The Pension and Benefits Committee, with representatives from all employee groups including retirees, recently recommended (unanimously) to the Board of Governors that member and University contributions to the Pension Fund should be increased. Given this increase, the current financial climate, the amount of press coverage that pension plans are receiving and the University’s recent announcement of a 3% budget cut, this seems an ideal time for the committee to communicate to the members about UW’s own Pension Plan.

One of the main drivers affecting the University’s financial situation is the health of the Pension Plan. Many employees have asked committee members whether the Pension Plan will be able to meet its obligations and pay their pensions. The short and very direct answer is “yes.” There is enough money in the Pension Plan to cover retiree pensions now and for years into the future. We believe that with prudent management, an improved financial climate and commitment from both the University and employee groups, the long-term future of the Plan is secure.

At the end of 2007, the UW Pension Plan was in a healthy position with a small surplus. In other words, the Plan had sufficient assets to cover all of its short- and long-term obligations. With the rapid stock market meltdown of 2008 the Pension Plan lost about 16% of its assets. Our large investment in Real Return Bonds helped mitigate some of the losses.

The Pension Plan is evaluated at the end of each year, based on two different calculations specified under Ontario pension law.

The “going concern” valuation asks if there are sufficient assets in and income to the Plan so that it can go on indefinitely (as we expect it will). The second calculation is called “solvency,” and is based on the unrealistic assumption that the Pension Plan is wound up, as may happen when a company goes out of business. In that case, all members should be paid the value of their accumulated pensions. The solvency valuation asks if there are sufficient assets to make these payments. The Plan Actuary performs these two calculations at the end of each year. At the end of 2008, the Pension Plan had significant going concern and solvency deficits.

We are required to submit the valuation to the government at least once in every three years. If a submitted valuation shows that the Plan has a deficit -- either going concern or solvency -- there is a requirement for additional payments to be made. UW submitted its valuation for 2008 and so we do not need to do so again until 2011. This gives us some time to recover some of the very significant losses which our Pension Plan investments experienced in 2008 and early 2009.

However, the committee does not think it is prudent to plan on the basis that the Pension Plan will recover all of the 2008 and early 2009 investment losses in the next two or three years. The University has already been putting in extra funds ($1.4M per year). Accordingly, we have proposed a raise in the contribution rates starting in May. With the new rates and extra contributions from the University, we are now putting an excess of $5 million per year into the Plan. In effect we are starting to make the required additional payments now.

We believe UW’s Plan is one of the strongest and most robust in the province and that this period of uncertainty and financial hardship will end. In the meantime, pensions will continue to be paid as promised. New retirees will receive their promised pensions and retiree pensions will not be changed.

Feel free to contact any one of the members or the committee secretary, Trenny McGinnis at trenny@uwaterloo.ca or ext 35924 for further information. We have also provided some Questions and Answers that may be helpful.
Q&A

1. If I retire, is it safer to take my money out of the Pension Plan?
   No – UW has a Defined Benefit Plan indexed to inflation. This means that your pension is based on your final average earnings and the number of years you have contributed to the Plan. Your pension does not depend on investment results. If you take your money out of the Pension Plan your pension becomes dependent on whatever investment income is earned (or lost) on your money. If you do remove your money, you assume all of the future risk. If you leave your money in the Plan the risk is shared by the members and the University. When there is a downturn in the economy, the Plan has many years to recover; as an individual this may not be so.

2. If I retire and take a pension, can the University reduce my payments unexpectedly after a few years?
   No – your pension must be maintained unless the University goes bankrupt.

3. I’ve got thirty years of service. Can I lose the benefits I earned over those years e.g. inflation protection?
   No – not under the current Pension & Benefits Act of Ontario which protects accrued benefits.

4. Are you planning to do away with early retirement to save money?
   No – there are no plans to do this.

5. I understand that at the moment the Pension Plan doesn’t have enough money to cover all of its liabilities. Who has to make up this shortfall?
   The law requires only the University (and not the employees) to make additional contributions; however, the committee believes that putting all of the burden of increased funding on the University is unwise as it would lead to further budget cuts and possibly layoffs.

6. If the University has to make special payments into the Pension Plan, does that mean there will be layoffs and other severe financial cuts?
   Irrespective of whether the University has to make special payments, the general financial situation is expected to lead to budget cuts. The University is planning for these special payments now in order to avoid future layoffs.

7. Are you planning to cut benefits so there will be more money for the pension plan?
   No.

8. Is my pension safe?
   Yes.

9. Are you planning on changing our pension benefit?
   No -- we have no such plans. However, we cannot guarantee the future.

10. What happens to my pension if I get laid off?
    See: http://www.hr.uwaterloo.ca/benefits/pension/termination.html

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