

**UNIVERSITY OF WATERLOO**  
**BOARD OF GOVERNORS**  
**PENSION & BENEFITS COMMITTEE**  
**2018 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](mailto: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, and life insurance benefit. 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 Working Group.** Following a period of process design and benchmarking in 2017 and 2018, a working group was struck to conduct a holistic review of benefits offered to employees. This review will utilize the existing comparative benchmarking to examine potential options for plan redesign, with the potential to go to market thereafter. It is anticipated that the entire process may run until 2019-20.
2. **Employee and Family Assistance Program.** The committee receives courtesy updates on the utilization of the program, which was put into place for active employees and their eligible dependents in 2016.
3. **Amendment to Dental Care Benefits Arising from 2018 Salary Settlements.** The May 1, 2018 salary agreements for the University's Faculty, Staff and CUPE employee groups include a commitment to enhance the healthcare benefits for active employees for a total budget increase of \$1.4 million per year. The committee considered a number of options and ultimately recommended the removal of the two year lag in the dental fee guide, and the increase in reimbursement for basic dental services from 80% to 95%. Based on costings provided by the university's consultant Aon, the budgeted amount of \$1.4 million is reasonably expected to cover the anticipated utilization of the added benefit. As a defined benefit arrangement provided on an Administrative Services Only (ASO) basis, the cost associated with amending the healthcare benefits can only be estimated using utilization assumptions; the actual cost is dependent on utilization and subject to annual trend.
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 8.9% on 1 May 2018.
  - 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. annual indexation of pensionable earnings for employees on long term disability

**C. Pension Plans**

5. **1 January 2018 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 2018, the committee filed an actuarial valuation, with the most recent valuation having been filed in 2017. The Board of Governors approved filing of the actuarial valuation of the plan as at 1 January 2018 at its October 2018 meeting.

The 1 January 2018 valuation was prepared largely using the same assumptions as the 1 January 2017, with the major exceptions of a slightly higher discount rate (5.60% vs. 5.50% in 2017) and the new adjustment to include a provision for adverse deviation (“PfAD”) as required under the new Ontario Regulation 250/18 approved in May 2018. As well, the valuation realizes a gain from the sale of the real return bonds that was previously unrealized - the real return bonds were sold in October 2014 at a market value above the actuarial value and this actuarial gain was being held as a reserve in the going concern valuation at January 1, 2017. As at January 1, 2018, the reserve is no longer being held and the actuarial value of assets is set equal to market value. The registered pension plan (the “Registered Plan”) is in an overall deficit position – the financial position (assets less actuarial liabilities) starts with a \$22.3 million surplus and combines with the \$98.5 million PfAD to bring a calculated going concern deficit of \$76.2 million. The University continues to make additional contributions to the plan.

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 2018](#).

- 6. Establishment of the Pension Investment Committee.** In early 2017, the Registered Pension Plan Investment Subcommittee (RPPI) was unable to fill its membership requirements. Thereafter, at its meeting on 10 March 2017 the Pension & Benefits Committee (P&B) directed that a working group of the committee prepare a revised governance structure to the RPPI. With no formal representation on the working group, the Finance & Investment Committee (F&I) provided comments as well as endorsing the final recommendation along with the Pension & Benefits Committee. The Board approved the new Pension Investment Committee (PIC) in June 2018, with a focus on managing the investments of the pension plan while aiming to achieve greater efficiency in decision-making related to the pension plan assets. The PIC membership aims to balance stakeholders in the community while adding representation from the Board of Governors to reflect that the ultimate responsibility for any funding shortfalls in the pension plan resides with the University. The formation of this committee effectively delegates authority from both P&B and F&I to establish the new organ as the operational locus of control for matters pertaining to the management of investment assets of the pension plan. The two existing committees retain their empowerments from the Board in this regard, and delegate onward to the PIC formally as a subcommittee to the F&I and P&B. It is anticipated that the PIC will become operational in 2019, and the committee has been vested with the responsibility for environmental, social and governance factors as per the revised Statement of Investment Policies & Procedures (see item #9 of this report).
- 7. Amendments to Committee Terms of Reference.** With the establishment of the Pension Investment Committee (PIC) in June 2018, amendments to the committee’s terms of reference were approved by the Board in October 2018 to delegate certain powers and responsibilities to the PIC.
- 8. Amendments to the Statement of Investment Policies & Procedures (“SIPP”).** With the approval of the environmental, social and governance principles and guidelines at the June 2018 meeting of the Board of Governors, and also soliciting in parallel input from the Finance & Investment Committee, amendments to the SIPP were required to bring the document in line with said principles and guidelines. As well, the SIPP was amended to reflect the vesting of responsibility for the day-to-day management of the university’s pension investments with the Pension Investment Committee. Further minor text amendments were included to reflect a slight change in the minimum required real rate of return of the plan from 3.50% to 3.60% and to update language in the SIPP to reflect current legislation and regulations. The changes made do not constitute a change to the pension plan investment management and philosophy. The Board of Governors approved the amended SIPP at its meeting in October 2018.
- 9. Endorsement and Adoption of ESG Factors for Investments.** Through to June 2018, the committee was provided progress updates from the Responsible Investing Working Group and endorsed the recommendations of the report of the working group along with the Finance & Investment Committee, which were ultimately adopted by the Board of Governors in June 2018.

**10. Discontinuing the dividend reinvestment for Brookfield Infrastructure Partners.** The committee received a recommendation from the Finance & Investment Committee (F&I) from that committee's October 2018 meeting, and subsequently approved that discontinuation of the dividend reinvestment plan for Brookfield Infrastructure Partners (BIP) such that future dividend income will be directed into the existing approved TDAM Short Corporate Bond investment. This decision was taken after a period of F&I monitoring both the pension fund's and endowment fund's investment positions in BIP, where the pension plan's BIP position peaked at 9.3% in May 2018 due to dividend reinvestment and appreciation of the market price. Notwithstanding the outperformance of BIP since initial purchase, both committees noted the risks of an investment position of this size in a single equity instrument.

**11. Redeployment of pension assets arising from the discontinuation of the equity mandate of Trilogy Global Advisors.** On 29 June 2018, staff at the University was notified of the wind down of the global equity mandate by Trilogy Global Advisors, with which the University held ~\$218 million in investments for the registered pension plan. The chairs of the Pension & Benefits Committee and the Finance & Investment Committee were advised of this event shortly thereafter, and were also advised that staff would reach out to Trilogy as well to retained consultants at Aon to develop a plan to retrieve the University's investment with a minimum of trading and other frictional costs.

Since the winding down of this equity mandate would result in a significant and unanticipated cash position far outside the current allocations, staff formulated a proposal to transition assets from Trilogy while at the same time achieving a number of important objectives: ensuring that the investments in question remain fully in the control of the University; meeting the requirements of the Statement of Investment Policies and Procedures, including compliance with the allowed maxima for cash holdings as well as for asset allocation to a single global equity manager; maintenance of the pension plan's overall allocation to equities in the face of this unanticipated external event; reducing Trilogy's investment management fees and transactions costs as the result of this wind up. Both the Pension & Benefits Committee and the Finance & Investment Committee were consulted via electronic poll, which resulted in a recommendation being jointly brought and subsequently approved by the Board Executive Committee (on behalf of the Board of Governors) to invest the approximately \$220 million in proceeds from Trilogy into the TD Emerald Pooled U.S. Fund (60%) and the TD Emerald International Equity Index Fund, Class B (40%); these are the same TDAM index funds currently held within the pension portfolio. The deployment of the assets as such ensured that the Pension's investments stayed within the permitted ranges of asset classes as per its Statement of Investment Policies and Procedures and to maintain the asset mix of the pension investment portfolio, and it was seen to be practical to invest with an investment manager that is currently approved by the Board of Governors while maintaining sufficient diversification in the pension plan 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 and progress updates on the joint sector pension plan; updates and implementation of Ontario Regulation 250/18 which materially changes the pension plan regulatory regime; enhancement of the Canada Pension Plan starting in 2019 and potential interplay of these changes with the University pension plan; philosophical considerations for managing the plan going forward.

**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 pensionable earnings of individuals on long-term disability for the purpose of calculating pension entitlements, and to eligible deferred pensions

- Received the annual report from Aon 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. In 2018, this discussion included a larger overview of the plan design in light of the anticipated convergence of caps between the registered and payroll pension plans
- Provided oversight to a number of other items that occur automatically according to plan provisions, e.g. annual indexation of pensions

*14 February 2019*