

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 18 OF THE PENSION COMMITTEE

December 9, 2014

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Tuesday, December 9, 2014 at 4:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Claire Kennedy, In the Chair
Mr. Alex McKinnon, Vice-Chair

Mr. Harvey Botting
Mr. Jeff Collins
Professor Ettore Vincenzo Damiano
Professor Paul Downes
Ms Janet Ecker*
Ms Paulette Kennedy
Mr. Mark Krembil
Professor George Luste
Ms Leanne MacMillan
Ms Kim McLean
Dr. Gary Mooney
Mr. Philip Murton
Ms Jane Pepino
Mr. John Switzer
Mr. Andrew Szende

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Angela Hildyard, Vice-President, Human
Resources and Equity
Professor Scott Mabury, Vice-President, University
Operations

Mr. Louis R. Charpentier,
Secretary of the Governing Council

Secretariat:

Mr. David Walders, Secretary

* Participated by telephone

Regrets:

Professor Laurence Booth.
Professor Jennifer Jenkins
Mr. Brian D. Lawson

In Attendance:

Ms Jessica Cayadi, Ernst & Young
Mr. Francis Low, Ernst & Young
Mr. William Moriarty, President and CEO, UTAM
Dr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Allan Shapira, Plan Actuary, AON Hewitt

1. Welcome and Chair's Remarks

The Chair welcomed members and guests to the meeting.

2. Calendar of Business, 2014-15

There were no questions or comments from members regarding the calendar of business.

3. Registered Pension Plans: Audited Financial Statements for the Year Ended June 30, 2014

Ms Brown drew members' attention to the fact that the financial statements provided audited estimates of the pension obligation, which was calculated using the new actuarial assumptions, with investment returns to June 30, 2014, but with employment data to July 1, 2013. She reminded members that the Audited Financial Statements came to the Committee on the recommendation of the Audit Committee.

Mr. Francis Low, the external auditor for the Registered Pension Plans, advised members that he was comfortable with all the disclosures contained in the Audited Financial Statements.

In reply to a members' question concerning investment levels outlined in the Audited Financial Statements, Mr. Low explained that unlike Level 1 and 2 investments, where the value of the investments was readily determinable using market indicators, the value of Level 3 investments, like real estate, relied on more variable metrics, like appraisal value.

On motion duly moved, seconded and carried

It was Resolved

- a) THAT the University of Toronto audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2014, be approved; and
- b) THAT, the University of Toronto audited financial statements for the University of Toronto (OISE) Pension Plan for the year ended June 30, 2014, be approved.

4. Pension Plans: Actuarial Valuation Results at July 1, 2014

Ms Brown noted that the Annual Financial Report would not be produced until the University was advised as to whether its application to the Provincial Government for Stage 2 Solvency Relief was successful. As such, it was expected that the Report would be presented to the Committee at either the March 2015 or June 2015 meeting. She also noted that the actual Actuarial Valuation Results were very close to the estimates that had been provided when the Actuarial Assumptions had been presented to and approved by the Committee at its October 9, 2014 meeting.

Mr. Alan Shapira provided an overview of the Actuarial Valuation Results, highlighting the following points:

- The Actuarial Valuation Results contained valuations for the University of Toronto Pension Plan (RPP), the U of T OISE Pension Plan (RPP (OISE)) and for the merged RPP and RPP (OISE) Plan. Provincial Legislation had been recently been passed that would permit the merger of the two plans and the University intended to present the merger proposal to the relevant Governance bodies for consideration in the very near future.
- The unfunded liability for the RPP, calculated using the new actuarial assumptions and July 1, 2014 employment data, declined from \$955.5 million at July 1, 2013 to \$697.1 million at July 1, 2014. The figures for the RPP (OISE) also declined from \$33.7 million at July 1, 2013 to \$32.4 million at July 1, 2014.
- The solvency deficiency for the RPP was \$1.01 billion at July 1, 2014, which marked a decline from July 1, 2013, when the figure was \$1.31 billion. The figures for the RPP (OISE) had also declined from \$48.9 million at July 1, 2013 to \$43.9 million at July 1, 2014.
- Total service costs for the RPP were 19.91% of salary and the same figures for the merged plan would be 19.94% of salary.
- Additional (to those projected at July 1, 2011) going concern special payments of \$11.65 million and \$392 thousand (or \$12.04 million if the Plans were merged) would be made beginning at July, 2015.
- Finally, investment return, net of investment fees and expenses was 17.4% for 2013-14, compared to 12.1% for 2012-13.

In reply to a member's question, Mr. Shapira explained that terminated vested participants in the RPP and RPP (OISE) were those people who were members of one of the RPPs but who had left the University's employ prior to early retirement. Pension benefits for these individuals would vest upon their achieving the age of 65.

On motion duly moved, seconded and carried

It was Resolved,

THAT the actuarial valuation results for the University of Toronto Pension Plan, the University of Toronto (OISE) Pension Plan, and the Supplemental Retirement Arrangement be approved, on the understanding that if the application for Stage 2 temporary solvency funding relief is not granted, the actuarial valuation results will be revised for purposes of the actuarial valuation reports as at July 1, 2014 to reflect the five year solvency deficit payment requirement.

5. Pension Plan Fees and Expenses for the period 1990 to 2014

Ms Brown provided an overview of the various fees and expenses contained in the memorandum. She explained that the reason the fees and expenses had risen since 1990 was because since that time there had been a gradual move by the University to charge to the Pension Plans more of the fees and expenses incurred for the Pension Plans.

Members raised questions regarding the interrelatedness of the Committee, UTAM and the Investment Advisory Committee (IAC) as well as whether it would be possible to improve communications with respect to fees and expenses. Ms Brown explained that the relationship between the Committee, UTAM and the IAC, focussed on the three main issues: the investment asset mix, the band widths (permissible allocations) for those investments, and the reference portfolio. With respect to communications, the Chair noted that, while the Statement on Investment Policies and Procedures (which was approved annually by the Committee) contained information regarding the benchmark returns and asset allocations, the University was currently working with UTAM on improving communications with respect to fees and expenses. In addition, it was hoped that the Chair of the IAC would attend a Committee meeting in the current governance year.

6. University of Toronto Registered Pension Plans: Application for Solvency Funding Relief – Stage 2

In reply to a member's question, Ms Brown advised that the actual dollar amounts of the special payments which had been made to the Pension Plans since 2011 had, in general, been consistent with the initial estimates of what those payments would be.

7. Pension Master Trust: Evaluating Investment Performance

- a) Report: Pension Master Trust: Evaluating Investment Performance**
- b) Confidential Data Chart**

Ms Brown began by noting that the report that she was providing regarding evaluating investment performance was in response to two questions raised at the last Committee meeting: Was the performance of the York University Pension Plan a good comparator for the University's pension plans, and were there other peer comparisons that may be appropriate and illuminating? Ms Brown addressed the following points:

- Owing to the fact that the York University Pension Plan had a different structure (it is a hybrid plan, whereas the University had a Defined Benefit plan), a different asset mix, different target returns and offers different benefit, the two plans were not comparable.
- Any university pension plans which did not have a Defined Benefit structure would not be appropriate comparators to the University's plan.
- Theoretically, there could be some value in comparing the University's Pension Plan with other university peers whose pension plans had a Defined Benefit structure. However, accessing and analyzing all the data required to perform such comparisons would be extremely difficult (in large part because universities do not make such data publically available).
- Therefore, analyzing the available data regarding the performance of peer University pension plans provided no reason to rethink the University's methodology regarding the structure of the Pension Plan.

The Chair thanked Ms Brown and her team for the considerable work undertaken in compiling the memorandum.

CONSENT AGENDA

On motion duly moved, seconded, and carried

It was Resolved

THAT the consent agenda be adopted and the items approved.

8. Report of the Previous meeting: Report Number 17, October 9, 2014

The report of the previous meeting, October 9, 2014, was approved.

9. Business Arising from the Report of the previous meeting

There was no business arising from the report.

10. Reports of the Administrative Assessors

There were no reports from the Administrative Assessors

11. Date of Next Meeting: March 18, 2015 at 4:00 p.m.

12. Other Business

There were no other items of business.

The meeting adjourned at 6:13 p.m.

Secretary

Chair

December 10, 2014