
Additional liabilities due to PfAD	<u>158,269,000</u>	<u>181,965,000</u>	<u>23,696,000</u>
Surplus/(Unfunded Liability)	\$ (89,357,000)	\$ (379,426,000)	\$ (290,069,000)
Total Normal Cost (including PfAD)			
January 1, 2021 to			
December 31, 2021	\$ 98,019,000	\$ 122,383,000	\$ 24,364,000

Deterioration in Asset Value

Considering that the asset allocation as of December 31, 2020 is 4.0% cash, 35.0% fixed income, and 61.0% non-fixed income, for the deterioration in asset value we estimate that the adverse scenario is related to a 20% reduction in the non-fixed income asset values and assume no change in future return expectations.

The table below presents the sensitivity of the going concern position of using the assets with a 20% reduction in non-fixed income asset values.

	Base Scenario	Adverse Scenario	Impact (\$)
Actuarial value of assets	\$ 2,105,435,000	\$ 1,848,030,000	\$ (257,405,000)
Going concern liabilities	<u>2,036,523,000</u>	<u>2,036,523,000</u>	<u>-</u>
Going concern position	\$ 68,912,000	\$ (188,493,000)	\$ (257,405,000)
Additional liabilities due to PfAD	<u>158,269,000</u>	<u>158,269,000</u>	<u>-</u>
Surplus/(Unfunded Liability)	\$ (89,357,000)	\$ (346,762,000)	\$ (257,405,000)
Total Normal Cost (including PfAD)			
January 1, 2021 to			
December 31, 2021	\$ 98,019,000	\$ 98,019,000	\$ -

Mortality Sensitivity

The table below presents the sensitivity of the going concern position and the total normal cost of using a mortality assumption with a 10% improvement to the base mortality rates rather than that used for the going concern valuation, thereby 90% of 2014 Canadian Pensioners Public Sector Mortality Table with improvements under Scale MI-2017.

	Base Scenario	Adverse Scenario	Impact (\$)
Actuarial value of assets	\$ 2,105,435,000	\$ 2,105,435,000	\$ -
Going concern liabilities	<u>2,036,523,000</u>	<u>2,083,172,000</u>	<u>46,649,000</u>
Going concern position	\$ 68,912,000	\$ 22,263,000	\$ (46,649,000)
Additional liabilities due to PfAD	<u>158,269,000</u>	<u>161,220,000</u>	<u>2,951,000</u>
Surplus/(Unfunded Liability)	\$ (89,357,000)	\$ (138,957,000)	\$ (49,600,000)
Total Normal Cost (including PfAD)			
January 1, 2021 to			
December 31, 2021	\$ 98,019,000	\$ 99,514,000	\$ 1,495,000

Section 3: Solvency Valuation Results

Solvency Financial Position of the Plan

The solvency valuation is a financial assessment of the Plan that is required by the *Act* and is performed in accordance with requirements prescribed by that legislation. It is intended to provide an assessment of the Plan's financial position at the valuation date on the premise that certain obligations as prescribed by the *Act* are settled on the valuation date for all members. The liabilities must be calculated based on a postulated scenario that maximizes liabilities on wind up of the Plan. Contingent benefits are included in the liabilities that would be payable under the postulated scenario, unless permitted to be omitted under the definition of solvency liabilities under the Regulations to the *Act*. All assumptions for the solvency valuation are listed in Appendix D.

On the basis of the Plan provisions, membership data, solvency assumptions and methods and asset information described in the Appendices, as well as the requirements of the *Act*, the solvency financial position of the Plan as at January 1, 2021 is shown in the following table. The solvency financial position of the Plan as at January 1, 2020 is shown for comparison purposes.

Solvency Financial Position

	January 1, 2021	January 1, 2020
Assets		
Solvency assets	\$ 2,105,435,000	\$ 1,938,502,000
Estimated wind up expenses	<u>(500,000)</u>	<u>(500,000)</u>
Total Assets	\$ 2,104,935,000	\$ 1,938,002,000
Solvency Liabilities		
Active members	\$ 1,413,850,000	\$ 1,235,747,000
Disabled and suspended members	32,542,000	23,248,000
Retired members and beneficiaries	911,935,000	831,844,000
Deferred vested members	64,138,000	53,740,000
Additional voluntary contribution balances	413,000	491,000
Member flex contributions	<u>811,000</u>	<u>967,000</u>
Total Liabilities	\$ 2,423,689,000	\$ 2,146,037,000
Solvency Position	\$ (318,754,000)	\$ (208,035,000)
Prior year credit balance	-	-
Present value of special payments	<u>59,453,000</u>	<u>50,680,000</u>
Solvency Surplus/(Deficiency)	\$ (259,301,000)	\$ (157,355,000)
Solvency Ratio¹	0.87	0.90

¹ Solvency Assets divided by Solvency Liabilities

Solvency Asset Adjustment

The present value of scheduled special payments for solvency valuation purposes has been calculated by discounting the annual special payments to be remitted up to the end of their amortization period (to a maximum of six years, at the weighted solvency discount rate of 2.20% per year compounded monthly in arrears, which was determined proportionately by the solvency discount rates used to determine the solvency liabilities).

Nature of Deficiency	Effective Date	End Date	Months Included	Annual Special Payment	Present Value as of January 1, 2021
Going concern	January 1, 2021	December 31, 2021	12	\$ 9,264,000	\$ 9,156,000
Going concern	January 1, 2022	December 31, 2031	60	10,860,000	50,297,000
Present Value of Special Payments					\$ 59,453,000

Statutory Solvency Financial Position

The minimum funding requirements under the Regulation are based on the statutory solvency financial position as at the valuation date. In calculating the statutory solvency financial position, various adjustments can be made including solvency funding of a reduced solvency deficiency effective for valuations filed after December 31, 2017. The reduced solvency deficiency is based upon 0.85 of the solvency liabilities and 0.85 of the solvency liability adjustment.

	January 1, 2021	January 1, 2020
The amount by which the sum of:		
85% of solvency liabilities	\$ 2,060,136,000	\$ 1,824,131,000
85% of solvency liability adjustment	0	0
Prior year credit balance	0	0
	<u>\$ 2,060,136,000</u>	<u>\$ 1,824,131,000</u>
Exceeds the sum of:		
Solvency assets net of wind-up expenses	\$ 2,104,935,000	\$ 1,938,002,000
Solvency asset adjustment	<u>59,453,000</u>	<u>50,680,000</u>
	<u>\$ 2,164,388,000</u>	<u>\$ 1,988,682,000</u>
Reduced Solvency Deficiency	\$ Nil	\$ Nil

Solvency Concerns

A report indicates solvency concerns under the *Act* if the ratio of the solvency assets to solvency liabilities is less than 0.85.

Where a report indicates solvency concerns, the effective date of the next valuation that needs to be filed under the *Act* is one year from the valuation date of the valuation that gave rise to the solvency concerns.

Since the ratio of solvency assets to solvency liabilities is equal to 0.87, this report does not indicate solvency concerns.

Solvency Valuation Sensitivity Results

In accordance with the CIA Standards of Practice specific to pension plans, the table below presents the sensitivity of the solvency liabilities to using a discount rate of 1% lower and 1% higher than that used for the solvency valuation.

January 1, 2021	Effect	
	\$	%
Solvency liabilities	\$ 2,423,689,000	
Solvency liabilities (discount rate – 1%)	\$ 2,843,322,000	\$ 419,633,000 17.3%
Solvency liabilities (discount rate + 1%)	\$ 2,102,316,000	\$ (321,373,000) (13.3)%

Incremental Cost on a Solvency Basis

The incremental cost on a solvency basis represents the present value at January 1, 2021 of the expected aggregate change in the solvency liabilities between January 1, 2021 and the next calculation date, that is January 1, 2024. Appendix D gives more details on the calculation methodology and on assumptions.

Based on this methodology and on these assumptions, the incremental cost on a solvency basis can be found in the following table.

	January 1, 2021 to December 31, 2021	January 1, 2022 to December 31, 2022	January 1, 2023 to December 31, 2023
Incremental cost on a solvency basis	\$ 135,129,000	\$ 151,811,000	\$ 149,490,000

Pension Benefits Guarantee Fund (“PBGF”)

The development of the PBGF Assessment Base is as follows:

PBGF Assessment Base	January 1, 2021
(1) Solvency assets	\$ 2,105,435,000
(2) PBGF liabilities	\$ 2,423,689,000
(3) Solvency liabilities	\$ 2,423,689,000
(4) Ontario asset ratio: [(2) divided by (3)]	1.0000
(5) Ontario portion of fund: [(1) multiplied by the ratio in (4)]	\$ 2,105,435,000
PBGF Assessment Base: [(2) subtract (5); if negative, enter zero]	\$ 318,254,000

Section 4: Hypothetical Wind Up Valuation Results

Hypothetical Wind Up Financial Position of the Plan

A hypothetical wind up valuation is performed to determine the financial position of the Plan as at the valuation date on a wind up basis, reflecting market settlement rates as of the valuation date. Unlike the solvency valuation, all benefits are included that would be payable under the postulated scenario that would maximize benefits. The hypothetical wind up valuation is determined using benefit entitlements on the assumption that the Plan has neither a surplus nor a deficit. Contingent benefits are included in the liabilities that would be payable under the postulated scenario. Assets are set equal to market value net of estimated wind up expenses. All assumptions for the hypothetical wind up valuation are listed in Appendix D.

On the basis of Plan provisions, membership data, hypothetical wind up assumptions and methods, and asset information described in the Appendices, as well as the requirements of the Act, the hypothetical wind up financial position of the Plan as at January 1, 2021 is shown in the following table. The hypothetical wind up financial position of the Plan as at January 1, 2020 is shown for comparison purposes.

Hypothetical Wind Up Financial Position

	January 1, 2021	January 1, 2020
Assets		
Hypothetical wind up assets	\$ 2,105,435,000	\$ 1,938,502,000
Estimated wind up expenses	<u>(500,000)</u>	<u>(500,000)</u>
Total Assets	\$ 2,104,935,000	\$ 1,938,002,000
Hypothetical Wind Up Liabilities		
Active members	\$ 1,836,115,000	\$ 1,651,387,000
Disabled and suspended members	42,911,000	32,039,000
Retired members and beneficiaries	1,245,784,000	1,124,826,000
Deferred vested members	121,223,000	100,039,000
Additional voluntary contribution balances	413,000	491,000
Member flex contributions	<u>811,000</u>	<u>967,000</u>
Total Liabilities	\$ 3,247,257,000	\$ 2,909,749,000
Hypothetical Wind Up Surplus/(Deficiency)	\$ (1,142,322,000)	\$ (971,747,000)

Transfer Ratio

The transfer ratio is determined as follows:

	January 1, 2021	January 1, 2020
(1) Hypothetical wind up assets	\$ 2,105,435,000	\$ 1,938,502,000
Prior year credit balance (A)	\$ -	\$ -
Total University normal cost and required special payments until next mandated valuation (B)	\$ 192,206,000	\$ 174,061,000
(2) Asset adjustment Lesser of (A) and (B)	\$ -	\$ -
(3) Hypothetical wind up liabilities	\$ 3,247,257,000	\$ 2,909,749,000
Transfer Ratio [(1)-(2)] / (3)	0.65	0.67

Section 5: Contribution Requirements

Contribution Requirements in Respect of the Normal Cost

The annual going concern cost of benefits in respect of service accruing after the valuation date is known as the normal cost. The following table sets out:

- The development of the rule to determine the normal cost;
- An estimate of the normal cost for the 3 years following the valuation date; and
- The portion of the going concern normal cost that is to be paid by the members.

	January 1, 2021 to December 31, 2021	January 1, 2022 to December 31, 2022	January 1, 2023 to December 31, 2023
Normal Cost			
Normal cost	\$ 89,236,000	\$ 91,913,000	\$ 94,670,000
Required member contributions	(44,027,000)	(47,749,000)	(49,969,000)
Provision for non-investment expenses	1,560,000	1,607,000	1,655,000
Additional normal cost due to PfAD	<u>7,223,000</u>	<u>7,440,000</u>	<u>7,663,000</u>
University Normal Cost	\$ 53,992,000	\$ 53,211,000	\$ 54,019,000
Total pensionable earnings	\$ 524,407,000	\$ 540,139,000	\$ 556,343,000
University Normal Cost			
As a % of pensionable earnings	10.30%	9.85%	9.71%
As a % of member contributions	122.63%	111.44%	108.11%

In the event an updated funding range in accordance with legislative requirements is not certified before January 1, 2024, the rule for determining the University normal cost contributions outlined in the above table will continue to be appropriate for the plan year commencing on the next valuation date of January 1, 2024. Adjustment to the University contributions may be required once the next actuarial funding range in accordance with legislative requirements is certified.

Development of Special Payments

The following table summarizes previously established amortization schedules of special payments before adjustment to reflect any gains or losses due to the going concern and solvency valuation results.

Nature of Deficiency	Effective Date	End Date	Annual Special Payment
Going concern	January 1, 2021	December 31, 2030	\$ 9,264,000
			\$ 9,264,000

The following table summarizes the amortization schedules of special payments after adjustment to reflect any gains or losses due to the going concern and solvency valuation results. In accordance with Regulation, the University has decided to defer all new going concern and solvency special payments established as at January 1, 2021 by 12 months. The following table summarizes the amortization schedules of special payments after the aforementioned adjustments.

Nature of Deficiency	Effective Date	Revised End Date	Revised Annual Special Payment	Present Value as of January 1, 2021	
				For Going Concern Valuation ¹	For Solvency Valuation ²
Going concern	January 1, 2021	December 31, 2021	\$ 9,264,000	\$ 9,009,000	\$ 9,156,000
Going concern	January 1, 2022	December 31, 2031	10,860,000	<u>80,348,000</u>	<u>50,297,000</u>
				\$ 89,357,000	\$ 59,453,000

¹ The values in the table were developed using the going concern discount rate compounded monthly in arrears.

² The values in the table were developed using the weighted average solvency discount rate compounded monthly in arrears.

Prior Year Credit Balance (“PYCB”)

The Plan has no PYCB as at January 1, 2021.

Available Actuarial Surplus

As at January 1, 2021 the Available Actuarial Surplus is calculated as follows:

Going Concern Basis

(A)	Total assets	\$ 2,105,435,000
(B)	Total liabilities	2,036,523,000
(C)	Additional liabilities due to PfAD	158,269,000
(D)	Prior year credit balance	-
(E)	Available Surplus: Maximum (A – B – C – D); 0)	\$ -

Hypothetical Wind-Up Basis

(F)	Assets In Excess of a Transfer Ratio of 105%	\$ -
(G)	Available Actuarial Surplus: Minimum (E; F)	\$ -

Excess Surplus

The *Income Tax Act* requires that any excess surplus first be applied to reduce or eliminate the University contribution requirements. Excess surplus is defined in Section 147.2(2)(d) of the *Income Tax Act*, as the portion of surplus (if any) that exceeds 25% of the going concern liabilities.

As of the valuation date there is no excess surplus.

Development of Minimum Required University Contribution

The table below presents the development of the minimum required University contribution for each of the plan years covered by this report.

While we have shown a fixed University normal cost in the table below, the University may actually fund the normal cost as a percentage of member contributions.

	January 1, 2021 to December 31, 2021	January 1, 2022 to December 31, 2022	January 1, 2023 to December 31, 2023
University normal cost	\$ 53,992,000	\$ 53,211,000	\$ 54,019,000
Special payments toward amortizing unfunded liability	9,264,000	10,860,000	10,860,000
Special payments toward amortizing solvency deficiency	-	-	-
Required application of excess surplus	-	-	-
Permitted application of available actuarial surplus	-	-	-
Minimum Required University Contribution	\$ 63,256,000	\$ 64,071,000	\$ 64,879,000
Additional contribution to bring University contribution to Funding Commitment	2,033,000	3,176,000	4,386,000
Minimum Required University Contribution	\$ 65,289,000	\$ 67,247,000	\$ 69,265,000
As a % of required member contributions	148.3%	140.8%	138.6%
As a % of pensionable earnings	12.45%	12.45%	12.45%

Development of Maximum Eligible University Contribution

The table below presents the development of the maximum eligible University contribution for each of the plan years covered by this report.

The maximum eligible University contribution presented in the table below for a given plan year is calculated assuming that the University makes the maximum eligible University contribution in the first plan year covered by this report.

While we have shown a fixed University normal cost in the table below, the University may actually fund the normal cost as a percentage of required member contributions.

	January 1, 2021 to December 31, 2021	January 1, 2021 to December 31, 2021	January 1, 2021 to December 31, 2021
University normal cost	\$ 53,992,000	\$ 53,211,000	\$ 54,019,000
Greater of the Unfunded liability and the hypothetical wind up deficiency/Solvency deficiency	1,142,322,000	-	-
Required application of excess surplus	-	-	-
Maximum Eligible University Contribution	\$ 1,196,314,000	\$ 53,211,000	\$ 54,019,000

If the University wishes to make the maximum eligible University contribution, it is advisable to contact the Plan's actuary before making such contribution to ensure that the contribution will be permissible and eligible and that any regulatory requirements are considered.

Section 6: Actuarial Certificate

Actuarial Opinion, Advice and Certification for the University of Waterloo Pension Plan

Canada Revenue Agency Registration Number: 0310565

Opinion

This actuarial certification forms an integral part of the actuarial valuation report for the Plan as at January 1, 2021. We confirm that we have prepared an actuarial valuation of the Plan as at January 1, 2021 for the purposes outlined in the Introduction section to this report and consequently:

Our advice on funding is the following:

- The University should contribute the amounts within the range of minimum and maximum contribution amounts as outlined in Section 5 of this report, in accordance with legislative requirements.
- The next actuarial valuation for the purpose of developing funding requirements should be performed no later than as at January 1, 2024.

We hereby certify that, in our opinion:

- The contribution range as outlined in this report is expected to be sufficient to satisfy the Plan's funding requirements.
- The University contribution range outlined in this report qualifies as eligible contributions under Section 147.2(2) of the *Income Tax Act*.
- The pre-1990 maximum pension restrictions in Subsection 8504(6) of the Regulations to the *Income Tax Act* do not apply to any members of the Plan.
- For the purposes of the valuation:
 - The data on which this valuation is based are sufficient and reliable;
 - The assumptions used are appropriate; and
 - The actuarial cost methods and the asset valuation methods used are appropriate.
- This report and its associated work have been prepared, and our opinion given, in accordance with accepted actuarial practice in Canada and in compliance with the requirements outlined in subparagraphs 147.2(2)(a)(iii) and (iv) of the *Income Tax Act*.

- Notwithstanding the above certifications, emerging experience differing from the assumptions will result in gains or losses that will be revealed in subsequent valuations.

Linda M. Byron, FCIA, FSA
Senior Partner

Allan H. Shapira, FCIA, FSA
Managing Director

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June 2021

Appendix A: Assets

Asset Data

The Plan's assets are held by CIBC Mellon. The asset information presented in this report is based on the financial statements of the pension fund prepared by CIBC Mellon and statements audited by Ernst & Young.

Tests of the sufficiency and reliability of the asset data were performed and the results were satisfactory. The tests included:

- A reconciliation of actual cash flow with expected cash flow from the previous actuarial report; and
- A reconciliation of any anticipated benefit payments (for retirees, terminated, or deceased members) against the financial statements of the pension fund for confirmation of payments.

Market Value of Assets

The following is a summary of the composition of the Plan's assets by asset type as reported by CIBC Mellon as at January 1, 2021. For comparison purposes, the composition at the previous valuation date of January 1, 2020 is also shown.

	January 1, 2021	January 1, 2020
Canadian equities	7.2%	5.9%
Global equities	45.2%	39.0%
Fixed-income	35.0%	35.2%
Cash	4.0%	10.9%
Real estate	2.7%	3.4%
Infrastructure	<u>5.9%</u>	<u>5.6%</u>
Total Invested Assets	100.0%	100.0%

Target Asset Mix

The target asset mix of the Plan is contained in the Plan's Statement of Investment Policies and Procedures and is as follows:

	Target
Canadian equities	15.0%
Global equities	40.0%
Fixed-income	33.0%
Cash	2.0%
Real estate	5.0%
Infrastructure	<u>5.0%</u>
	100.0%

Reconciliation of Changes in Market Value of Assets

The table below reconciles changes in the market value of assets between January 1, 2020 and January 1, 2021.

	January 1, 2020 to December 31, 2020
Market Value of Assets, Beginning of Plan Year	\$ 1,940,803,000
Contributions During Plan Year	
Member	\$ 39,033,000
University normal cost	49,634,000
University special payments	8,772,000
University transfer deficiency payments	3,384,000
University ongoing expenses	-
Interest on contributions	-
Total	\$ 100,823,000
Benefit Payments During Plan Year	
Non-retired members ¹	\$ 8,261,000
Retired members	67,808,000
Total	\$ 76,069,000
Transfers During Plan Year	
Into plan	\$ 222,000
Out of plan	-
Total	\$ 222,000
Fees/Expenses	
Investment fees/expenses	\$ 3,003,000
Non-investment fees/expenses	2,393,000
Total	\$ 5,396,000
Investment Income	\$ 147,835,000
Market Value of Assets, End of Plan Year	\$ 2,108,218,000
Rate of Return, Net of Fees/Expenses	7.29%

¹ Includes members who have terminated employment or died

Development of Adjusted Market Value of Assets

The adjusted market value of assets is equal to the market value of assets adjusted to reflect any contributions, benefit payments, transfers and fees/expenses in-transit as of the valuation date. The development of the adjusted market value of assets is shown below.

	January 1, 2020	January 1, 2021
Market Value of Assets	\$ 1,940,803,000	\$ 2,108,218,000
Contributions receivable	-	-
Benefits payable	(223,000)	(1,531,000)
Transfers (payable)/receivable	-	-
Fees/expenses payable	<u>(2,078,000)</u>	<u>(1,252,000)</u>
Adjusted Market Value of Assets	\$ 1,938,502,000	\$ 2,105,435,000¹

Development of Actuarial Value of Assets

The actuarial value of assets is equal to the adjusted market value of assets.

¹ Calculated as \$2,105,706,000 as per audited statements, less \$271,000 of in-transit benefit payments that for valuation purposes are excluded from the liabilities

Appendix B: Membership Data

Source of Data

This valuation was based on member data provided by the University as of January 1, 2021. Tests of the sufficiency and reliability of the member data were performed and the results were satisfactory. The tests included:

- A reconciliation of membership status against the membership status at the last valuation. This test was performed to ensure that all members were accounted for. A summary of this reconciliation follows on the next page;
- A reconciliation of birth, hire, and participation dates against the corresponding dates provided for the last valuation to ensure consistency of data;
- A reconciliation of credited service against the corresponding amount provided for the last valuation to ensure that no member accrued more than 1 year of credited service from January 1, 2020. This test also revealed any members who accrued less than 1 year of credited service;
- A reconciliation of pensionable earnings against the corresponding amounts provided for the last valuation to identify any unusual increases or decreases;
- A reconciliation of accrued benefits against the corresponding amounts provided for the last valuation to identify any unusual benefit accruals;
- A reconciliation of any stated benefit payments since January 1, 2020 (for retired, terminated, or deceased members) against the financial statements of the pension fund for confirmation of the payments; and
- A reconciliation of inactive member benefit amounts against the corresponding amounts provided for the last valuation to ensure consistency of data.

There was no information missing from the data, so no assumptions were required with respect to such data.

A copy of the administrator certification certifying the accuracy and completeness of the member data (and the Plan provisions summarized in this report) is included in Appendix F of this report.

Membership Summary

The table below reconciles the number of members as of January 1, 2021 with the number of members as of January 1, 2020 and the changes due to experience in the period.

	Active	Disabled	Suspended	Retired and Beneficiaries	Deferred Vested	MMO Deferred	Total
Members, January 1, 2020	4,891	90	2	2,092	584	2	7,661
Changes due to:							
New entrants	342	-	-	-	-	-	342
Termination							
Non-vested	-	-	-	-	-	-	-
Deferred vested	(82)	(1)	-	(1)	84	-	-
Lump sum	(102)	(2)	-	-	(26)	-	(130)
Death							
No further benefits	(6)	(1)	-	(47)	-	-	(54)
Remaining guarantee	-	-	-	-	-	-	-
Surviving beneficiary	(2)	(1)	-	(17)	-	-	(20)
New beneficiary	-	-	-	20	-	-	20
Retirement	(115)	(4)	-	130	(11)	-	-
Disability	(32)	32	-	-	-	-	-
Return from Disability	9	(9)	-	-	-	-	-
Transfer to Suspended	-	-	-	-	-	-	-
Re-Entry into Plan	2	-	(1)	-	(1)	-	-
New Certain Only beneficiary							
Certain Only Payments Ceased				(1)			(1)
Data correction	-	-	-	-	-	-	-
Net change	14	14	(1)	84	46		157
Members, January 1, 2021	4,905	104	1	2,176	630	2	7,818

Active and Transferred Members

	January 1, 2021	January 1, 2020
Number	4,905	4,891
Average age	47.1	46.8
Average Credited Service	10.2	9.9
Average Pensionable Earnings	\$ 105,460	\$ 102,157
Proportion female	52.3%	52.6%

Disabled Members

	January 1, 2021	January 1, 2020
Number	104	90
Average age	55.5	55.4
Average Credited Service	17.7	16.9
Average Pensionable Earnings	\$ 68,518	\$ 66,791
Proportion female	73.1%	73.3%

Suspended Members

	January 1, 2021	January 1, 2020
Number	1	2
Average age	33.9	34.4
Average Credited Service	3.1	3.0

Deferred Vested Members - Eligible for COLA on All Service

	January 1, 2021	January 1, 2020
Number	321	305
Average age	58.5	57.8
Average Annual Pension	\$ 8,651	\$ 8,056
Total Annual Pension	\$ 2,776,970	\$ 2,457,031

Deferred Vested Members - Eligible for COLA on Pre-2008 Service

	January 1, 2021	January 1, 2020
Number	105	115
Average age	46.9	46.9
Average Annual Pension	\$ 9,078	\$ 9,575
Total Annual Pension	\$ 953,149	\$ 1,101,035

Deferred Vested Members - Not Eligible for COLA

	January 1, 2021	January 1, 2020
Number	204	164
Average age	41.4	40.4
Average Annual Pension	\$ 4,073	\$ 4,262
Total Annual Pension	\$ 830,922	\$ 699,034

Retired Members and beneficiaries

	January 1, 2021	January 1, 2020
Number	2,176	2,092
Average age	74.7	74.6
Average Annual Pension	\$ 32,149	\$ 31,643
Total Annual Pension	\$ 69,955,961	\$ 66,196,903

Active/Disabled Membership Distribution

The following table provides a detailed summary of the active/disabled membership at the valuation date by years of credited service and by age group. For privacy reasons, average pensionable earnings is not shown for groups with two or less members.

Age	< 5	5–10	10–15	15–20	20–25	25–30	>=30	Total
< 30	239	9						248
	\$ 60,235	\$ 72,208	\$	\$	\$	\$	\$	\$ 60,670
30–35	373	135	6					514
	\$ 75,759	\$ 77,410	\$ 82,273	\$	\$	\$	\$	\$ 76,269
35–40	425	221	78	5				729
	\$ 82,192	\$ 96,524	\$ 85,681	\$ 75,593	\$	\$	\$	\$ 86,865
40–45	258	280	115	54	7			714
	\$ 81,450	\$ 106,856	\$ 119,551	\$ 109,149	\$ 79,843	\$	\$	\$ 99,629
45–50	172	174	172	125	50	1		694
	\$ 81,766	\$ 100,420	\$ 128,708	\$ 138,454	\$ 105,884	\$ *	\$	\$ 110,006
50–55	126	143	116	143	97	17	2	644
	\$ 85,011	\$ 97,405	\$ 110,336	\$ 125,281	\$ 126,287	\$ 95,387	\$ 88,807	\$ 107,769
55–60	111	106	91	155	203	53	17	736
	\$ 84,757	\$ 94,561	\$ 102,160	\$ 115,886	\$ 122,621	\$ 126,041	\$ 99,094	\$ 108,624
60–65	51	69	90	74	84	154	43	565
	\$ 93,827	\$ 90,488	\$ 120,724	\$ 113,069	\$ 130,357	\$ 124,732	\$ 145,278	\$ 117,994
>=65	15	20	16	22	27	14	52	166
	\$ 86,385	\$ 131,254	\$ 108,313	\$ 126,015	\$ 128,515	\$ 144,188	\$ 182,058	\$ 140,854
Total								
Count	1,770	1,157	684	578	468	239	114	5,010
Average 2020 Pensionable Earnings	\$ 78,454	\$ 97,360	\$ 113,679	\$ 122,138	\$ 122,681	\$ 123,840	\$ 154,177	\$ 100,689

Deferred Vested/Retired Membership Distribution

The following table provides a detailed summary of the deferred vested/retired membership at the valuation date by age group. For privacy reasons, average pensions are not shown for groups with two or less members.

Age		Deferred Vested Members	Retired Members and Beneficiaries
< 50	Count	299	
	Average Monthly Lifetime Pension	\$ 397	
50–55	Count	99	1
	Average Monthly Lifetime Pension	\$ 786	\$ *
55–60	Count	100	29
	Average Monthly Lifetime Pension	\$ 812	\$ 1,465
60–65	Count	90	181
	Average Monthly Lifetime Pension	\$ 989	\$ 2,129
65 ¹ –70	Count	21	494
	Average Monthly Lifetime Pension	\$ 408	\$ 2,265
70–75	Count	14	515
	Average Monthly Lifetime Pension	\$ 287	\$ 2,934
75–80	Count	4	410
	Average Monthly Lifetime Pension	\$ 103	\$ 3,152
≥80	Count	3	541
	Average Monthly Lifetime Pension	\$ 105	\$ 2,712
Total			
Count		630	2,176
Average Monthly Lifetime Pension		\$ 603	\$ 2,679

¹ Includes all deferred vested members over age 65

Appendix C: Going Concern Assumptions and Methods

Assumptions and Methods

A member's entitlements under a pension plan are generally funded during the period over which service is accrued by the member. The cost of each member's benefits is allocated in some fashion over the member's service. An actuarial valuation provides an assessment of the extent to which allocations relating to periods prior to a valuation date (often referred to as the actuarial liabilities) are covered by the plan's assets.

The going concern valuation provides an assessment of a pension plan on the premise that the plan continues on into the future indefinitely based on assumptions in respect of future events upon which a plan's benefits are contingent and methods that effectively determine the way in which a plan's costs will be allocated over the members' service. The true cost of a plan, however, will emerge only as experience develops, investment earnings are received, and benefit payments are made.

This appendix summarizes the going concern assumptions and methods that have been used for the going concern valuation of the Plan at the valuation date. The going concern assumptions and methods have been chosen to reflect our understanding of the Plan's funding objectives with due respect to accepted actuarial practice and regulatory constraints. For purposes of this valuation, the going concern methods and assumptions were reviewed and changes as indicated were made.

The actuarial assumptions and methods used in the current and previous valuations are summarized below and described on the following pages.

	January 1, 2021	January 1, 2020
Economic Assumptions		
Discount rate	5.30% per year	5.60% per year
Inflation rate	2.00% per year	Same
Post-retirement indexation		
Pre-2014 accrued pensions	2.00% per year	Same
Post-2013 accrued pensions	1.50% per year	Same
Increases in pensionable earnings		
Active members	3.00% per year for 3 years; 4.00% per year thereafter	4.00% per year
Disabled members	2.00% per year	Same
Increases in year's maximum pensionable earnings ("YMPE")	2.75% per year	Same
Increases in maximum pension limit	\$3,245.56 in 2021; increased after 2021 at 2.75% per year subject to a dollar cap of \$3,400 which increases at 0.92% per year beginning in 2022	\$3,092.22 in 2020; increased after 2020 at 2.75% per year subject to a dollar cap of \$3,400 which increases at 0.92% per year beginning in 2022
Interest on member contributions	2.50% per year	3.00% per year
Interest rate used to calculate 50% rule	0.60% per year for 10 years; 0.80% per year thereafter	1.20% per year for 10 years; 1.20% per year thereafter
Investment expenses	Discount rate is net of investment expenses	Same
Non-investment expenses	\$1,560,000 (increased at 3% per year) is added to the University normal cost to cover non-investment expenses	\$1,500,000 (increased at 4% per year) is added to the University normal cost to cover non-investment expenses
PfAD	9.00% of non-indexed liabilities and normal cost (including provisions for expenses)	Same

	January 1, 2021	January 1, 2020
Demographic Assumptions		
Mortality table	2014 Canadian Pensioners' Public Sector Mortality ("CPM2014 Public") Table with mortality improvement Scale MI-2017	Same
Retirement rates	Variable by age (Table A following)	Same
Termination rates	Variable by age (Table B following)	Same
Election on termination	All terminating members are assumed to elect a deferred pension	Same
Disability rates	None	Same
Methods		
Actuarial cost method	Projected unit credit	Same
Asset valuation method	Market value of assets adjusted to reflect contributions, benefit payments, transfers and fees/expenses in transit as of the valuation date	Same

Table A—Retirement Rates

Sample retirement rates per 1,000 are shown in the following table:

Age	Rates per 100
60	5
61	5
62	25
63	10
64	10
65	50
66	25
67	25
68	25
69	50
70	100

Table B—Termination Rates

Sample rates used in this valuation are shown as rates per 100 lives in the following table:

Age	Male and Female
20	10.0
25	10.0
30	5.6
35	3.2
40	2.2
45	1.7
50	1.2
55	0.7
60	0.2
65	0.0

:

Justification of Actuarial Assumptions and Methods

Margins for Adverse Deviations

The actuary has discussed the Plan's experience with the University and compared it to the expected experience. This review indicates that the use of the PfAD achieves the University's desire to maintain safety cushions; therefore the decision was made to not include any additional margins for conservatism. The Provisions for PfAD that is required by Ontario Regulation is discussed later in this section.

Economic Assumptions

Discount Rate

The overall expected return ("best-estimate") of 5.30% was developed based on an inflation rate of 2.00% per year, using best-estimate returns for each major asset class in which the pension fund is invested. A Monte Carlo simulation is performed over 30 years where the portfolio returns are projected assuming annual rebalancing. The average of the 30-year geometric return is used to develop an overall best-estimate rate of return for the entire pension fund. Gains from rebalancing and diversification are implicit to this return.

The following table lays out the adjustments that have been made to the overall expected rate of return in order to arrive at our going concern discount rate assumption:

Development of Discount Rate

Overall expected return	5.34%
Non-investment expenses	0.00%
Passive Investment expenses	(0.07)%
Additional returns due to active management	<u>0.00%</u>
Unrounded Discount Rate	5.27%
Discount Rate	5.30%

Inflation Rate

The inflation rate assumption reflects our best estimate of future inflation considering current economic and financial market conditions, and reflects the mid-point of Bank of Canada target inflation

Productivity Increases

The productivity increase assumption reflects our best estimate of future increases considering current economic and financial market conditions, and is consistent with historical real economic growth.

Increases in Pensionable Earnings

The assumption for increases in pensionable earnings reflects the assumed rate of inflation, plus allowances for the effect of productivity growth, individual employee merit and promotion. In the near-term, it reflects the anticipated impact of Ontario Bill 124 which limits wage increases in the broader public sector.

Increases in YMPE

As the benefits paid to a member from the Plan are dependent on the future YMPE, it is necessary to make an assumption regarding the future increases in the YMPE.

The assumed increase in the YMPE reflects the assumed rate of inflation plus the productivity increase assumption.

Increases in the Maximum Pension Limit

Pensions are limited to the maximum limits under the *Income Tax Act*. The *Income Tax Act* specifies both a dollar limit, and in addition pensions cannot exceed 2% of indexed highest average compensation per year of credited service. The assumed increase in the dollar limit reflects the assumed rate of inflation plus the productivity increase assumption.

Interest on Member Contributions

Interest is credited on member contributions with the rate credited by chartered banks on five-year personal fixed term deposits. The assumption for interest on member contributions reflects our expected increase in these rates, and is consistent with historical rates.

Expenses

Since the discount rate has been established net of investment expenses, no explicit assumption is required for investment expenses.

An explicit provision for non-investment expenses has been included in the normal cost.

Provision for Adverse Deviation

For the purpose of this valuation, the PfAD is established based on the target asset allocation for each category of investments set out in the Statement of Investment Policies and Procedures (SIPP) in effect at the date of this report.

Asset Mix Component	Investment Categorization under Regulation 76 (12)	Categorization under Regulation 11.2 (8)¹	Target Asset Allocation (%)
Cash and short term	4	Fixed Income (“L”)	2.0%
Fixed-income	15	Fixed Income (“L”)	33.0%
Canadian equities	13	Non-Fixed Income	15.0%
Global equities	14	Non-Fixed Income	40.0%
Real Estate (REIT)	7	Non-Fixed Income	5.0%
Infrastructure (Listed)	17	Non-Fixed Income	<u>5.0%</u>
			100.0%
Fixed income (“L”)			35%
Alternative Investment (“M”)			0%
(a) Percentage of fixed income for PfAD [“L” + 50%* “M”]			35.00%
(b) Percentage of non-fixed income for PfAD [100%-(a)]			65.00%
(c) Asset mix component (see table below) ²			5.00%

Percent of Non-Fixed Income Assets	PfAD for Closed Plans	PfAD for Open Plans
0%	0%	0%
20%	2%	1%
40%	4%	2%
50%	5%	3%
60%	7%	4%
70%	11%	6%
80%	15%	8%
100%	23%	12%

¹ The fixed income investments satisfy the minimum credit rating requirements prescribed by the Regulation.

² Based on linear interpolation.

Benchmark Discount Rate (BDR)

(d) V39056 rate at the valuation date	1.21%
(e) BDR [(d)+1.5%*(a)+5.0%*(b)+0.5%]	5.49%
(f) Best estimate discount rate ¹	5.37%
(g) Plan duration	14.97

PfAD is Determined as Follows:

Fixed component (open 4% or closed 5%)	4.00%
Asset mix component	5.00%
BDR component [Max [0, (g)*((f)-(e))]]	0.00%
Total	9.00%

¹ Gross of non-investment expenses and passive investment management fees.

Demographic Assumptions

Mortality

At the current valuation, we are using the 2014 Canadian Pensioners' Public Sector Mortality Table with mortality improvements in accordance with MI-2017.

In 2017, the CIA released a research paper introducing a new Mortality Improvement Scale (MI-2017) and subsequently published an Education Note stating that both the MI-2017 and CPM-B Scales "constitute broad and relevant mortality improvement studies for the Canadian population." We have continued to use MI-2017 projection scale for the purposes of this valuation since this scale takes into account a broader thinking on mortality improvements.

Retirement

The rates of retirement vary by age. The rates of retirement have been developed as our expectation of the best-estimate rates of retirement based on the Plan provisions and a review of retirement experience over the 10 year period ending in 2019. We have been using this table since 2020. We compare actual experience to this assumption with each valuation to monitor its continued appropriateness.

Termination of Employment

The rates of termination of employment before retirement represent a best estimate of termination rates for a plan of this size and workforce characteristics of the Plan. Table A was developed by a previous actuary for the Plan. We have been using this table as our assumption since our first valuation in 2005. The resulting gains and losses have been relatively small. Therefore, we continue to find this table appropriate.

Option Elections on Termination

We have assumed all members will elect a deferred annuity on termination.

Disability

If an active Plan member becomes disabled, contributory service continues to accrue until unreduced pension commencement age, but employee contributions are waived. Since this benefit is substantially the same as the benefit that accrues to an active member, no disability assumption was used. Use of an actual disability assumption in this case would reduce liabilities slightly, so a nil disability incidence assumption represents a small element of conservatism. The disability assumption has very little impact on the valuation results.

Proportion of Members with Spouses and Spousal Age Differential

There is no percent married assumption or age difference assumption required since the Plan does not offer a subsidized joint and survivor pension at retirement, nor any specific preretirement death benefit for a spouse that is not offered to any other beneficiary.

Other

Actuarial Cost Method

An actuarial cost method is a technique used to allocate in a systematic and consistent manner the expected cost of a pension plan over the years of service during which Plan members earn benefits under the Plan. By funding the cost of a pension plan in an orderly and rational manner, the security of benefits provided under the terms of the Plan in respect of service that has already been rendered is significantly enhanced.

The projected unit credit actuarial cost method has been used for this valuation. Under this method, the actuarial present value of benefits in respect of service prior to the valuation date, but based on pensionable earnings projected to retirement, is compared with the actuarial asset value, revealing either a surplus or an unfunded actuarial liability.

With respect to service after the valuation date, the expected value of benefits for service in the year following the valuation date (i.e., the normal cost) net of any required employee contributions is expressed as a percentage of the expected value of participating payroll for that year. The employer normal cost contributions are determined each year by applying this percentage to the actual participating payroll for the year.

When calculating the actuarial present value of benefits at the valuation date, the present value of all retirement, withdrawal and preretirement death benefits are included. For each member, the retirement, withdrawal and preretirement death benefits for a particular period of service are first projected each year into the future taking into account future vesting, early retirement entitlements and minimum pension/value entitlements. These projected benefits for each future year are then capitalized, multiplied by the probability of the member leaving the Plan in that year and discounted with interest and survivorship to the valuation date. The actuarial present value of benefits for the particular period of service is then determined by summing the present values of these projected benefits.

The pattern of future contributions necessary to pre fund future benefit accruals for any one particular individual will increase gradually as a percentage of their pensionable earnings as the individual approaches retirement. For a stable population (i.e., one where the demographics of the group remain constant from year to year), the normal cost will remain relatively level as a percentage of payroll. The projected unit credit actuarial cost method therefore allocates contributions among different periods in an orderly and rational manner for a stable population group.

In the event of future adverse experience, contributions in addition to the normal cost calculated under the projected unit credit actuarial cost method may be required to ensure that the Plan's assets are adequate to provide the benefits. Conversely, favourable experience may generate surplus which may serve to reduce future contribution requirements.

Asset Valuation Method

The asset valuation method for this valuation is market value of assets. All other gains and losses have been fully recognized.

Appendix D: Solvency and Hypothetical Wind Up Assumptions and Methods

Valuation Assumptions

	January 1, 2021	January 1, 2020
Economic Assumptions		
Discount Rates—Solvency		
Transfer value basis	1.20% per year for 10 years; 2.80% per year thereafter	2.50% per year for 10 years; 2.60% per year thereafter
Annuity purchase basis	2.50% per year	2.96% per year
Duration used to determine annuity purchase basis	11.63	11.25
Blended rates used to determine solvency special payments	2.20%	2.80%
Discount Rates—Hypothetical Wind-Up		
Transfer value basis		
100% CPI Indexed	0.60% per year for 10 years; 0.80% per year thereafter	1.20% per year for 10 years; 1.20% per year thereafter
75% CPI Indexed	0.80% per year for 10 years; 1.30% per year thereafter	1.50% per year for 10 years; 1.60% per year thereafter
Annuity purchase basis		
100% CPI Indexed	-0.78% per year	-0.29% per year
75% CPI Indexed	0.04% per year	0.52% per year
Demographic Assumptions		
Mortality table	2014 Canadian Pensioners' Combined Mortality ("CPM2014") Table with mortality improvement Scale CPM-B ¹	Same
Termination rates	Immediate	Same
Retirement age	50% at age between 55 and 65 that produces highest value and 50% at unreduced age 62	Age between 55 and 65 that produces highest value

¹ No preretirement mortality was applied

	January 1, 2021	January 1, 2020
Other		
Wind up expenses	\$500,000	Same
Actuarial cost method	Unit credit	Same
Asset valuation method	Market value of assets adjusted to reflect contributions, benefit payments, transfers and fees/expenses in transit as of the valuation date	Same

Incremental Cost

The assumptions for the expected benefit payments and decrement probabilities, service accruals, and projected changes in benefits and/or pensionable earnings

Same as going concern

Same

Based on the CIA's Guidance and information such as pension legislation, Plan provisions and Plan experience, we have made the following assumptions regarding how the Plan's benefits would be settled on Plan wind up:

	Percent of Liability Assumed to be Settled By Purchase of Annuities	Percent of Liability Assumed to be Settled By Lump-Sum Transfer
Active Members		
Not retirement eligible	0%	100%
Retirement eligible	100%	0%
Deferred Vested Members		
Not retirement eligible	100%	0%
Retirement eligible	100%	0%
Retired Members and Beneficiaries	100%	0%

Postulated Scenario

The postulated scenario is the assumption of immediate termination of employment for the active group at the valuation date. Therefore, no allowance for future salary increases or demographic experience are reflected.

Benefits Valued

	Solvency Valuation	Hypothetical Wind Up Valuation
Vesting	We have treated all accrued benefits as vested on Plan wind up.	We have treated all accrued benefits as vested on Plan wind up.
Consent Benefits	None.	None.
Grow-in Benefits	Active members with 55 age-plus-continuous service points as of the valuation date are assumed to grow into the enhanced early retirement reductions of the Plan.	Active members with 55 age-plus-continuous service points as of the valuation date are assumed to grow into the enhanced early retirement reductions of the Plan.
Exclusions	In accordance with the <i>Pension Benefits Act</i> (Ontario), the solvency liability excludes the value of future escalated adjustments (future indexation) for both the preretirement and postretirement period.	None.
Post-Valuation Date Benefit Increases	Not applicable	Not applicable
Indexing	Excluded	Included

Justification for Valuation Assumptions

We have set the aforementioned assumptions based on guidance prepared by the CIA Committee on Pension Plan Financial Reporting (“PPFRC”) in Educational Note – Assumptions for Hypothetical Wind-Up and Solvency Valuations with Effective Dates between December 31, 2020 and December 30, 2021 (“CIA Guidance”) released on January 22, 2021.

For benefit entitlements that are expected to be settled by lump-sum transfer, we based the assumptions on Section 3500 (Pension Commuted Values) of the CIA Standards of Practice, using rates corresponding to a valuation date of January 1, 2021.

For benefit entitlements that are expected to be settled by purchase of annuities, we based the assumptions on information compiled by the PPFRC from insurance companies active in the group annuity market as described in the educational note.

Non-Indexed Rates

Solvency lump-sum discount rate for 10 years = $V122542^1 + 74 \text{ bps}$
 = $0.48\% + 0.74\%$
 = **1.22% (rounded to 1.20%) per year**

Solvency lump-sum discount rate thereafter = $V122544^{30} + 0.5 \times (V122544^1 - V122542^1) + 119 \text{ bps}$
 = $1.24\% + 0.5 \times (1.24\% - 0.48\%) + 1.19\%$
 = **2.81% (rounded to 2.80%) per year**

Solvency annuity purchase discount rate = $V39062 + \text{Duration Adjustment}$
 = $1.10\% + 1.40\%$
 = **2.50% per year**

¹ CANSIM Series (annualized)

Indexed Rates

Theoretical Yield on 7-year RRGCB (r_7)	$= \sqrt[12]{1.22553^1} \times (\sqrt[12]{1.22542^1} / \sqrt[12]{1.22544^1})$ $= -0.24\% \times (0.48\%/1.24\%)$ $= \mathbf{-0.09\% \text{ per year}}$
Fully indexed lump-sum discount rate for 10 years (r_{1-10})	$= [(1 + i_{1-10}) / (1 + 1 \times c_{1-10})] - 1$ $= [(1 + 1.22\%) / (1 + 1 \times 0.57\%)] - 1$ $= \mathbf{0.64\% \text{ (rounded to 0.60\%) per year}}$
Fully indexed lump-sum discount rate thereafter (r_{10+})	$= [(1 + i_{10+}) / (1 + 1 \times c_{10+})] - 1$ $= [(1 + 2.81\%) / (1 + 1 \times 1.95\%)] - 1$ $= \mathbf{0.84\% \text{ (rounded to 0.80\%) per year}}$
Full indexed annuity purchase discount rate	$= \sqrt[39]{0.57} - 50 \text{ bps}$ $= -0.28\% - 0.50\%$ $= \mathbf{-0.78\% \text{ per year}}$
Implied 100% CPI for 10 years (c_{1-10})	$= [(1 + i_7) / (1 + r_7)] - 1$ $= [(1 + 0.48\%) / (1 + -0.09\%)] - 1$ $= \mathbf{0.57\% \text{ per year}}$
Implied 100% CPI for 10 years (c_{10+})	$= [(1 + i_L + 0.5 \times (i_L - i_7)) / (1 + r_L + 0.5 \times (r_L - r_7))] - 1$ $= \mathbf{1.95\% \text{ per year}}$
Partially indexed (75% CPI) lump-sum discount rate for 10 years	$= [(1 + i_{1-10}) / (1 + 0.75 \times c_{1-10})] - 1$ $= [(1 + 1.22\%) / (1 + 0.75 \times 0.57\%)] - 1$ $= \mathbf{0.79\% \text{ (rounded to 0.80\%) per year}}$
Partially indexed (75% CPI) lump-sum discount rate thereafter	$= [(1 + i_{10+}) / (1 + 0.75 \times c_{10+})] - 1$ $= (1 + 2.81\%) / (1 + 0.75 \times 1.95\%) - 1$ $= \mathbf{1.33\% \text{ (rounded to 1.30\%) per year}}$
Partially indexed (75% CPI) annuity purchase discount rate	=
0.25 x Solvency annuity purchase discount rate + 0.75 x Full indexed annuity purchase discount rate	$= 0.25 \times 2.50\% + 0.75 \times -0.78\%$ $= \mathbf{0.04\% \text{ per year}}$

Mortality Table

The derivation of the discount rate above is in conjunction with CPM2014 in accordance with the CIA Guidance

Preretirement Mortality

We have made no allowance for preretirement mortality. The impact of including such an assumption would not have a material impact on the valuation, since the value of the death benefit is approximately equal to the value of the accrued pension.

Assumptions Not Needed

The following are not relevant to the solvency or hypothetical wind up valuation:

- Increases in pensionable earnings;
- Termination of employment rates; and
- Increases in YMPE.

Estimated Wind Up Expenses

Plan wind up expenses would normally include such items as fees related to preparation of the actuarial wind up report, fees imposed by a pension supervisory authority, legal fees, administration, custodial and investment management expenses. We calculated this as a flat \$500,000. We have not made an allowance for expenses related to surplus or deficit resolution. We have assumed that the University will still be solvent on the wind up of the Plan.

Calculation of Special Solvency Payments

To calculate the special payments necessary to liquidate the Solvency deficiency we used a weighted average of the solvency discount rates based on the relative proportions of benefit entitlements that are expected to be settled by purchase of annuities and lump-sum transfer.

Unisex Assumption

The liabilities are valued on a sex-distinct basis. The determination of the unisex percentage used in the payment of commuted values to members eligible for portability is based on the proportion of active and deferred vested liabilities for males and females. As such, the determination of commuted value liabilities on a sex-distinct basis in the solvency/hypothetical wind-up valuation is appropriate.

Actuarial Cost Methods

Unit credit (accrued benefit) cost method as prescribed.

Asset Valuation Method Considerations

Assets for solvency purposes have been determined using market value.

Incremental Cost

The incremental cost represents the present value, at the calculation date (time 0), of the expected aggregate change in the liabilities between time 0 and the next calculation date (time t), adjusted upwards for expected benefit payments between time 0 and time t.

An educational note was published in December 2010 by the CIA Committee on PPFRC to provide guidance for actuaries on the calculation of this new information.

The calculation methodology can be summarized as follows:

- The present value at time 0 of expected benefit payments between time 0 and time t, discounted to time 0,
plus
- Projected liabilities at time t, discounted to time 0, allowing for, if applicable to the pension plan being valued:
 - expected decrements and related changes in membership status between time 0 and time t,
 - accrual of service to time t,
 - expected changes in benefits to time t,
 - a projection of pensionable earnings to time t,minus
- The liabilities at time 0.

The projection calculations take into account the following assumptions and additional considerations:

The assumptions for the expected benefit payments and decrement probabilities, service accruals, and projected changes in benefits and/or pensionable earnings would be consistent with the assumptions used in the pension plan's going concern valuation.

The assumptions used to calculate the projected liability at time t are consistent with the assumptions for the liabilities at time 0, assuming that interest rates remain at the levels applicable at time 0, that the select period is reset at time t for interest rate assumptions that are select and ultimate and that the Standards of Practice for the calculation of commuted values and the guidance for estimated annuity purchase costs in effect at time 0 remain in effect at time t.

- Active and inactive Plan members as of time 0 are considered in calculating the incremental cost.

Appendix E: Summary of Plan Provisions

This funding valuation was based on Plan design information provided by the University as of January 1, 2021. The following is a summary of the main provisions of the Plan.

Plan Provisions—DB Provision

Effective Date	January 1, 2011 (last restatement of the Plan document and as subsequently amended).
Jurisdiction of Registration	Ontario
Eligibility for Membership	<p>Faculty and Staff Employees are eligible to join the Plan on the first day of any month coincident with or next following the date of employment with the University. An eligible Employee must join the Plan no later than the first day of the calendar year coincident with or next following attainment of age 35, or their appointment (if already age 35).</p> <p>Faculty Employees employed as lecturers may elect not to join the Plan. However, a lecturer who has attained age 35 must join the Plan on the first day of the month coincident with or next following the earlier of promotion to a higher rank or completion of five years of service with the University.</p> <p>Any Employee who has either earned at least 35% of the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan or worked at least 700 hours in each of the two immediately preceding calendar years, shall be eligible to join the Plan on the first day of any month coincident with or next following the date on which such conditions are satisfied.</p>
Normal Retirement Eligibility	First day of the month coincident with or next following attainment of age 65.
Benefit	<p>Effective May 1, 1998 on retirement, a member receives an annual pension equal to the sum of the following:</p> <p>1.4% of Final Average Earnings up to the Average Year's Maximum Pensionable Earnings, plus,</p> <p>2.0% of Final Average Earnings in excess of the Average Year's Maximum Pensionable Earnings</p> <p>for each year and completed month of Credited Service under the Plan.</p>

The Final Average Earnings is determined based on 36 consecutive months of earnings for retirements on or before January 1, 2014. The averaging period is increased by one month for each month in 2014 and 2015 so that the averaging period is 60 consecutive months for all retirements after December 31, 2015. The Average Year's Maximum Pensionable Earnings is determined over a five-year period.

On retirement prior to May 1, 1998, a member received an annual pension equal to the sum of the following:

1.3% of Final Three-Year Average Earnings up to the Average Year's Maximum Pensionable Earnings, plus,

2.0% of Final Three-Year Average Earnings in excess of the Average Year's Maximum Pensionable Earnings.

for each year and completed month of Credited Service under the Plan.

The Average Year's Maximum Pensionable Earnings was determined over a three-year period.

Maximum Pension

The annual benefit payable in the Normal Form under the Plan for a member determined at the time of pension commencement cannot exceed the lesser of:

- the lesser of (a) and (b):
 - (a) the defined benefit limit for the year as defined in the *Income Tax Act*; and
 - (b) \$3,200.00 prior to January 1, 2021 or \$3,400.00 effective January 1, 2021, increased thereafter each calendar year commencing January 1, 2022 by one-third (1/3) of the percentage increase in the Average Industrial Wage, calculated on an annual basis.

times the Member's Credited Service; and

- 2.0% of the Member's highest indexed compensation times Credited Service.

For service prior to January 1, 1992, a member's Credited Service shall not exceed 35 years.

Regulation 8504(6) imposes a lower maximum benefit limit in respect of any pre-1990 service that is granted after June 8, 1990 (e.g., buy-back or granting of years of pre-1990 service that was not previously counted as Credited Service).

Early Retirement

Eligibility

Within ten years of normal retirement date and retire from active service.

Benefit

For Members who retired on an early retirement date prior to May 1, 2000, the pension payable on early retirement is reduced by $\frac{1}{3}$ of 1% for each of the first 60 complete months by which early retirement precedes the normal retirement date plus $\frac{1}{2}$ of 1% for each additional complete month.

For Members who retire on an early retirement date on or after May 1, 2000, the pension payable on early retirement is reduced by $\frac{1}{2}$ of 1% for each complete month by which early retirement date precedes the first day of the month coincident with or next following age 62.

In any event, the reduced pension cannot be less than the actuarial equivalent of the Member's accrued pension.

Postponed Retirement

Eligibility

Any age after normal retirement date; pension commencement under the Plan may not be postponed beyond the end of the calendar year in which the Member attains age 71.

Benefit

The Member continues to make required contributions, his or her service continues to accrue and the Member will receive a pension on his or her postponed retirement date based on Credited Service, Final Average Earnings and Average Year's Maximum Pensionable Earnings at that date, subject to the paragraphs below.

A Member who is a Faculty Employee employed by the University since prior to January 1, 1969 is permitted, if he or she elects on or before normal retirement date to postpone retirement by no more than three years following the first of the month coincident with or next following the end of the contract year during which he or she attains age 65, to elect on or before normal retirement date to cease making any further contributions to the Plan. Such Member shall receive a pension equal to the actuarial equivalent of the pension they would have received at normal retirement date.

A Member who is a non-union Staff Employee employed by the University since prior to January 1, 1969 is permitted, if he or she elects on or before normal retirement date to postpone retirement by no more than three years following the first of the month coincident with or next following the normal retirement date, to elect on or before normal retirement date to cease making any further contributions to the Plan. Such Member shall receive a pension equal to the actuarial equivalent of the pension they would have received at normal retirement date.

Termination Benefits

Eligibility

Immediate (prior to early retirement date)

Benefit

A Member whose service terminates is entitled to a locked-in fully vested deferred pension commencing at his normal retirement date.

The early retirement reduction applicable if the former Member commences receipt of the pension prior to normal retirement date, on or after early retirement date, is equal to 1/3 of 1% for each of the first 60 complete months by which early retirement precedes the normal retirement date plus ½ of 1% for each additional complete month.

A Member who terminates employment and is entitled to a locked-in vested deferred pension may request that an amount equal to the commuted value of the deferred pension entitlement be transferred to another registered pension plan, to a prescribed locked-in retirement savings arrangement or to an insurance University for the purchase of a life annuity that will not commence benefit payments prior to the Member's early retirement date. Different provisions applied for those members who terminated employment prior to July 1, 2012

Death Benefits

Eligibility

Immediate

Benefit

On the death of a Member while in the service of the University, a refund of the commuted value of the accrued pension, subject to the 50% minimum employer cost rule plus any additional voluntary contributions, are paid to the Member's spouse, or if no spouse, the Member's designated beneficiary or estate. Different pensions applied prior to July 1, 2012.

Disability

Eligibility

Immediate (prior to age 65)

Benefit

Members who are in receipt of income disability benefits under the long-term disability insurance plan of the University cease to contribute while disabled but continue to accrue Credited Service for pension purposes.

Accrued pensions for LTD Members are based on pensionable earnings, to date of disability, increased each year by a percentage which is determined annually by the Committee.

Normal Form of Payment

The normal form of pension payable to a Member is a life annuity with a ten-year guarantee period.

For Members who terminated prior to May 1, 1998 and are entitled to a deferred pension under the Plan, the normal form is a life annuity with a five-year guarantee period.

Cost-of-Living Adjustments

The pension of each Member receiving pension payments on May 1 of any year shall be adjusted by the Postretirement Cost-of-Living Factor for each year, provided that the Member has received at least one regular pension payment prior to May 1.

For any pension benefits accrued prior to January 1, 2014, this factor is obtained by dividing the average Consumer Price Index for the preceding calendar year by the average index for the next preceding calendar year. In the first year of retirement, the increase will be provided on a pro rata basis subject to the *Income Tax Act* rules. However, if this factor exceeds 105% and if the financial position of the Plan is not sufficient to provide for this increase, the factor may be reduced, within certain limits, to maintain the solvency of the Plan.

For any pension benefits accrued on and after January 1, 2014 this factor is obtained by dividing the average Consumer Price Index from the preceding calendar year by the average index for next preceding calendar year, and then multiplying the result by 0.75. However, if this factor exceeds 103.75% and if the financial position of the plan is not sufficient to period for this increase, the factor may be reduced, within certain limits, to maintain the solvency of the Plan.

In 2009, the date of the annual adjustment changed from July 1 to May 1, with the first such adjustment as of May 1, 2009 prorated to reflect the ten-month period since the prior adjustment.

All terminated Members who are entitled to a terminated vested pension except for those who terminated between July 1, 1977 and December 31, 1986 shall have their terminated vested pensions adjusted on May 1 (July 1 prior to 2009) of each year by a cost-of-living factor to be determined annually by the Committee, subject to the *Income Tax Act* Rules. Notwithstanding the foregoing, if a Member terminates employment on or after January 1, 2008 and is not within ten years of his or her Normal Retirement Date, or has not completed 20 years or more of continuous employment, the Cost of Living Factor shall only apply to the terminated vested member's pension earned in respect of Credited Service prior to January 1, 2008.

Increases in the Consumer Price Index and the corresponding postretirement cost-of-living factors for 2017 and the previous years are shown below¹:

¹ Cost of living factors only shown for pre-2014 accrued benefits

Year	Increase in Prior Year Consumer Price Index (%)	Postretirement Cost-of-Living Factor (%)
1968	-	2.50
1969	-	3.00
1970	4.50	4.50
1971	3.30	2.00
1972	2.90	2.30
1973	4.80	4.80
1974	7.70	6.40
1975	10.90	10.90
1976	10.80	10.80
1977	7.50	7.50
1978	7.99	5.00
1979	8.91	8.91
1980	9.15	9.15
1981	10.16	10.16
1982	12.49	10.00
1983	10.76	10.76
1984	5.83	5.83
1985	4.35	4.35
1986	3.96	3.96
1987	4.17	4.17
1988	4.37	4.37
1989	4.04	4.04
1990	4.97	4.97
1991	4.76	4.76
1992	5.64	5.64
1993	1.49	1.49
1994	1.84	1.84
1995	0.19	0.19
1996	2.17	2.17
1997	1.56	1.56
1998	1.63	1.63
1999	0.97	0.97
2000	1.74	1.74
2001	2.68	2.68
2002	2.56	2.56
2003	2.23	2.23
2004	2.77	2.77
2005	1.88	1.88
2006	2.17	2.17
2007	2.04	2.04
2008	2.20	2.20
2009 ¹	1.94	1.94
2010	0.29	0.29
2011	1.78	1.78
2012	2.91	2.91
2013	1.52	1.52
2014	0.94	0.94
2015 ²	1.91	1.91
2016	1.13	1.13
2017	1.43	1.43
2018	1.60	1.60
2019	2.27	2.27
2020	1.95	1.95
2021	0.72	0.72

¹ Effective May 1, 2009 the indexation date was changed from July 1 to May 1. Therefore, the indexation adjustment made in 2009 is prorated for ten months since the prior adjustment

² Pensions earned up to December 31, 2013 are indexed annually at 100% of the postretirement cost-of-living factor; pensions earned on and after January 1, 2014 are indexed at 75% of the postretirement cost-of-living factor

Member Contributions

Effective May 1, 2020, Members are required to contribute to the Plan in accordance with the following table:

Effective Date	Contribution Rate on Earnings	
	Not in Excess of Year's Maximum Pensionable Earnings	In Excess of Year's Maximum Pensionable Earnings
May 1, 2020	6.95%	9.95%
May 1, 2021	7.40%	10.60%
May 1, 2022	7.80%	11.20%

Effective January 1, 2013, members are required to contribute 6.25% of annual earnings up to the YMPE, 8.95% of annual earnings that exceed the YMPE but are less than two times the YMPE, and 9.95% of annual earnings in excess of two times the YMPE, subject to the amount permitted under the *Income Tax Act* for the year.

Effective May 1, 2009, Members were required to contribute 5.80% of annual Earnings up to the YMPE, 8.30% of annual Earnings that exceed the YMPE but are less than two times the YMPE, and 9.65% of annual Earnings in excess of two times the YMPE, subject to the amount permitted under the *Income Tax Act* for the year.

Effective July 1, 2008, Members were required to contribute 5.05% of annual Earnings up to the YMPE, 7.85% of annual Earnings that exceed the YMPE but are less than two times the YMPE, and 9.20% of annual Earnings in excess of two times the YMPE, subject to the maximum amount permitted under the *Income Tax Act* for the year.

Effective July 1, 2007, Members were required to contribute 4.80% of annual Earnings up to the YMPE, 7.175% of annual Earnings that exceeds the YMPE but are less than two times the YMPE, and 7.85% of annual Earnings in excess of two times the YMPE, subject to the maximum amount permitted under the *Income Tax Act* for the year.

For the period January 1, 2003 to June 30, 2007, Members were required to contribute 4.55% of annual Earnings up to the YMPE and 6.50% of the excess of Earnings above the YMPE, subject to the maximum amount permitted under the *Income Tax Act* for the year.

Prior to May 1, 1998, Members were required to contribute 4.875% of annual Earnings up to the YMPE and 6.50% of the excess of annual Earnings above the YMPE, subject to the maximum amount permitted under the *Income Tax Act* for the year. Between May 1, 1998 and January 1, 2003, there were temporary reductions in these member contribution rates.

Prior to January 1, 2012, these contributions were credited with interest each year at the four-year arithmetical average rate of return on the pension fund, excluding real return bonds, calculated at December 31st of the prior year. Effective January 1, 2012, the interest credit is the CANSIM rate.

Member Flexible Pension Plan Contributions

Prior to January 1, 2014, members are permitted to make additional flexible Pension Plan contributions on December 31st of each year up to the maximum deductible contribution permitted by the *Income Tax Act*.

On retirement or termination of membership, a Member's flexible Pension Plan contribution balance may be used to purchase additional ancillary benefits under the Pension Plan, up to the maximum ancillary benefits permitted by the *Income Tax Act*.

Flexible contributions that cannot be used to purchase ancillary benefits will be forfeited by the Member.

Transfers to the Pension Fund

A new Member may transfer the value of his or her benefits earned under the registered pension plan of a previous employer into the pension fund. The terms and conditions of such transfer and the benefits that will be payable are determined in accordance with Article 12 of the Plan, as amended from time to time.

Definitions

Pensionable earnings

Staff Employees

Base salary, excluding overtime pay, reimbursement for expenses, special payments, shift premiums, week-end provisions, special allowances and other like payments.

Faculty Employees

Base salary, excluding reimbursement for expenses, administrative stipends, faculty research fellowships, seasonal stipends, summer teaching stipends, special payments, special allowances and other like payments.

Credited service

Member's years and completed months of continuous employment with the University while a member in the Plan.

For service of a member employed on a part-time basis, the period of service is multiplied by the proportion the member's reduced workload bears to a regular full-time workload.

A copy of a letter from the University certifying the accuracy and completeness of the Plan provisions summarized in this report is included in Appendix F of this report.

Appendix F: Administrator Certification

With respect to the University of Waterloo Pension Plan, forming part of the actuarial report as at January 1, 2021, I hereby certify that, to the best of my knowledge and belief:

- The asset data provided or made available to the actuary is complete and accurate;
- The membership data and subsequent query answers provided or made available to the actuary are complete and accurate for all persons who are entitled to benefits under the terms of the Plan in respect of service up to the date of the valuation;
- The Plan provisions provided or made available to the actuary are complete and accurate;
- The actuary has been notified of all relevant events subsequent to the valuation measurement date; and
- The terms of engagement contained in Section 1 of this report are accurate and reflect the plan administrator's direction.

Name (print) of Authorized Signatory

Title

Signature

Date

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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