

UNIVERSITY OF WATERLOO
BOARD OF GOVERNORS
PENSION & BENEFITS COMMITTEE
2017 Report to the Community

This report provides an overview of issues addressed by the Pension & Benefits Committee for the calendar year. Further information on any of these topics may be obtained by contacting the committee secretary Mike Grivicic (mgrivicic@uwaterloo.ca) or by visiting the [committee webpage](#).

A. The Committee and its Members

The Pension & Benefits Committee is a standing committee of the Board of Governors responsible for overseeing the University's employee pension plans, health care and dental plans, sick leave benefits, long-term disability benefit, life insurance benefit, and the Employee and Family Assistance Plan (the "Plans"). The committee consists of representatives from the University's employee groups, administration, Board of Governors, retirees, and affiliated and federated institutions of Waterloo. 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 [committee webpage](#). The committee monitors the health and oversees the administration of the Plans. Recommendations for changes and improvements to the Plans are developed, refined and approved by the committee and forwarded to the Board of Governors for approval.

B. Benefits

1. **Holistic Benefits Review.** A plan was developed and work initiated to review the benefits offered to employees. This review would encompass plan benchmarking, potential options for plan redesign, and marketing of benefits. The exact content of the plan is still to be determined at the upcoming committee meetings, and it is anticipated that the entire process would run until 2019-20.
2. **Employee and Family Assistance Program.** The committee obtained updates on the request for proposals and ultimate adoption of a new Employee and Family Assistance Program, which was put into place for active employees and their eligible dependent effective 1 September 2016. This included an annual utilization report in November 2017.
3. **Provincial Pharmacare for Ontarians under 25.** The committee observed that potential savings could be expected from newly-announced pharmacare program, and the committee has maintained a watching brief on this subject with the view of developing an optimized plan.
4. **Annual Work Plan Items.** In accordance with the annual work plan for the committee, the committee:
 - Approved the benefits plans premium renewals negotiated by Human Resources in conjunction with our consultants. Based on claims experience, the long-term disability premium paid by employees increased 7.5% on 1 May 2017. The committee directed that the insurer be notified that the University will examine the plan design and vendor landscape, and in the meantime will accept the three year proposal while not committing to continue with the insurer for that duration
 - Received reports on the benefits plan utilization rates and associated costs
 - Provided oversight to a number of other items that occur automatically according to plan provisions, e.g. movement in the dental fee guide used for calculating reimbursement and annual indexation of long-term disability benefits in pay

C. Pension Plans

5. **Stage 2 Solvency Relief.** The University's pension plan previously received Stage 1 approval for solvency funding relief as provided under Regulation 178/11 to the *Pension Benefits Act* and based on the filed actuarial valuation report of 1 January 2014. This Stage 2 funding relief allows the University to address the solvency deficit in the pension plan over a scheduled period of time by making additional special payments and provides an intentional approach to addressing the deficit. At the committee's June 2017 meeting, a motion was passed to file the application for solvency relief, and at the September meeting the committee considered whether to elect for one of two potential options for amortizing the solvency deficit: (1) to amortize the solvency deficit over ten (10) years starting 1 January 2018, or (2) to defer amortization for a three-year period from 2018-2021 with minimum interest-only payments over

that period, then amortize the solvency deficit at 1 January 2021 over seven years. The committee elected to proceed with the latter solvency option, while also passing a resolution that the plan shall maintain as a minimum the additional voluntary special contribution to bring University contribution to 163% of member contributions (~\$2.2 million per year in 2017) over the applicable three year deferral period.

- 6. 1 January 2017 Actuarial Valuation.** An actuarial valuation report is required to be filed at least every three years; notwithstanding this, a valuation is completed on an annual basis for the purposes of assisting with planning and the University's budgeting. In 2017, the committee filed an actuarial valuation, as the previous valuation was filed in 2014. The Board of Governors approved filing of the actuarial valuation of the plan as at 1 January 2017 at its June meeting.

The 1 January 2017 valuation was prepared using the same assumptions as the 1 January 2016, with the exception of a lower discount rate (5.50% vs. 5.70% in 2016, or CPI + 3.50% vs CPI + 3.70% in 2016). The registered pension plan (the "Registered Plan") is in a deficit position; the going concern deficit position has improved since the 1 January 2014 report, though the deficit increased somewhat since the 2016 valuation. The University continues to make additional contributions to meet the unfunded liability.

The payroll pension plan (the "Payroll Plan"), which provides pension benefits (subject to plan caps) that cannot be paid from the Registered Plan because of the application of the *Income Tax Act* maximum pension, has a minor deficit.

The full actuarial report for the Registered Plan and Payroll Plan can be found on the committee's webpage: [Actuarial Valuation Results as of 1 January 2017](#).

- 7. Review of and Amendments to the Statement of Investment Policies & Procedures ("SIPP").** Following its annual review to ensure compliance with legislative requirements and also soliciting in parallel input from the Finance & Investment Committee, the committee recommended approval of the revised SIPP to the Board of Governors. The SIPP has been updated to reflect changes required/suggested by the regulator (Financial Services Commission of Ontario, or "FSCO") in order to meet current regulations and/or best practices. All changes made in the SIPP were as a result of meeting these new regulations and best practices. Changes were also made to accommodate current objectives and governance at the University of Waterloo. No changes were made that result in a change of pension plan investment management or philosophy. The Board of Governors approved the amended SIPP at its meeting in October 2017.
- 8. Asset-Liability Studies.** Over several months, the committee commissioned research from the consultant Aon Hewitt of how the University's management of assets and liabilities within the pension plan might be optimized, including: liability awareness and matching in investing; impact of interest rates and inflation; examining how current service costs of the plan change with market shifts. The committee directed the consultant that abbreviated reports in the form of a Pension Risk Dashboard be brought forward quarterly.
- 9. Examination of Investment Governance.** In early 2017, the Registered Pension Plan Investment Subcommittee was unable to retain members from the Finance & Investment Committee to serve, and administration was tasked with examining options to effectively execute the governance function for the pension plan assets. In the interim period, Finance staff will continue its regular due diligence of the University's investments, and appropriate action on the investments will be routed through the Board governance structure where necessary. A subset of members from the Pension & Benefits Committee agreed to form a working group to help generate proposals for the Board's consideration, and that subgroup was active through the end of 2017.
- 10. Responsible Investing.** The committee has received periodic updates from the Responsible Investing Working Group, formed by the Board of Governors, and the committee was involved in the discussion that brought about the formation of the group.

- 11. Removal of Currency Overlay.** The Finance & Investment Committee made the decision to remove the currency hedge for non-pension assets in October 2017, and at the same time also decided to remove the currency hedge from pension assets subject to concurrence of the Pension & Benefits Committee. The committee approved a motion in November 2017 to unwind the currency hedge on pension assets.
- 12. 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 plans and takes said information into account when making decisions on matters including plan design, funding and administration. Initiatives the committee has been monitoring, discussing and, where required, taking action include: discussions of a joint sector pension plan; development and commentary on proposed new pension plan regulatory regime; enhancement of the Canada Pension Plan and potential interplay of these changes with the University pension plan; investment management offerings of the recently-formed Investment Management Corporation of Ontario; philosophical considerations for managing the plan going forward; impact and timing of prospective amendments to the *Pension Benefits Act*.
- 13. Annual Work Plan Items.** In addition to the above, the committee:
- Reviewed and approved the audited pension fund financial statements for filing with FSCO. The statements show, among other things, that there are significant assets in the fund, the change in assets over the year and drivers for that change, amounts paid out of assets, and compliance with the SIPP
 - Reviewed and approved cost of living increases to earnings of individuals on long-term disability for the purpose of calculating pension contributions, and to eligible deferred pensions
 - Received the annual report from Aon Hewitt re: the contribution and protocol caps, including the impact of indexing or removing the caps on costs and liabilities, the number of individuals who would be impacted if the caps were not indexed, and the projected date on which the cap under the *Income Tax Act* will hit the hard cap in the pension plan, if the cap is not increased. The committee monitors these numbers annually in order to make decisions about how and when to increase the caps
 - Provided oversight to a number of other items that occur automatically according to plan provisions, e.g. annual indexation of pensions and caps for the payroll pension plan

26 January 2018