

**UNIVERSITY OF WATERLOO
BOARD OF GOVERNORS
PENSION & BENEFITS COMMITTEE
2013-14 Report to the Community**

This report provides an overview of the issues addressed by the Pension & Benefits Committee in 2013-14. Further information on any of these topics may be obtained by contacting the committee secretary, Erin Windibank (erin.windibank@uwaterloo.ca), or by visiting the committee webpage at: <http://uwaterloo.ca/secretariat-general-counsel/committees-and-councils/pension-benefits-committee>.

The Committee and its Members

The Pension & Benefits Committee is a standing committee of the Board of Governors responsible for overseeing the university's pension plans, extended health care and dental plans, self-insured sick leave, long term disability plans, and life insurance plans. The committee consists of representatives from senior administration, the Board of Governors, retirees, staff, faculty and CUPE Local 793.

The committee meets on a monthly basis (except April, July and August); meetings are open to the university community and [agendas and minutes](#) are available on the web. Recommendations for changes and improvements to the university's pension and benefit plans are developed, refined and approved by the committee and forwarded to the Board of Governors for approval.

The committee's approach to pension and benefit plans is based on the following principles:

1. There will be one pension and benefits plan for all members of the university community, regardless of the type of work performed or the employee group to which one belongs.
2. Benefits are provided for both the employee and his or her family, where relevant.
3. Employees should be covered for catastrophic events.
4. The current level of benefits should be maintained.
5. Cost implications to both the university and its employees should be considered.

Committee Activities in 2013-14

Benefits Plan

1. Benefits Review Working Group

In response to feedback received from the community and information received from the committee's resource people, the committee formed a working group in 2012 to:

- look at the relevance, sustainability and competitiveness of the extended health, dental, life insurance, short- and long-term disability, and employee assistance plans;
- research alternative plan designs without increasing the university's costs for the current plan design; and
- develop recommendations to the Pension & Benefits Committee.

The working group included one Pension & Benefits Committee member from each of the employee groups, one of the president's appointees and the non-voting member from the Affiliated and Federated Institutions of Waterloo.

- a. **Community consultation.** The working group surveyed employees in spring 2013 to collect feedback about awareness and understanding of the current benefit plan, as well as areas of satisfaction and deficiency. Responses were received from 1282 individuals (840 staff, 272 faculty and 170 CUPE members), representing 33.5% of the population surveyed. Based on the response rates, it was not possible to distinguish meaningful differences between employee groups in the

analysis of survey results, and members were cognizant that less than 35% of the respondents provided written comments.

Highlights of feedback received through the survey included:

- The majority of respondents indicated that they understand the medical and dental benefits plans.
- In general, employees are pleased to have the option to purchase additional life insurance, and feel that their short- and long-term disability benefits are generous. Employees expressed that these benefits provide them with a sense of security and well-being, and that they are cared for by their employer.
- Many employees expressed surprise and displeasure about lack of coverage for vision care.
- Some employees expressed concern that maximums are too low for paramedical services that require multiple visits; they also expressed concern with the level of dental coverage, which lags the dental fee guide by two years.
- Many employees feel that the existing employee assistance plan does not meet their needs as they are unable to access campus counseling services on a timely basis and the scope of service provided is limited (e.g. no service for dependents).

b. Exploration of options. The working group explored options for potential plan improvements based on the survey results combined with the results of a market comparison conducted by Aon Hewitt in 2012 that compared the university against nine other organizations. The working group determined that:

- Alternate plan designs for life insurance, sick leave and long term disability would not be explored.
- Issues pertaining to the employee assistance program require additional funding.
- Alternate plan designs for the extended health and dental benefits should be explored to address key issues around lack of vision care, level of chiropractic coverage, dental fee guide lag, and counseling.

Several healthcare plan design options were explored which introduced the following elements:

- Introduction of a health spending account
- Combining all paramedical practitioners under one annual maximum
- Introduction of a “buy up” option and the commencement of full-time employee contributions to premiums.

Based on the financial analysis of these elements, the working group determined that the only option capable of addressing the identified deficiencies within stated constraints would be a “buy up” option. Presentations of different models were made to the various stakeholder groups (faculty association, staff association, and CUPE), and feedback was mixed with some strong opposition expressed.

c. Recommendations. Based on the feedback received, the working group made a recommendation to the Pension & Benefits Committee that the buy up option not be pursued at this time and that a review of the university’s total compensation program is required to address any changes on a more holistic level.

It is the understanding of members of the subcommittee that the strategic plan theme group dealing with a robust employer-employee relationship includes an objective to conduct a review of the university’s total compensation programs, systems and processes to ensure competitiveness in the market. The benefits working group’s research and findings will be presented to this group for further development with the proviso that any and all changes to the pension and benefits programs must be brought forward to the Pension & Benefits Committee for review and approval.

Pension Plan

- 2. Education and monitoring.** The committee receives regular reports from the consulting actuary on legislative and policy changes anticipated and in force that impact public sector pensions, as well as changes implemented by other public sector pension plans. The committee discusses implications for the university's pension plan and takes the information into account when making decisions on matters including plan design, funding and administration.

Government initiatives the committee has been monitoring over the past year include discussions about voluntary consolidation options for public sector pension assets. Several committee members attended a first-ever Ontario university pension symposium presented by Wilfrid Laurier University in collaboration with Aon Hewitt (the university's consulting actuarial firm) on 6 May 2014, that fostered productive discussion of issues facing Ontario university pension plans, including the potential for a voluntary university sector plan. The consulting actuary also keeps the committee up to date on changes initiated by the Canadian Institute of Actuaries, which finalized new mortality tables on 13 February 2014.

- 3. Indexation Protocol.** At its 11 October 2013 meeting, the committee adopted a new protocol to assist with decisions re: topping up indexation for pensions in payment in the event that the registered pension plan returns to a positive funded status, plus a margin (indexation was reduced in 2012 from 100% to 75% of the increase in CPI up to a maximum increase in CPI of 5% for pension benefits accrued after 31 December 2013, in order to address the funding shortfall and long-term sustainability of the plan). Principles behind the indexation protocol include ensuring equity of treatment between cohorts of pensioners, and between pensioners and active members.
- 4. Technical plan amendment.** On the committee's recommendation, the Board of Governors approved a technical amendment to the registered pension plan, effective as at 1 January 2014, designed to prevent an unanticipated side-effect discovered in the course of implementing changes made to the plan in 2012. The amendment ensures that a member's benefit and indexation are both paid from the same plan (i.e. the registered pension plan or payroll pension plan). It makes plan administration easier and provides clarification for the modest number of situations in which this issue could arise, without changing the total benefit eligible for indexation from the amount originally intended.
- 5. Changes to actuarial assumptions.** During the discussion of the actuarial valuation assumptions in winter 2014, the committee was advised to consider whether certain actuarial assumptions needed to be changed to reflect shifts in economic and demographic trends.

Guided by the consulting actuary, the committee approved changes on 9 May 2014, including: (a) reducing the interest rate used to discount liabilities from 6.10% (CPI + 3.85%) to 6.00% (CPI + 3.75%) per year, resulting in an increase of approximately \$19 million to the pension plan's liabilities; (b) adopting a newly released mortality table that is based on Canadian experience and reflects significant longevity improvements (the previous standard table was based on US data), resulting in an additional increase of approximately \$80 million to the pension plan's liabilities; (c) using the new real interest rate of 3.75% per year to discount the cash flows from the real return bonds, resulting in an increase of approximately \$1 million to the plan's assets; and (d) taking immediate recognition of the deferred asset gains of approximately \$48 million (resulting from three-year asset smoothing) in conjunction with the above changes to the actuarial assumptions increasing the plan's liabilities. The net impact of all these changes is an increase of \$50 million in the plan's unfunded liability.

The changes to the actuarial assumptions also increase the university's current service cost by approximately \$1.7 million or 0.48% of pensionable salaries.

The committee believes that these changes provide an appropriate representation of the plan's overall position and funding requirements.

- 6. Solvency funding relief.** On 10 June 2013, the committee was informed that the registered pension plan was accepted for the stage one solvency funding relief, for which it applied in December 2012. Taking advantage of the solvency relief enables the university to defer making additional special payments into the pension plan over and above those already being made to fund the going concern deficit (if the need arises at the time of the next valuation in 2017).

The university continues to fund the going concern deficit^a over a fifteen year period through the funding already built into the university's operating budget, as well as the pension plan changes approved by the Board in October 2012.

- 7. Filing of the actuarial valuation.** The university is required to file an actuarial valuation of the registered pension plan every three years. The filing of the valuation determines the university's statutorily enforceable obligations with respect to funding the plan, and the payments required to the Pension Benefits Guarantee Fund. The funding plan and payment obligations are built into the university's operating budget. The Board of Governors approved filing of the actuarial valuation of the plan as at 1 January 2014 at its June meeting.
- 8. Revisions to the Statement of Investment Policies & Procedures (SIPP).** Following its annual review, and with support from the Finance & Investment Committee and the Registered Pension Plan Investment Subcommittee, the committee approved the following changes to the SIPP, which will be presented to the Board of Governors for approval in fall 2014:
 - increasing the limit on the amount of cash that can be held in the plan in order to reflect decisions to retain additional cash for risk management purposes, and changing the way in which the cash position is calculated;
 - incorporating a chart reflecting the expected long-term asset mix over a period of seven or eight years to assist the actuary with plan valuations; and
 - incorporating language to reflect the purchase of US treasuries.
- 9. Investment monitoring.** The Registered Pension Plan Investments Subcommittee, which is made of up members of the Pension & Benefits Committee and Finance & Investment Committee continues to meet on a regular basis to actively monitor the performance of the pension fund and investment managers.

On 7 January 2014, the three committees held a joint meeting for the purpose of developing common understanding with regard to: pension plan governance structure and operation; pension plan design, funding sources, liabilities, annual valuation calculation and status; and impact of investment decisions on the pension plan. The meeting was positive and discussions are ongoing regarding how these groups can work effectively to enhance communication and understanding of their respective roles with regard to pension stewardship.

- 10. Changes to investment portfolio.** The following changes were made to the registered pension plan's investments since the last report to the community:
 - In September 2013, a further \$30M investment in Sionna Investment Managers was approved. The university approved Sionna as a new Canadian equity manager in 2012 and placed two \$20M investments. The additional investment recognizes Sionna's positive performance and investment approach, which is consistent with the plan's investment philosophy, as well as addressing some

^a The going concern calculation assumes that the plan will continue to operate for the foreseeable future. A going concern deficit occurs when the value of the liabilities (calculated using plan member data, the benefit structure of the plan, and actuarial assumptions) is greater than the market value of the pension plan assets.

concern re: the relatively low proportion of plan assets invested in Canadian equities and the large proportion of plan assets being held in cash.

- The plan's cash position was further reduced through an investment of \$85M in 30 year US treasuries in March 2014.
- Finally, the TDAM US equity position was liquidated in March 2014, as it was inconsistent with the plan's adoption of a value-oriented investment approach with active asset management.

16 July 2014