University of Toronto

BUSINESS AFFAIRS

TO: Audit Committee

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DATE: October 15, 2004 for October 27, 2004

AGENDA ITEM: 4

ITEM IDENTIFICATION:

Pension Plans – Annual Financial Report for the Year Ended June 30, 2004

JURISDICTIONAL INFORMATION:

The Audit Committee is responsible for reviewing the annual financial report and for recommending the annual financial statements for the pension plans to the Business Board.

PREVIOUS ACTION TAKEN:

Committee received and reviewed the 2002-03 report and recommended the 2002-03 financial statements to the Business Board in October 2003.
Pension contribution strategy approved by the Business Board in January 2004.
Pension master trust investment policy most recently approved by the Business Board in March 2004.

HIGHLIGHTS:

This report provides the Audit Committee and the Business Board with an update of the pension liabilities and assets as well as an assessment of how well the University's pension investment and contribution strategies ensure pension financial health.

The University of Toronto provides pension benefits to current and future pensioners via three defined benefit pension plans: the registered University of Toronto Pension Plan (RPP), the registered University of Toronto (OISE) Pension Plan (OISE/UT), and the unregistered Supplemental Retirement Arrangement (SRA).

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The actuarial results at July 1, 2004 are summarized in the following table.

	RPP	OISE/UT Plan	SRA (1)
Accrued liabilities	$2,225.0 million	$ 90.3 million	$ 122.7 million
Market value of assets (1)	$2,111.8 million	$ 101.8 million	$ 115.8 million
Market surplus or (deficit)	($ 113.2 million)	$ 11.5 million	($ 6.9 million)
Actuarial surplus or (deficit)	($ 69.2 million)	$ 14.4 million	

(1) For financial accounting purposes, the University from time to time appropriates funds which are set aside as "fund for specific purposes" in respect of the obligations under the SRA. In accordance with an Advance Income Tax Ruling which the University has received, such assets do not constitute trust property, are available to satisfy University creditors, may be applied to any other purpose that the University may determine from time to time, are commingled with other assets of the University, and are not subject to the direct claim of any members.

The RPP solvency ratio, which is a measure of the assets market value as compared to the solvency liability of the plan (before escalated adjustments) has improved from 1.02 at July 1, 2003 to 1.11 at July 1, 2004.

These actuarial results reflect an actuarial assumption that results from a judgment that the funding assumptions were on the high side compared to current market conditions. For example, the inflation assumption of 3.0% look high relative to actual inflation and the Bank of Canada's stated inflation targets. A reduction of all the economic assumptions by 0.5%, while keeping the spreads constant, would be more reflective of expectations in the foreseeable future. This revised set of assumptions may also be appropriate for accounting purposes.

The results for the RPP and the OISE/UT plans reflect a one-year return for the pension master trust of 15.96% before fees and expenses. Fees and expenses for the year totaled $14.0 million, and amounted to 0.637% of master trust assets. The financial statements for the pension plans show the audited values of the assets available for benefits.

The pension contribution strategy that was approved by the Business Board in January 2004 was updated to reflect the results for 2003-04. The position of the RPP and the SRA to 2013 was projected using the following assumptions:

-Investment returns for 2004-05 at 3% to allow for a year with investment returns less than the mean
-Investment returns for years beyond 2004-05 were projected at 6.5%.
-economic assumptions lower by 0.5% than in original contribution strategy, as implemented for actuarial results at July 1, 2004.

-contributions continuing in accordance with the strategy, including special payments of $26.4 million per annum.

Under this scenario, the result would be an RPP market deficit of $48.4 million, and an SRA market surplus of $17.4 million. Continuing forward under these assumptions would bring the RPP into equilibrium (assets and liabilities approximately equal) by July 1, 2016.

In conclusion, pension financial health has improved both as a result of investment performance and as a result of contributions. At this time, based on the analysis done, it is appropriate to continue to apply the pension contribution strategy. It will continue to be monitored annual and may be fine-tuned over time, with the agreement of the Business Board.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The pension contribution strategy continues to require 100% current service cost employer contributions and additional special payments.
The pension deficit contributes to the employee future benefits costs recorded in the University's financial statements.

RECOMMENDATION:

It is recommended that the Audit Committee recommend to the Business Board:

1) that the audited financial statements for the University of Toronto Pension Plan, June 30, 2004, a copy of which is included in Appendix "A" hereto, be approved, and
2) that the audited financial statements for the University of Toronto (OISE) Pension Plan, June 30, 2004, a copy of which is included in Appendix "B" hereto, be approved.