

**University of Waterloo**  
**PENSION & BENEFITS COMMITTEE**  
**Report to the Board of Governors**  
**4 February 2020**

This report is submitted following the committee’s meetings of 15 November 2019, 13 December 2019 and 17 January 2020, for inclusion in the regular agenda.

**FOR APPROVAL**

---

**1. Amendments to the University of Waterloo Pension Plan**

Motion: That the Board of Governors approve the attached resolution Amendment No. 6, amending the University of Waterloo Pension Plan (“UW Pension Plan”) to increase member contribution rates and to increase the pension cap, as described in this report.

Background and Detail on Plan Changes: Member contribution rates to the UW Pension Plan were last increased in 2013, along with changes to the future service benefit provisions. These changes created a 50/50 sharing of the cost of benefits being earned each year (current service cost) between members and the University. Since that time, the current service cost has increased as a result of [1] the decrease in interest rates and lower expected future investment returns, [2] the increase in the pension payment period as a result of improved longevity, and [3] new funding rules in Ontario. As a result, member contribution rates now only cover 43% of the total current service cost, with the University contributing the remaining 57%.

The Pension & Benefits Committee recommends an increase in member contribution rates as follows, phased in over a three-year period, to restore sharing of current service cost back to 50/50 once changes are fully phased-in:

Portion of Salary	Current contribution rate	Contribution Rate effective:		
		May 1, 2020	May 1, 2021	May 1, 2022
Less than 1x YMPE (Less than \$58,700 in 2020)	6.25%	6.95%	7.40%	7.80%
Between 1x and 2x YMPE (Between \$58,700 and \$117,400 in 2020)	8.95%	9.95%	10.60%	11.20%
Above 2x YMPE (Above \$117,400 in 2020)	9.95%	9.95%	10.60%	11.20%

YMPE = year's maximum pensionable earnings under the Canada Pension Plan

The UW Pension Plan currently places a pension cap of \$3,200 per year of pensionable service on the indexed maximum pension under the *Income Tax Act* (ITA). The pension cap has been periodically increased in the past by the Pension and Benefits Committee as the indexed ITA maximum pension approaches the cap. The ITA maximum pension stands at \$3,092 per year of pensionable service in 2020.

The Pension & Benefits Committee recommends increasing in the pension cap applied under the UW Pension Plan from \$3,200 to \$3,400 per year of pensionable service, as well as recommending that the pension cap be automatically increased each calendar year by one-third of the percentage increase in the Average Industrial Wage, with both changes effective 1 January 2021. The increase in the pension cap along with the escalation feature will result in a net increase of \$31 million to the calculated funding shortfall.

There will be no change to the Payroll Pension Plan which provides pension benefits above the ITA maximum pension, outside of the registered pension plan, up to \$3,400 per year of pensionable service. As a result, with the increase in the pension cap under the UW Pension Plan to \$3,400 per year of pensionable service, there will be no further benefits earned under the Payroll Pension Plan once the ITA maximum pension reaches \$3,400.

Rationale: The long-term funding objective for the University of Waterloo Pension Plan is for both members and the University to share the cost of benefits being earned on a 50/50 basis. However, if there is a funding shortfall on past benefits earned, the University is responsible for making the special payments required to fund that shortfall. Given the current level of the funding shortfall and the uncertainty around future investment returns, the P&B Committee and the University believe the funding strategy adopted in these recommendations is the most prudent course to follow to enhance the Pension Plan's long-term sustainability.

The total current service cost of the UW Pension Plan, including the prospective change to the cap, is 17.8% of salaries. In addition to the current service cost, the University makes special payments of 2.8% of salaries toward the present funding shortfall under the UW Pension Plan.

The recommended increases brings member contribution rates to 8.9% of salaries once fully phased-in. The University notional share of current service cost would decrease from 9.6% of salaries currently to 8.9% of salaries. This restores the 50/50 sharing of current service cost upon phase-in. Since the University's overall contributions will be maintained at current levels through the phase-in period, the notional 0.7% of salaries decrease in University contributions will be reallocated entirely toward the University's special payments in the UW Pension Plan. These payments will be effectively increased to 3.5% of salaries from 2.8% currently.

The Committee observes that the UW Pension Plan is very unusual in having a three-tier contribution formula for members. Contribution rates are typically structured in a two-tier formula using the YMPE threshold in the same way the benefit rate is structured below/above the YMPE. That was the structure of the contribution formula under the UW Pension Plan before 2008 when the third tier above 2x YMPE was introduced to address the increase in current service cost arising from an accelerated increase in the maximum pension under the ITA and the associated increases in the pension caps under the UW Pension Plan and Payroll Pension Plan. With the rate of increase in the ITA maximum pension to be moderated and the recommendation to transition out of the Payroll Pension Plan, the recommendation brings a return to a two-tiered member contribution formula in conjunction with the increase in member contributions.

Process and Consultations: In 2018, a subgroup of the Committee commenced initial discussions on pension funding and Plan design matters to address the observed drift in the sharing of current service cost, the ongoing handling of the pension cap, and how any Plan changes could foster the overall health of the Plan. These discussions were initiated in light of new funding rules being approved by the provincial regulator, and with the observation that many other comparator Ontario universities had made changes to their respective Plans. In 2019, Pension & Benefits Committee spent many months considering options and potential impacts of changes on Plan members and the health of the Plan, and with the assistance of the Plan's actuary Aon developed a draft recommendation in Fall 2019.

Prior to considering a formal recommendation for Plan changes, the Committee held five public information sessions on two different days over two weeks in December 2019 to inform members of the University community of the Plan changes under consideration, as well as impacts on members and the benefits to the Plan's overall funding strategy. The public information sessions were advertised via email and articles in the Daily Bulletin, and overall attendance across the five sessions was approximately 400. The committee also posted copies of the presentation slides and a video of one presentation to the committee's website for members of the community who may have been unable to attend the public sessions. Further, a web form to submit feedback was provided for community members to communicate their questions/comments on the prospective changes to the committee.

/mg

Peter Barr  
Chair

**UNIVERSITY OF WATERLOO  
PENSION PLAN FOR FACULTY AND STAFF**

Amendment No. 6

---

**The Board of Governors of the University of Waterloo resolves that the University of Waterloo Pension Plan for Faculty and Staff (amended and restated effective January 1, 2011), Registration Number 0310565 (the “Plan”), is amended as follows:**

1. Effective May 1, 2020, paragraph (a) (General) of Section 4.01 (Required Member Contributions) shall be deleted in its entirety and replaced with the following:

“(a) General

Subject to Section 4.01(b), (c), (d) and (e), each Member is required to contribute to the Plan by payroll deduction for each year (including a partial year) of participation in accordance with the following table:

<b>Contribution Rate on Earnings</b>		
<b>Effective Date</b>	<b>Not in Excess of Year’s Maximum Pensionable Earnings (for that year)</b>	<b>Exceeds Year’s Maximum Pensionable Earnings (for that year)</b>
May 1, 2020	6.95%	9.95%
May 1, 2021	7.40%	10.60%
May 1, 2022	7.80%	11.20%

Notwithstanding the above, a Member shall not be required to contribute for any period while he or she is Totally Disabled.”

2. Effective May 1, 2020, paragraph (b) (Part-Time) of Section 4.01 (Required Member Contributions) shall be deleted in its entirety and replaced with the following:

“(b) Part-Time

A Member who is part-time shall contribute to the Plan by payroll deduction for each year (including a partial year) of participation in accordance with the following table:

<b>Contribution Rate on Reduced Earnings</b>		
<b>Effective Date</b>	<b>Not in Excess of Year’s Maximum Pensionable Earnings (for that year)</b>	<b>Exceeds Year’s Maximum Pensionable Earnings (for that year)</b>
May 1, 2020	6.95%	9.95%
May 1, 2021	7.40%	10.60%
May 1, 2022	7.80%	11.20%

Notwithstanding the above, a Member shall not be required to contribute for any period while he or she is Totally Disabled.”

3. Effective May 1, 2020, a new row shall be added at the top of the chart in Section A.1.01 (Past Member Contribution Rates) of Appendix – Historical Provisions as follows:

Applicable Dates of Service	Contribution Rates		
	(A)	(B)	(C)
January 1, 2013 to April 30, 2020	6.25%	8.95%	9.95%

4. Effective January 1, 2021, a new definition for “Pension Cap” shall be added to the Plan as Section 2.22.1:

“2.22.1 **“Pension Cap”** means \$3,400 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. For purposes of this Section, “Average Industrial Wage” means the average industrial wage as published by Statistics Canada under the authority of the *Statistics Act* (Canada) for purposes of increasing the Year’s Maximum Pensionable Earnings and the maximum pension pursuant to the Income Tax Act.”

5. Effective January 1, 2021, subparagraph (i) of paragraph (a) (Maximum Pension) of Section 6.07 (Maximum Pension) shall be deleted in its entirety and replaced with the following:

“(i) the lesser of the Defined Benefit Limit for the year and the Pension Cap; and”

#### CERTIFICATION

I \_\_\_\_\_, Secretary to the Board of Governors of the University of Waterloo, do hereby certify under the seal of the University that the foregoing resolution was duly approved by the Board of Governors at a meeting held on the \_\_\_ day of \_\_\_\_\_, 2020.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date