MEMORANDUM

TO: Faculty, Staff and CUPE Local 793 Members
FROM: Board of Governors Pension & Benefits Committee*
DATE: February 20, 2007
SUBJECT: UW Defined Benefit Pension Plan

The Pension & Benefits (P&B) Committee, at its regular meeting on Friday, February 16, heard that the recent invitation to all employees to a meeting regarding the UW Pension Plan has caused some alarm and concern. The invitation states that the P&B Committee is considering changes to the Pension Plan that are "so fundamental in nature and so far reaching in effect..." and, more specifically, “… Defined Contributions to replace Defined Benefits more and more over time...”.

The P&B Committee wants to reassure you, in the strongest possible voice, that the description in the invitation does not at all represent the changes we are considering.

The University and the P&B Committee is committed to our Defined Benefit Pension Plan and believes that our Defined Benefit Plan is a fair and appropriate way to ensure an adequate retirement income for our members.

(In our Defined Benefit Plan, your pension is based on final average earnings and the number of years you have contributed to the Plan; it is indexed to inflation. Your pension does not depend on investment results or the health of the Pension Plan).

The Committee is considering changes to ensure the long-term sustainability of the Defined Benefit Plan. We have been looking at five related issues:

- Moderating our assumptions of future investment returns based on our actuary’s advice.
- Changing how we treat members who leave the University before retirement.
- Stabilizing employer contributions to the Plan; these have increased from 138% of employee contributions in 2002 to 172% in 2007.
- Increasing employee contributions to the Plan in order to ensure its future viability; the formula under consideration would gradually increase member contributions by salary level (i.e., the increases will be lower at lower salary levels and higher at higher salary levels).
- Increasing the pension cap of $2650 per year of service.

The Committee believes that the changes being considered to address the pension cap (i.e., bullet 5) issue have been misunderstood.

Currently, there is a cap on the amount of income covered by the Defined Benefit Plan. This means that individuals with salaries greater than $145,000 now or 20 years in the future will not receive pension based on their entire income, even though they will continue to make full contributions. The Committee believes that this is unfair and is seeking cost effective ways to raise the cap. While this may not be a pressing problem at present, it will certainly become so in the near future and it is important that the Plan be funded appropriately.

This is a complicated issue since much of the cost of funding pension plans has to do with looking forward and predicting ultimate costs and liabilities. We are considering a proposal that could solve the problem, maintain the Defined Benefit Plan and provide the funds to ensure the UW Pension Plan continues to be solvent, viable and able to deliver the retirement income intended.
This proposed solution will provide for the Registered Plan to increase its limits to the maximum permitted under the *Income Tax Act*, while transferring the remaining pension costs to the Payroll Pension Plan. In the Payroll Pension Plan, as it is currently, the remainder of the pension formula for Defined Benefit will be provided. The difference is that the Committee is recommending that the cap in the Payroll Pension Plan be regularly adjusted so that it will provide for a pension above the *Income Tax Act* limit.

There will still be some employees whose salaries already or will exceed the cap in the Payroll Pension Plan and who continue to contribute to the Plan. For this small group, the Committee is proposing that a "notional account" be established that will provide a cash amount plus interest at retirement. It will not replace what they would receive if their entire salary was covered under a defined benefit plan, but will provide some additional retirement income.

These changes to the Plan are meant to ensure that the Defined Benefit Plan at Waterloo remains healthy, solvent and intact. Please talk to any member of the P&B Committee about the proposed changes and, by all means, attend the meeting on February 27th sponsored by the employee groups. The speaker, Hugh MacKenzie, has a fine reputation for being able to explain complex pension issues in simple terms.

In March, we expect our actuary to have a comprehensive draft of the proposed changes for the Committee's review. Subsequent to that, we will present them to Plan members for input and suggestions.

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