Agenda for Presentation

☑ Answer the following questions:

- What is the pension promise under the UW Pension Plan?
- How is that pension promise funded?
- Is there enough money to pay the pension promise?
- What are we doing to keep the UW Pension Plan healthy?

☑ Answer any other questions you have
What is the Pension Promise?
Plan Structure

- Defined benefit (DB) pension plan covering all eligible employees under one set of provisions
- Funded by contributions from members and university
Plan Structure (continued)

Key Plan Provisions

- Averaging Period for Earnings: Highest 36 consecutive months in last 120 months (subject to plan cap)

- Benefit Rate for Each Year of Service: Below CPP Wage Base: 1.4%  
  Above CPP Wage Base: 2.0%

- Standard Form of Payment: Lifetime pension with a 10-year guarantee

- Earliest Age for Unreduced Early Retirement Pension: Age 62

- Automatic Indexation of Pension Benefits After Retirement: 100% of increase in CPI up to 5% (each May 1st); P & B Committee decides above that
How is the Pension Promise Funded?
Funding the Pension Promise

**Funding Sources**

- Member Contributions
- University Contributions
- Investment Earnings

**Cost of Pension Plan**

- Benefits paid to members, as determined by plan provisions
- + Costs to administer pension plan
Funding Choices (continued)

<table>
<thead>
<tr>
<th>Take Less Investment Risk</th>
<th>Take More Investment Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Lower Expected Returns</td>
<td>Target Higher Expected Returns</td>
</tr>
<tr>
<td>Target Higher Expected Contributions</td>
<td>Target Lower Expected Contributions</td>
</tr>
</tbody>
</table>

Cost of Pension Plan

Portion Funded From Contributions

Portion Funded From Investment Earnings
Contributions

- **Member contribution rates:**
  - Salary Below YMPE ($46,300 in 2009): 5.80%
  - Salary Above YMPE up to 2x YMPE ($92,600 in 2009): 8.30%
  - Salary Above 2x YMPE: 9.65%

- University contributes 145% of member contributions

Average contribution rate of 6.8% of salary
Pension Fund

Value of Assets as of September 30, 2009

$832 million

- Equities: 38%
- Inflation-Linked Bonds: 19%
- Bonds/Short-Term: 43%
Pension Fund Investment Earnings

- Allocation of cost of benefits between member/University contributions and investment earnings:
  - Based on achieving a rate of return on the pension fund of 6.35% per year or 3.85% per year above inflation

- To target that return, pension fund has to take investment risk:
  - Creates long-term risk that additional expected return will not be achieved
  - Creates short-term risk from volatility in investment returns
The Complete Picture

Funding Sources

Member Contributions
- Currently 6.8% of salary

University Contributions
- Currently 145% of member contributions

Investment Earnings
- Currently assume investment return of 6.35% per year (3.85% per year net of inflation)

Cost of Pension Plan

- Benefits paid to members, as determined by plan provisions
- Costs to administer pension plan
Is There Enough Money to Pay the Pension Promise?
Funded Status

- Actuarial valuation as of January 1, 2008 filed with pension regulator; next required filing as of January 1, 2011
- Funded status as of January 1, 2008 shown below along with estimate as of September 30, 2009:

<table>
<thead>
<tr>
<th></th>
<th>As of January 1, 2008</th>
<th>Estimated as of September 30, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values of Assets</td>
<td>$ 906 million</td>
<td>$ 832 million</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$ 892 million</td>
<td>$ 983 million</td>
</tr>
<tr>
<td>Funding Excess/(Shortfall)</td>
<td>$ 14 million</td>
<td>$(151 million)</td>
</tr>
</tbody>
</table>

University’s contributions have been set at a level that already anticipated part of the above funding shortfall.
What Are We Doing to Keep the Pension Plan Healthy?
Managing Long-Term Health of Pension Plan

Contributions

Increasing both member and University contributions

Investment Earnings

Monitoring if investment return expectations are achievable

Benefits

Focusing on maintaining core benefit promise
Finding the Right Balance

- Cost to provide same level of pension benefits has been increasing

- Prudent management requires P & B Committee to ensure dollars allocated toward pension benefits by members and university are used wisely and for purposes intended

- Equity amongst members is also an important factor

- Requires thinking about what core pension benefit promise is and identifying provisions that may be “nice to have” but are outside core benefit promise
## Benefit Provisions

### Core Benefit Promise
- Pension formula
- Indexation after retirement
- Early retirement
- Survivor benefits
- Termination benefits

### Other Benefits
- Indexation before pension start date for terminated members with shorter service
- Interest credit on member contributions beyond statutory requirement
- Excess refund under 50% cost-sharing rule beyond statutory requirement
- Commuted value option after member eligible for an immediate pension
Basis for Crediting Interest on Member Contributions

Input being sought on changing the interest credit on employee contributions to the five-year fixed-term chartered bank deposit rates on a phased-in basis
Basis for Crediting Interest on Member Contributions
(continued)

- Most DB pension plans credit interest using five-year fixed-term chartered bank deposit rates as specified under *Pension Benefits Act*
- Under UW Pension Plan, interest credited based on four-year average of pension fund rate of return
- Member contribution balances affect 50% cost-sharing rule ("50% rule")
- Taking investment risk creates volatility in investment returns:
  - Means timing of member’s retirement can affect if there is a refund under 50% rule and if so how much
  - Creates more of a defined contribution approach
Basis for Crediting Interest on Member Contributions
(continued)

- For members retiring after period of favourable investment return:
  - Higher Interest Credits
  - Higher Contribution Balances
  - Larger Refund (if any) Under 50% Rule
  - Most of Balance Remains—Future Unfavourable Investment Returns Cost the Pension Plan, Not the Member

- For members retiring after period of unfavourable investment return, opposite is true; creates issue of equity between members
Option of Community Pension Between Ages 55 and 65

Input being sought on phasing out the option for a member to take the commuted value of their pension on retirement between ages 55 and 65
Option of Commuting Pension Between Ages 55 and 65 (continued)

- Pension legislation only requires a commuted value option (also called lump-sum value) for members terminating before eligibility for early retirement (age 55 under UW Pension Plan).

- UW Pension Plan offers commuted value option to members who retire after age 55 and on or before their normal retirement date.

- Since pension is indexed to inflation, commuted values are based on interest rates net of inflation ("real interest rates") at date of calculation.
Option of Commuting Pension Between Ages 55 and 65 (continued)

- Option no longer cost-neutral to Pension Plan:
  - Real interest rates are now much lower than expected real investment return on which contributions are based
  - Result is additional Pension Plan liability—approximately $4 million over the last four actuarial valuations
  - Now needs to be factored into actuarial valuation which will increase liabilities by $8 million and increase annual cost of benefits being earned by $500,000

- Any change to this option would be introduced with a phase-out period during which commuted value option would be offered