University of Toronto

Pension Plans

Annual Financial Report

For the Year Ended June 30, 2004

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Introduction

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 plan ("SRA").

The RPP was established in 1966 as a contributory defined benefit pension plan. Benefits are determined by a formula defined in the plan and the cost of those benefits, after employee contributions, determines the University's funding obligation.

The University became responsible for the OISE/UT plan in 1996, when the Ontario Institute for Studies in Education merged with the University. This defined benefit plan covers U of T employees who were previously Ontario Institute for Studies in Education employees and are either continuing employees or retirees. All new employees in the OISE/UT division become members of the RPP.

Each of the RPP and the OISE/UT plans continue to be administered separately, as each is a separate legal entity subject to the *Pension Benefits Act (Ontario).*

The SRA was established July 1, 1996, to provide eligible members of the RPP and OISE/UT plans with additional retirement income over the limits in the regulations to the Income Tax Act (Canada) on the amount of lifetime retirement benefits payable from the registered plans. The SRA is not registered with the federal government or any provincial government.

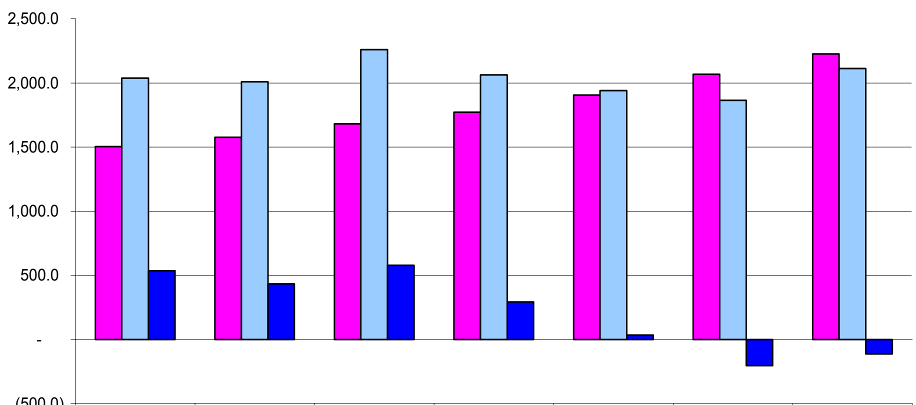
The Governing Council of the University of Toronto is the administrator and sponsor of all three plans. The Vice-President, Human Resources and Equity is responsible for the formulation of pension plan policy, employee communication and benefits administration, and negotiation of plan benefits. The Vice-President, Business Affairs is responsible for the financial administration of the funds including liaison with the trustee, actuarial consultant, investment manager and external auditors.

Plan advisors are State Street Trust Company (trustee and custodian), Hewitt Associates (actuaries and consultants), Ernst & Young (external auditors) and University of Toronto Asset Management Corporation (investment manager).

The University of Toronto Pension Plan ("RPP")

At July 1, 2004, accrued liabilities for members of the RPP were $2.2 billion, while the market value of assets were $2.1 billion for a market deficit of $113.2 million. The graph below illustrates the growth in accrued liabilities and the fluctuation in the market value of assets over the period from July 1, 1998 to July 1, 2004.

RPP
Accrued Liabilities, Market Value of Assets, and Market Surplus or (Deficit) at July 1
(in millions of dollars)

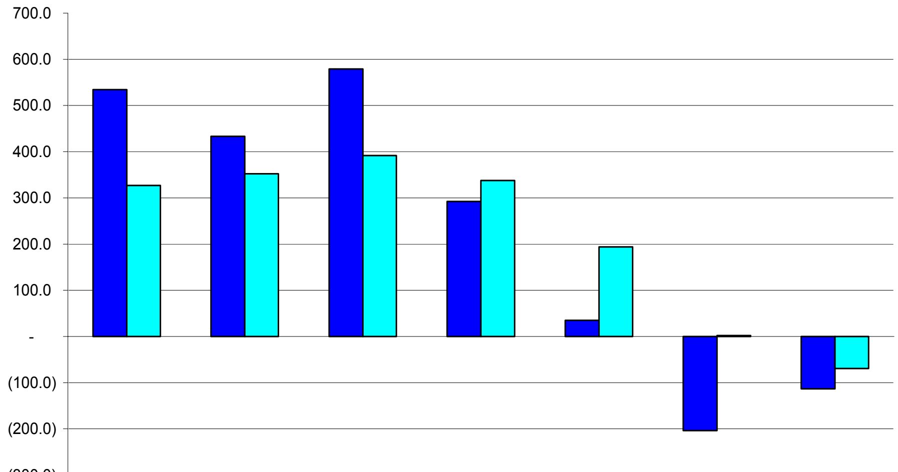


	1998	1999	2000	2001	2002	2003	2004
Accrued liabilities	1,503.3	1,575.1	1,680.2	1,770.5	1,904.9	2,066.7	2,225.0
Market value of assets	2,038.0	2,008.7	2,259.4	2,062.9	1,940.0	1,863.2	2,111.8
Market surplus (deficit)	534.7	433.6	579.2	292.4	35.1	(203.5)	(113.2)

After a change in assumptions (which will be explained later in the report) the market deficit at July 1, 2004 was $113.2 million, and the actuarial deficit was $69.2 million. The difference reflects the actuarial smoothing of market gains and losses over three years to reduce the in-year impact of fluctuations in investment performance. Both the actuarial surplus (deficit) and the market surplus (deficit) are useful measures to assess the financial health of the pension plans and the appropriateness of strategies designed to maintain that health.

During 2003-04 the financial health of the RPP improved significantly as a result of investment returns which benefited from the rebound in financial markets. The University also provided funding for the current service cost with a cash contribution of $41.0 million.

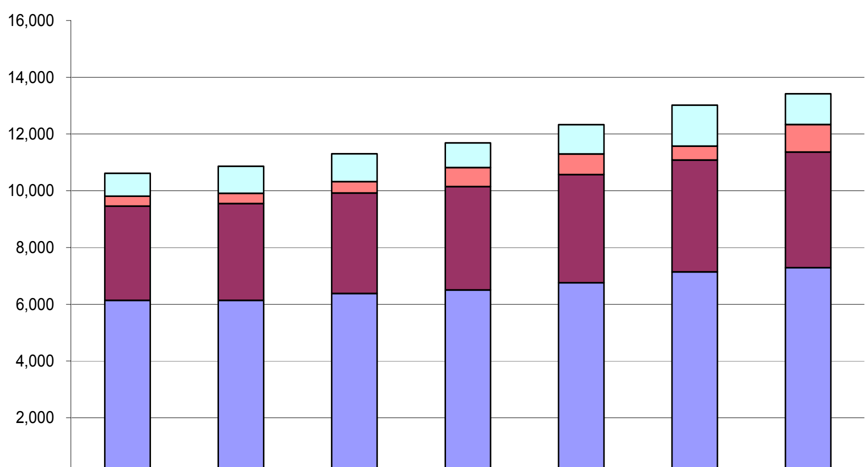
RPP
Market Surplus (Deficit) and Actuarial Surplus (Deficit)
at July 1
(in millions of dollars)



	1998	1999	2000	2001	2002	2003	2004
Market surplus (deficit)	534.7	433.6	579.2	292.4	35.1	(203.5)	(113.2)
Actuarial surplus (deficit)	327.3	352.1	391.8	337.7	194.0	2.2	(69.2)

Plan participation is increasing steadily, with current enrolment at 7,288 active participants and 4,083 retirees.

RPP
Member Participation
at July 1

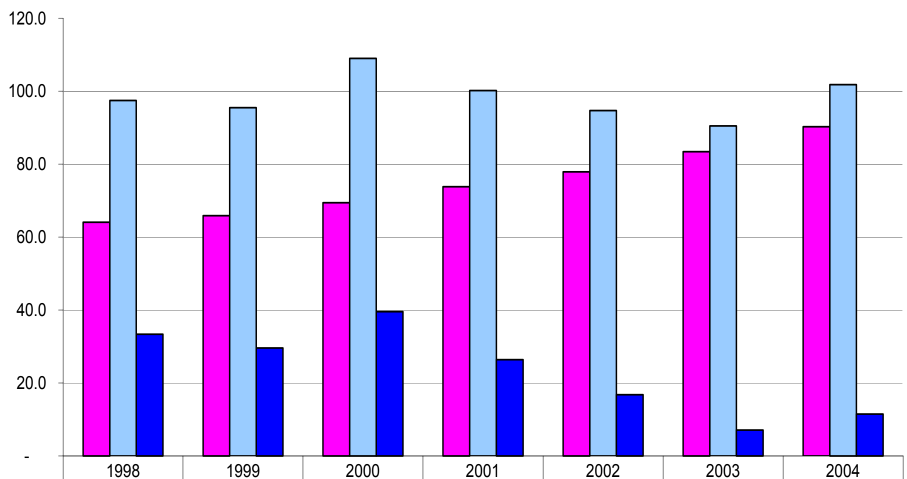


	1998	1999	2000	2001	2002	2003	2004
Suspended, exempt, pending	803	957	987	868	1,033	1,447	1,077
Terminated, vested	352	362	396	677	724	489	966
Retired participants	3,318	3,409	3,543	3,642	3,813	3,942	4,083
Active participants	6,141	6,137	6,381	6,504	6,759	7,141	7,288

University of Toronto (OISE) Pension Plan ("OISE/UT")

At July 1, 2004, accrued liabilities for members of the OISE/UT plan amounted to $90.3 million, while the assets of the OISE/UT plan amounted to $101.8 million for a market surplus of $11.5 million. The graph below illustrates the growth in accrued liabilities and the fluctuation in the market value of assets over the period from July 1, 1998 to July 1, 2004.

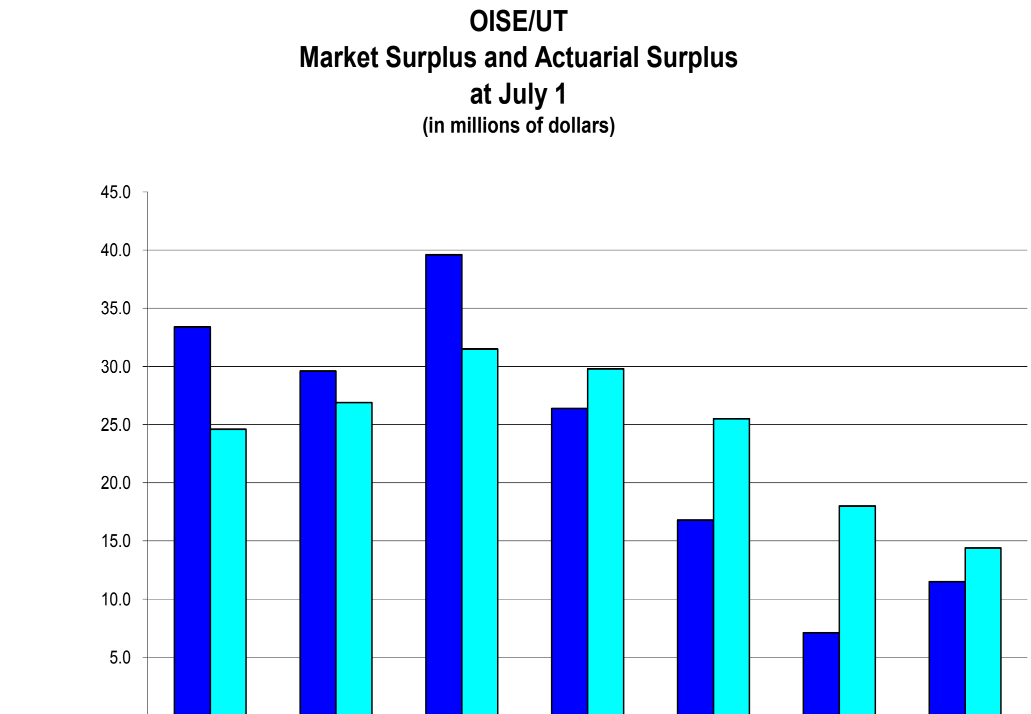
OISE/UT
Accrued Liabilities, Market Value of Assets, and Market Surplus at July 1
(in millions of dollars)



	1998	1999	2000	2001	2002	2003	2004
Accrued liabilities	64.1	65.9	69.4	73.8	77.9	83.4	90.3
Market value of assets	97.5	95.5	109.0	100.2	94.7	90.5	101.8
Market surplus	33.4	29.6	39.6	26.4	16.8	7.1	11.5

After a change in assumptions (which will be explained later in the report) the market surplus at July 1, 2004 was $11.5 million, and the actuarial surplus was $14.4 million. The difference reflects the actuarial smoothing of market gains and losses over three years to reduce the in-year impact of fluctuations in investment performance. Both the actuarial surplus and the market surplus are useful measures to assess the financial health of the pension plans and to determine what strategies to pursue to ensure their continued good financial health.

During 2003-04 the financial health of the OISE/UT plan significantly improved as a result of investment returns which benefited from the rebound in financial markets.



	1998	1999	2000	2001	2002	2003	2004
Market surplus	33.4	29.6	39.6	26.4	16.8	7.1	11.5
Actuarial surplus	24.6	26.9	31.5	29.8	25.5	18.0	14.4

Since the OISE/UT plan is a closed plan, member participation has decreased from 371 in 1998 to 322 in 2004. The number of active members has declined from 239 in 1998 to 159 in 2004.

While nothing can be certain, the current OISE/UT asset base is larger than the accrued liabilities and the surplus should be adequate to meet the University current service cost obligations for its declining member base during the current six year budget period to 2010.

Certain members and former members employed by the Ontario Institute for Studies in Education between February 1996 and June 30th 1996 were offered special early retirement or voluntary severance packages. Employees who accepted either package became part of a partial wind-up group of the OISE/UT pension plan. The decision in the Monsanto case confirms the position of the Superintendent of Financial Services Commission of Ontario that, on the partial wind-up of a pension plan, the assets of the pension fund related to that part of the pension plan being wound up must be distributed, which includes any surpluses. The University is currently in the process of determining the financial impact of the Monsanto decision on the OISE/UT plan.

Supplemental Retirement Arrangement ("SRA")

As noted earlier, the SRA is an unregistered defined benefit pension plan, the role of which is to provide pensions in excess of the Income Tax maximum salary (currently about

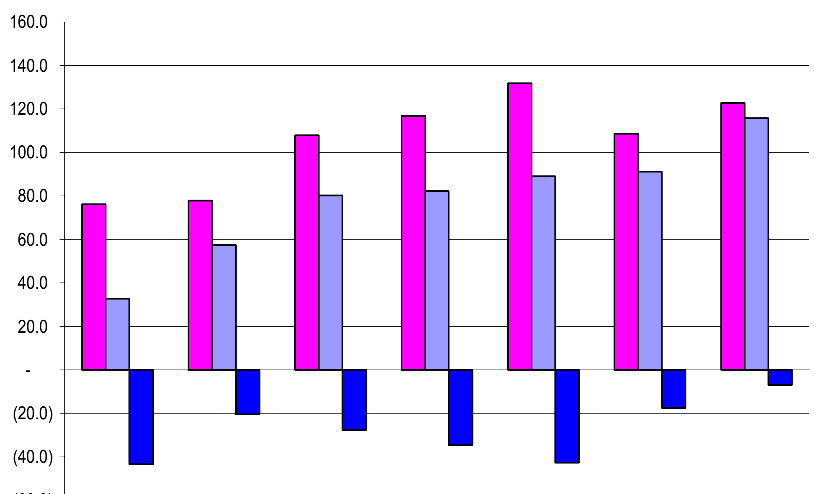
$102,000 increasing to about $110,000 in 2005) to the pensionable earnings cap of $150,000. It was created in 1996.

In 1997, the Business Board approved a funding strategy whereby funds would be set aside for specific purposes to fund the SRA liability. A funding strategy was put in place whereby the amount equal to the unfunded liability would be set aside over a five year period. Any subsequent plan improvements and changes in market conditions were also to be funded over a five year period.

The Federal budget of February 2003 announced increases in the defined benefit maximum pension limits under the Income Tax Act. As a result, an accrued liability of $37.5 million shifted from the SRA to the RPP at that time. As a result of continuing increases in the pension limit over several years, accrued liabilities are expected to move between the RPP and the SRA over time, creating challenges for both RPP and SRA contribution strategies.

The SRA accrued liabilities at July 1, 2004 were $122.7 million and the market value of the assets of the funds set aside was $115.8 million, for a market deficit of $6.9 million.

SRA
Accrued Liabilities, Market Value of Assets, and Market Surplus or (Deficit) at July 1
(in millions of dollars)



	1998	1999	2000	2001	2002	2003	2004
Accrued liabilities	76.2	77.9	107.9	116.8	131.8	108.6	122.7
Market value of assets (Actuary Rpt)	32.8	57.5	80.2	82.2	89.1	91.2	115.8
Market surplus (deficit)	(43.4)	(20.4)	(27.7)	(34.6)	(42.7)	(17.4)	(6.9)

The SRA assets are invested in the University's Long-Term Capital Appreciation Pool (LTCAP) and governed by the *Policy for Investment of University Funds*, which was approved by the Business Board on April 7, 2003. This policy stipulates a target real investment return of 4.0% and a risk tolerance of 10% over 10 year periods. Investment management has been delegated to the University of Toronto Asset Management Corporation.

During 2003-04 the financial health of the SRA improved as a result of University's cash contributions of $13.1 million into the SRA, combined with investment returns which benefited from the rebound in financial markets.

Pension Liabilities - Benefits

Accrued liabilities in the RPP and SRA have grown steadily due to regular growth (as explained on the next page), as well as pension benefit enhancements and increased participation. Since 1998, accrued liabilities have increased at a compound annual growth rate of 6.8% while total participation has increased at a compound annual growth rate of 4.0%.

The accrued liabilities reflect the number of individuals participating in the pension plan, their ages, and the pension benefits being paid, or payable in future, to each plan member.

Pension benefits for each member in these defined benefit plans reflect that person's salary and number of years of pensionable service.

Pension benefits accrue at the rate of 1.5% of highest average salary up to the average CPP maximum salary plus 2.0% of highest average salary in excess of the average CPP maximum salary, to a maximum of $150,000. Normal retirement is the June 30th following the 65th birthday.

Retirement is possible within 10 years of normal retirement date, with a minimum of 2 years of service, with a reduction of 5% per annum between actual retirement and the normal retirement date, with the following additional special provisions with respect to that reduction:

-Academic staff and librarians who retire under the Voluntary Early Academic Retirement Program (VEARP), in effect until August 31, 2005, are eligible for the early retirement reduction of 3% for each year that actual retirement precedes normal retirement date. The retiring allowance otherwise payable to the participant under VEARP will also be applied by the University to waive the 3% per year reduction to the greatest extent possible.

-Administrative staff, unionized administrative staff and unionized staff may

-retire with no reduction if participant has reached age 60 and has 80 age plus service points, or has reached age 65.

-For participants who elect by June 30, 2005 to take early retirement on or before June 30, 2005, no early retirement reduction will apply if the participant is age 55 or over and has 80 age plus service points, and the early retirement reduction will be lowered to the minimum reduction permitted under the Income Tax Act if the participant has 75 age plus service points (but less than 80 points).

In addition, for those participants with 75 age plus service points who take early retirement on or before June 30, 2005, a bridge benefit will be provided payable to age 65, equal to 0.5% of the highest average salary up to the average CPP maximum times pensionable service, subject to a reduction of 3% per year from age 60.

The pension benefits of retirees are subject to cost of living adjustments equal to the greater of a) the increase in the Consumer Price Index for Canada (CPI) for the previous calendar year, minus 4.0%, or b) 75% of the increase in the CPI for the previous calendar year to a maximum CPI increase of 8%, plus 60% of the increase in CPI in excess of 8%.

In the past there have been plan augmentations that resulted in an increase in inflation protection to the augmentation date from 75% of CPI to 100% of CPI.

Benefits improvements arise from negotiations with employee groups, and from mediation and arbitration, and are not normally determined unilaterally.

The table below provides a breakdown of the factors which impact the growth in the pension liabilities and assets.

Growth in Liabilities From Year to Year	Growth in Assets From Year to Year
Liabilities at beginning of year (representing discounted present value of pension benefits earned in respect of service up to the valuation date)	Value of pension fund assets at beginning of year
Plus	Plus
Interest on liabilities at rate used to discount the liabilities	Rate of return on pension fund assets
Plus	Plus
New liability for benefits earned by members in the year (current service)	Contributions made by members and University
Less	Less
Pension payments and lump-sum transfers	Pension payments, lump-sum transfers, fees and expenses

Pension Assets

As shown above, RPP assets arise from contributions by employees and by the University and from investment returns on assets invested, minus payments made to pensioners, and fees and expenses incurred to administer and invest the pension funds.

A market surplus occurs when pension assets at market value exceed the accrued liabilities calculated on a periodic basis by the actuaries. A market deficit occurs when accrued liabilities exceed the assets at market value.

The actuarial results described earlier show a market deficit in the RPP. This has occurred because accrued liabilities have risen faster than the market value of the assets over the past several years, due to:

-pension benefits enhancements that were funded from the surplus.
-contribution holidays by the University as required by the Income Tax Act (Canada) for most years from 1987 to 2002 (not a 100% holiday in all years).
-employee contribution holidays from 1997 to 2002.
-poor investment returns from 2001 through 2003.

Both the investment strategy and contribution strategy have been reviewed and changed. The pension investment policy was revised in April 2003, and reconfirmed in March 2004, and a new pension contribution strategy (see appendix) was adopted in January 2004.

Investment Strategy and Investment Performance

The registered pension plans are invested through the unitized pension master trust which combines for investment purposes the assets of the RPP and the OISE/UT pension plans. The master trust was created on August 1, 2000 to provide the two funds' assets with the same economies of scale, diversification and investment performance.

The *Pension Master Trust Investment Policy* was most recently approved by the Business Board on March 1, 2004. As required by the Financial Services Commission of Ontario, the Business Board annually reviews the investment policies and goals and confirms or amends them as appropriate. This policy stipulates a 4.0% real investment return target with a risk tolerance of 10% over 10 years. These targets have been in place since April 2003. Prior to that time the policy stipulated a 5% real investment return target, and did not precisely define a risk tolerance.

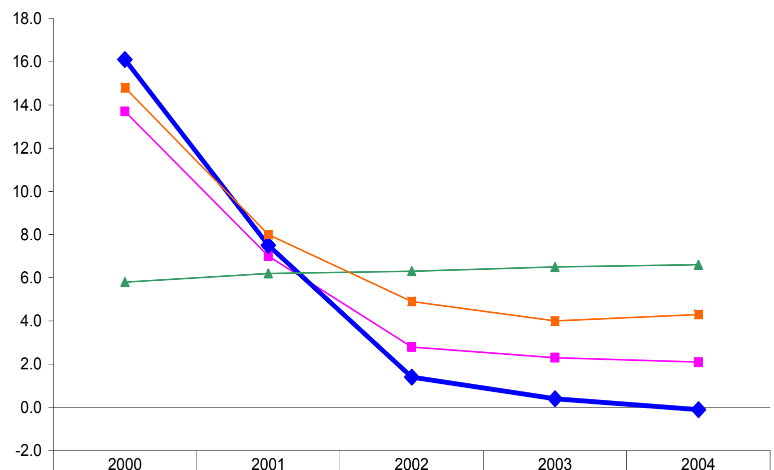
Investment strategy and management to achieve these targets has been delegated by the Governing Council to the University of Toronto Asset Management Corporation (UTAM) since March 2004. Prior to that time, UTAM was responsible for investment strategy within an asset mix approved by the Business Board.

For the period ended June 30, 2004, the one-year return of the pension master trust was 15.96% before fees and expenses. The pension master trust has a long-term horizon, so investment performance is evaluated over a multi-year period. To assess how the pension master trust return compares to the markets, it is compared to a market index benchmark comprised of major market indices – Canadian equities, U.S. equities, international equities and Canadian bonds. To assess how it meets University expectations, it is compared to the University's return objective of a 4.0% real investment return.

The pension master trust four-year annualized return, at June 30, 2004, was 2.1%. The pension master trust exceeded the market index benchmark by 2.2%, but fell short of meeting both the CPI plus 4% objective and the median balanced fund objective by 4.5% and 2.2% respectively.

Periods Ended June 30	One-Year Annual Rates of Return				Four-Year Annualized Rates of Return			
	Pension Fund	Market Indices Benchmark	CPI Plus 4%	Median Balanced	Pension Fund	Market Indices Benchmark	CPI Plus 4%	Median Balanced
2004	16.0	16.0	6.5	14.9	2.1	-0.1	6.6	4.3
2003	0.4	0.0	6.9	1.4	2.3	0.4	6.5	4.0
2002	-2.0	-4.9	5.3	1.0	2.8	1.4	6.3	4.9
2001	-4.9	-9.5	7.3	-2.6	7.0	7.5	6.2	8.0
2000	17.2	22.0	6.9	17.4	13.7	16.1	5.8	14.8

Master Trust
4 Year Annualized Rates of Return
for the four year periods ended June 30



	2000	2001	2002	2003	2004
Pension Fund	13.7	7.0	2.8	2.3	2.1
Market Indicies Benchmark	16.1	7.5	1.4	0.4	-0.1
CPI plus 4%	5.8	6.2	6.3	6.5	6.6
Median Balanced	14.8	8.0	4.9	4.0	4.3

Pension plan fees and expenses for the pension master trust totaled $14.0 million for 2003-04 compared to $13.4 million for 2002-03. The change was largely due to an increase in the investment managers' fees, which are tied to the growth of the pension master trust asset value.

Total fees and expenses for 2003-04 were 0.637% of total master trust assets as compared to 0.686% for 2002-03. The decrease reflects the increase in master trust assets as a result of University contributions and investment market performance, which exceeded increases in fees and expenses.

The management expense ratio (MER) is a standard investment industry ratio that compares the costs of investment management, both direct and indirect, to the total assets under management. It includes expenses incurred by UTAM, all investment management fees, and the U of T investment management overhead fee. It excludes other pension administration costs, such as external audit fees, records administration and actuarial fees. It also uses the average market values for the year. The MER for the pension master trust was 0.583% for 2003-04, 0.572% for 2002-03 and 0.487% for 2001-02.

Contribution Strategy

The RPP is a contributory pension plan. Contributions in respect of current service cost, to fund pension benefits earned in the current year, are determined by our actuaries. The employee share of those contributions is determined by formula, with the employer contribution representing the difference between the total current service contribution required and the employee contribution.

Employer contributions are not permitted, under the Income Tax Act (Canada) when the actuarial surplus is greater than 10% of accrued liabilities.

Additional employer contributions are required when the plan is in deficit. Plan deficits may be amortized through additional special payments over 15 years. An additional test, called the solvency test, may result in a pension deficit being required to be amortized through additional special payments over 5 years.

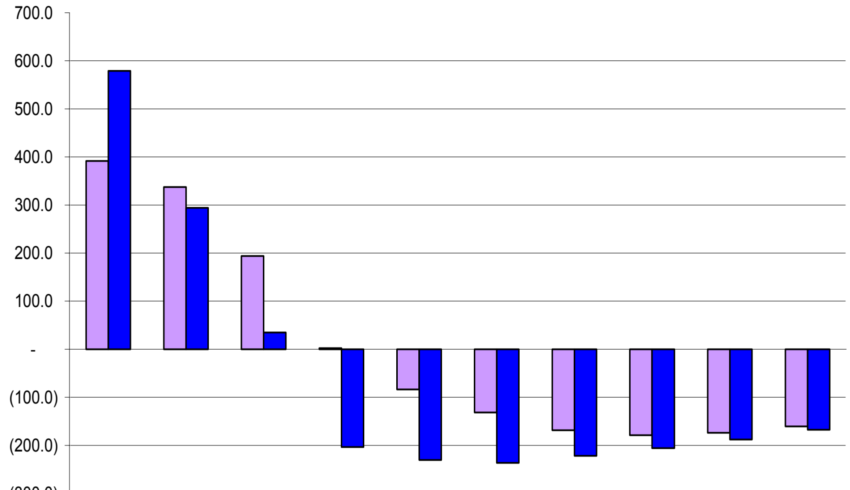
During most years, from the late 1980's to 2002, the RPP had a sufficiently high actuarial surplus that no employer contributions were permitted except for a couple of years in the early 1990's. Employees experienced a pension contribution holiday from 1997 to 2002. The University made contributions to the SRA in accordance with the funding strategy, as mentioned earlier.

After 2002, both the actuarial and market surplus declined significantly. The University adopted a new pension contribution strategy in January 2004, to deal with market deficits in both the RPP and the SRA. Its objective is to provide smoothed funding that deals with the deficits in both the RPP and the SRA over the multi-year period, while permitting stable, predictable funding via the University's operating budget. The key elements of the contribution strategy are:

-employee contributions (no contribution holidays).
-employer contributions at 100% of current service cost, effective May 1, 2004.
-a provision that 100% of current service costs would continue to be set aside in support of pensions even if deposit into the RPP is prohibited under the Income Tax Act.
-additional special payments of $26.4 million per annum to address the pension deficit, effective May 1, 2004.

It is important to note that the actuarial surplus smoothes market gains and losses, but that in the longer run, these are just timing differences and that the pension must be properly funded and market surpluses or deficits addressed. The following graph shows the expected actuarial and market surpluses under the current pension contribution strategy.

RPP
Projected Actuarial and Market Surplus (Deficit) per Pension Strategy
January 2004
at July 1
(millions of dollars)



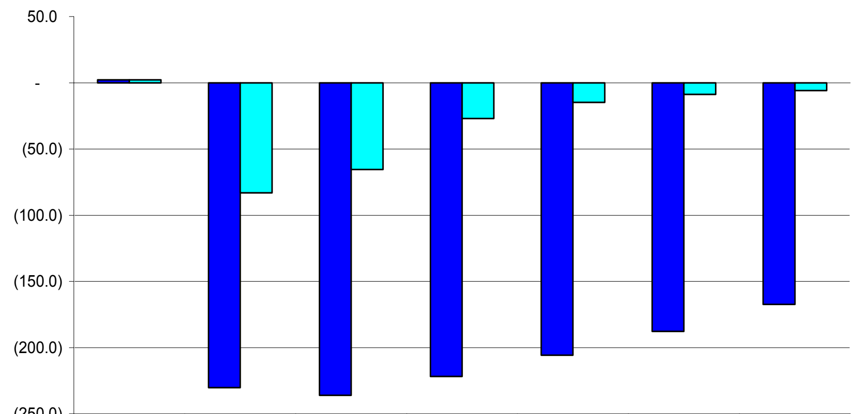
	2000	2001	2002	2003	2004	2005	2007	2009	2011	2013
Actuarial surplus (deficit) - base	391.8	337.7	194.1	2.2	(83.6)	(131.3)	(168.5)	(178.6)	(173.9)	(160.4)
Market surplus (deficit) - base	579.1	294.4	35.1	(203.5)	(230.3)	(236.0)	(221.8)	(205.7)	(187.7)	(167.4)

The investment returns actually experienced for 2003-04 are greater than the 7% investment returns assumed in the projection and included in the January 2004 pension strategy (base case).

The following graph compares the projected market surplus (deficit) under the approved pension strategy (base case) to the forecasted market surplus after updating the investment return for 2004 and leaving all other assumptions unchanged (case A).

Under case A, in some years, the special payments permitted to the RPP would be less than the budgeted amount and, in accordance with the approved contribution strategy, the remainder of the budgeted special payment would be directed to the SRA.

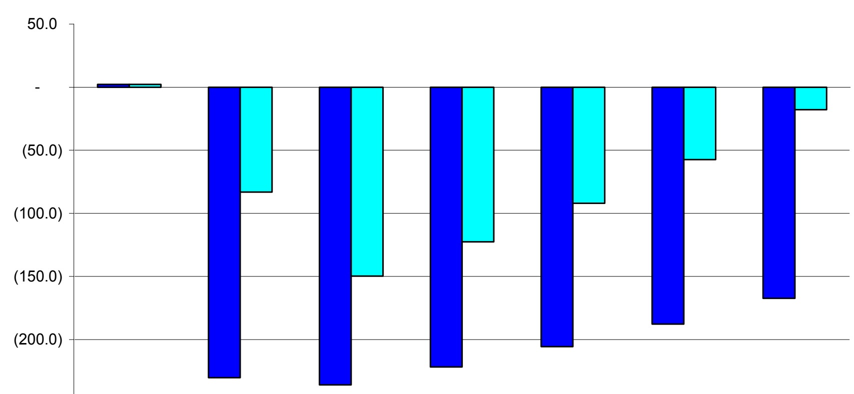
RPP
Projected Market Surplus
Pension Strategy January 2004 Compared to Revised Projections
Reflecting July 1, 2004 Actual Result
at July 1
(millions of dollars)



	2003	2004	2005	2007	2009	2011	2013
Market surplus (deficit) - base	2.2	(230.3)	(236.0)	(221.8)	(205.7)	(187.7)	(167.4)
Market surplus (deficit) - case A	2.2	(83.1)	(65.4)	(27.0)	(14.8)	(8.8)	(5.9)

However, simply including an excellent investment return for 2004 and leaving future years at 7% is not reasonable. There is likely to be a year in which returns are less than 7%, so as to achieve the mean. The following graph compares the projected market surplus (deficit) under the approved pension strategy (base case) to the forecasted market surplus (deficit) after updating the investment return for 2004, with a forecasted 3% return in 2005 rather than 7% while leaving all other assumptions unchanged (case B).

RPP
Projected Market Surplus
Pension Strategy January 2004 Compared to Revised Projections
Reflecting July 1, 2004 Actual Result
at July 1
(millions of dollars)



	2003	2004	2005	2007	2009	2011	2013
Market surplus (deficit) - base	2.2	(230.3)	(236.0)	(221.8)	(205.7)	(187.7)	(167.4)
Market surplus (deficit) - case B	2.2	(83.1)	(149.7)	(122.7)	(92.1)	(57.4)	(17.9)

The effect of a return less than 7% in one future year is to change the market deficit in 2013 from $5.9 million to $17.9 million. Case B is considered to be a more likely scenario of pension master trust performance then case A. Given the return of greater than 7% in 2004, it is only reasonable to expect a year of less than 7%.

Additionally, actuarial assumptions are reviewed each time the actuarial report is prepared to determine whether they require any fine tuning.

Change in Actuarial Assumptions

Traditional pension valuation techniques use a discount rate for pension liabilities that is based on the expected long-term rate of return on pension assets, with some provision for adverse deviations. The real return assumption of 4.0% will remain unchanged (consistent with the investment policy) but lowering the nominal level of the economic assumptions will better reflect market expectations.

Real Return Assumptions

Based on current yields in the fixed income markets, as well as real yields on risk-free Government of Canada real return bonds, a reasonable assumption for the real returns on a diversified bond portfolio would be about 3.0%. Equity returns are more volatile, but a reasonable assumption for the expected real return on equities would be 5.5% to 6.0% (representing a 2.5%-3.0% risk premium over fixed income investments). With more than 50% of pension fund assets invested in equities, a real return assumption of 4.0%, after expenses, is easily supportable.

Nominal Level of Assumptions

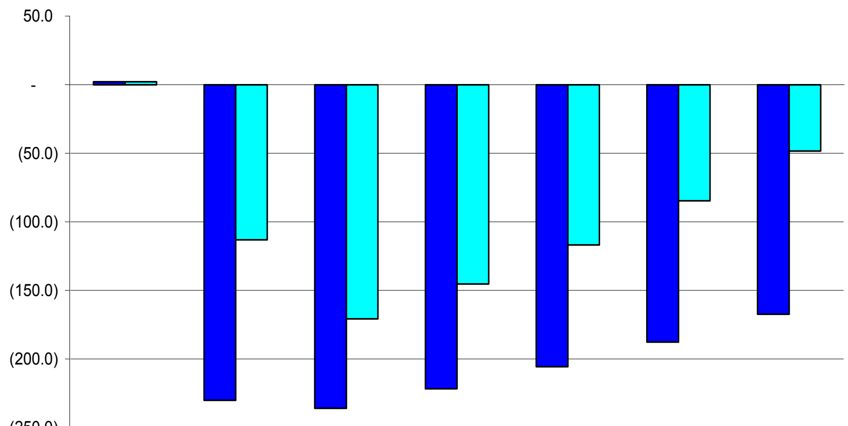
While the most important assumption for an indexed plan is the real return assumption, the nominal level of the economic assumptions does have a bearing. The University recently lowered the economic assumptions used for University financial statement purposes by 0.75% (2.25% inflation and 6.25% discount rate) to be more reflective of market inflation expectations, and yields on high-quality long-term corporate bonds.

Looking at the current funding assumptions, the nominal levels of the assumptions are on the high-side compared to current market expectations. For example, the inflation assumption of 3.0% looks high relative to actual inflation, and the Bank of Canada's stated inflation targets (inflation target of 2.0%, the mid-point of the Bank of Canada's inflation control target range of 1.0% to 3.0%).

A reduction of all the economic assumptions of 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, allowing the University to report consistent funding and pension accounting figures.

The following graph compares the projected market surplus (deficit) under the approved pension strategy (base case) to the forecasted market surplus (deficit) after reflecting the actual investment return for 2004, a forecasted 3% return in 2005 and 6.5% return in the outer years, combined with a reduction in CPI to 2.5% from 3% (case C).

RPP
Projected Market Surplus
Pension Strategy January 2004 Compared to Revised Projections
Reflecting July 1, 2004 Actual Result
at July 1
(millions of dollars)



	2003	2004	2005	2007	2009	2011	2013
Market surplus (deficit) - base	2.2	(230.3)	(236.0)	(221.8)	(205.7)	(187.7)	(167.4)
Market surplus (deficit) - case C	2.2	(113.2)	(170.8)	(145.4)	(116.8)	(84.6)	(48.4)

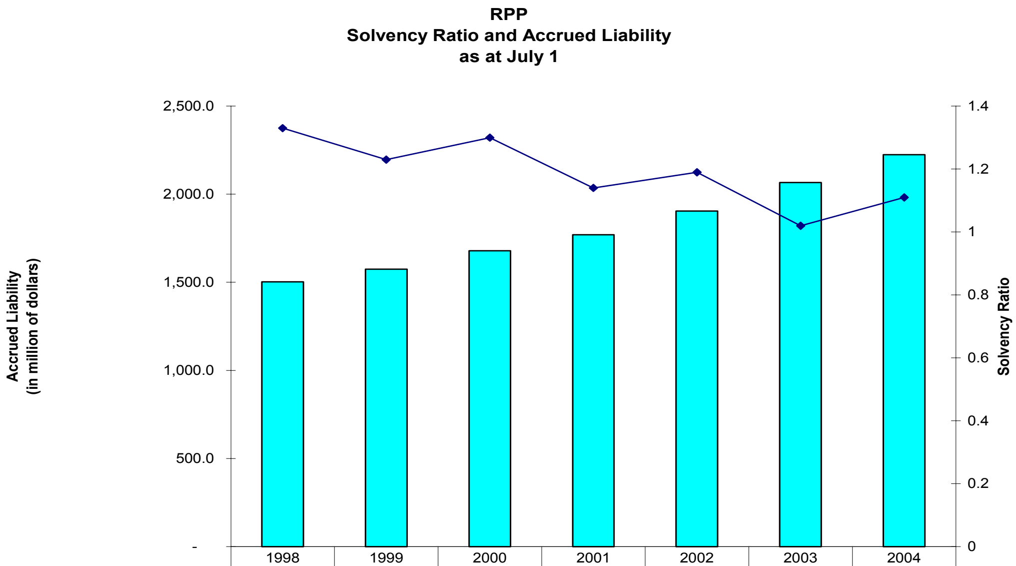
The effect of the assumption change, when added to the investment return changes for 2004 and 2005, increase the market deficit for 2004 from $83.1 million to $113.2 million and the market deficit for 2013 from $17.9 million to $48.4 million. It is important to note that this scenario also directs a greater composition of the special payments into the RPP and less into the SRA. In 2013, the SRA market surplus is projected to be $17.4 million under case C. This assumption change has been reflected in the actuarial report of July 1, 2004.

Conclusions about Pension Financial Health

The key compound annual growth rates (CAGR) for the RPP and the SRA for the period from 1998 to 2004 for the RPP and the SRA are as follows:

- Accrued liabilities in the RPP increased annually by 6.8%.
- Accrued liabilities in the SRA increased annually by 8.3%.
- Market value of assets in the RPP increased annually by 0.6%.
- Market value of assets in the SRA increased annually by 23.4%.
- Retiree participants in the RPP increased annually by 3.5%.
- Active participants in the RPP increased annually by 2.9%.

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) as calculated by the actuaries, has improved from 1.02 at July 1, 2003 to 1.11 at July 1, 2004.



	1998	1999	2000	2001	2002	2003	2004
Accrued liabilities	1,503.3	1,575.1	1,680.2	1,770.5	1,904.9	2,066.7	2,225.0
Solvency Ratio	1.33	1.23	1.30	1.14	1.19	1.02	1.11

As of July 1, 2004, the RPP had an actuarial deficit of $69.2 million and a market deficit of $113.2 million. This difference will be reflected in the actuarial surplus over the next two years.

The SRA accrued liability continues to grow at a faster rate than the RPP accrued liability. Salary increases over time are resulting in an increasing number of employees with salaries greater than the salary at which the maximum benefit limit is reached under the regulations to the Income Tax Act. Additionally pension benefit enhancements over time have resulted in a lowering of the maximum salary limit, further adding to the SRA liability.

This historical information allows us to draw certain conclusions about the financial health of our pension plans.

While nothing can be certain, the current OISE/UT asset base is larger than the accrued liabilities and the surplus should be adequate to meet the University current service cost obligations for its declining member base during the current six year budget period to 2010.

Certain members and former members employed by the Ontario Institute for Studies in Education between February 1996 and June 30th 1996 were offered special early retirement or voluntary severance packages. Employees who accepted either package became part of a partial wind-up group of the OISE/UT pension plan. The decision in the Monsanto case confirms the position of the Superintendent of Financial Services Commission of Ontario that on the partial wind-up of a pension plan, the assets of the pension fund related to that part of the pension plan being wound up must be distributed, which includes any surpluses. The University is currently in the process of determining the financial impact of the Monsanto decision on the OISE/UT plan.

With respect to the RPP, active participation has a CAGR of 2.9% and the number of retirees has a CAGR of 3.5% since 1998. Accrued liabilities in the RPP are growing at 6.8% while accrued liabilities in the SRA are growing at 8.3%. The RPP has a market deficit of $113.2 million, an actuarial deficit of $69.2 million, and a solvency ratio of 1.11.

The pension strategy which was put in place in January 2004, together with excellent investment returns for 2003-04, forecasted 3% performance for 2004-05 and a target 6.5% performance for years after that, with the reduction in the economic assumptions by 0.5% and with pension benefits remaining at current levels, suggest that the RPP will be in an equilibrium position (assets and liabilities approximately equal) by July 1st 2016.

At this time, based on the above analysis, it is appropriate to continue to apply the pension contribution strategy. It will continue to be monitored annually, and may be fine-tuned over time, with the agreement of the Business Board.

Sheila Brown
Acting Chief Financial Officer
October 15, 2004

UNIVERSITY OF TORONTO
PENSION PLAN

FINANCIAL STATEMENTS

JUNE 30, 2004

AUDITORS' REPORT

To the Administrator of the
University of Toronto Pension Plan

We have audited the statement of net assets available for benefits of the **University of Toronto Pension Plan** as at June 30, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at June 30, 2004 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
September 30, 2004.

Chartered Accountants

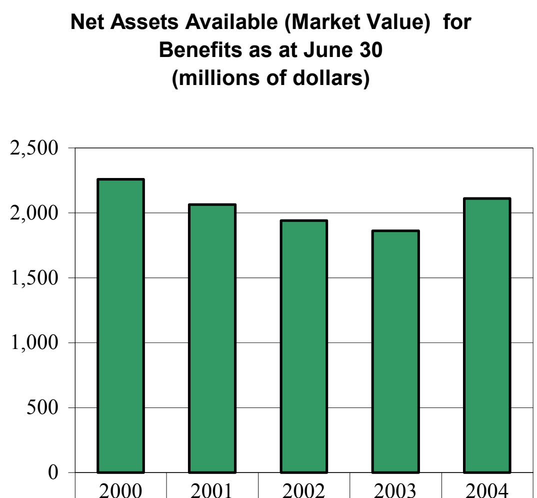
University of Toronto Pension Plan

Highlights

The University of Toronto Pension Plan is a contributory defined benefit plan.

The net assets available for benefits were $2,111.8 million at June 30, 2004, an increase of $248.6 million or 13.3% from the previous year. This increase was a result of an overall favourable market performance.

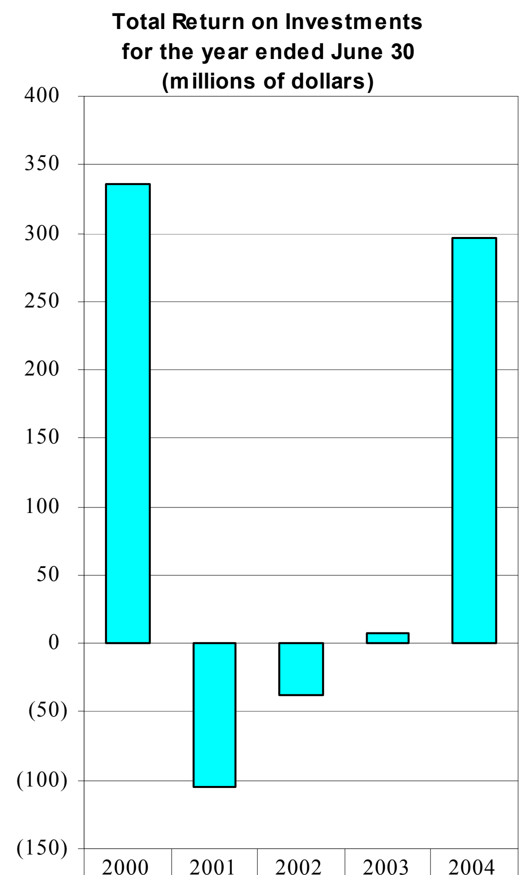
For the five-year period from 2000 to 2004, the net assets available for benefits have decreased from $2,259.4 million to $2,111.8 million.



2000	2001	2002	2003	2004
2,259.4	2,062.9	1,940.0	1,863.2	2,111.8

The University of Toronto Master Trust holds the assets of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan. At June 30, 2004 the University of Toronto Pension Plan assets represent 95.4% of the Master Trust. The University of Toronto Asset Management Corporation provides a high level of professional expertise to investment management of the Master Trust.

The total rate of investment return (including realized and unrealized gains and losses) for the pension Master Trust for the year ended June 30, 2004, was 15.96% (2003 – 0.41%) before fees and expenses. The pension Master Trust underperformed the investment policy benchmark return of 16.04% by 0.08%. This benchmark is composed of major market indices representing Canadian equity, US equity, international equity and bonds.

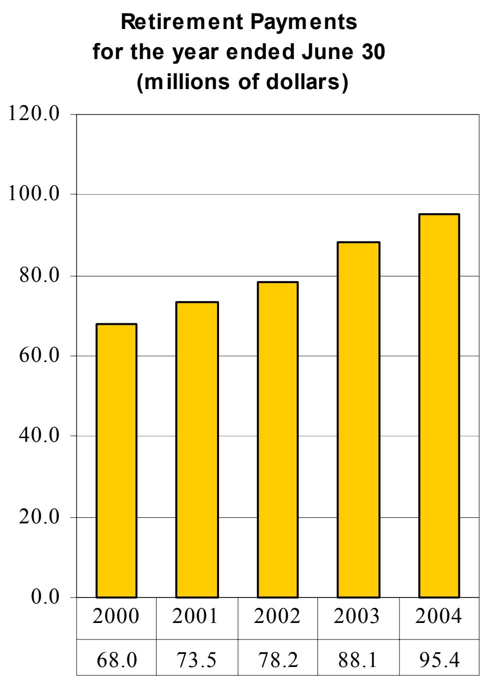


2000	2001	2002	2003	2004
336.5	(104.7)	(37.2)	7.5	296.5

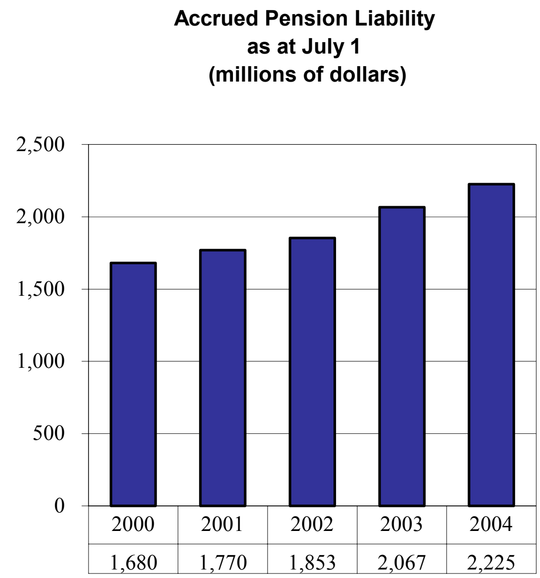
The University was permitted to make contributions for current service cost into the University of Toronto pension fund for the current plan year, since the July 1, 2003 actuarial surplus didn't exceed the greater of 10% of the accrued liability or twice the total current service cost. The University made employer contributions of $41.0 million in 2004.

Pension plan fees and expenses for the University of Toronto Pension Plan totalled $13.1 million for 2004, as compared to $12.6 million for 2003. The increase was largely due to an increase of $0.7 million in investment management fees, which was slightly off-set by a decrease in administration costs. There is no significant change in transfers from, or to, other plans.

Retirement payments increased in 2004 by $7.3 million as compared to 2003. This reflects the increasing number of pensioners as well as augmentations paid to pensioners.



Accrued pension liabilities have also increased steadily over the years as a result of Plan improvements and an increase in both active and retired participants in the plan.



UNIVERSITY OF TORONTO PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2003)
(thousands of dollars)

As at June 30

	2004	2003
	$	$
ASSETS		
Investments, at fair market value *(note 3(a))*	**2,106,265**	1,857,797
Prepaid expenses	**8,771**	8,586
	2,115,036	1,866,383
LIABILITIES		
Refunds in transit	**1,881**	1,771
Accrued expenses	**1,314**	1,403
	3,195	3,174
Net assets available for benefits	**2,111,841**	1,863,209

See accompanying notes

On behalf of the Governing Council of the University of Toronto:

Ms. Catherine J. Riggall
Interim Vice-President, Business Affairs

Mr. Louis Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures for the year ended June 30, 2003)
(thousands of dollars)

Year ended June 30

	2004	2003
	$	$
INCREASE IN NET ASSETS		
Employer contributions *(note 4)*	**41,011**	
Employee contributions	**25,487**	23,954
Net investment gain from Master Trust *(note 3(b))*	**296,482**	7,502
Transfers from other plans	**2,273**	851
Total increase in net assets	**365,253**	32,307
DECREASE IN NET ASSETS		
Retirement payments	**95,430**	88,141
Refunds and transfers *(note 6)*	**8,070**	8,320
Fees and expenses (*note 7)*	**13,121**	12,588
Total decrease in net assets	**116,621**	109,049
Net increase (decrease) in net assets for the year	**248,632**	(76,742)
Net assets available for benefits, beginning of year	**1,863,209**	1,939,951
Net assets available for benefits, end of year	**2,111,841**	1,863,209

See accompanying notes

UNIVERSITY OF TORONTO PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

1. Description of Plan

The University of Toronto Pension Plan (the "Plan") is a defined benefit plan open to all full-time and part-time employees of the University of Toronto (the "University") meeting the eligibility conditions. The Governing Council of the University of Toronto acts as administrator for the Plan.

Member contributions are made in accordance with a prescribed formula. The University's contribution is determined annually on the basis of an actuarial valuation taking into account the assets of the Plan and all other relevant factors.

Contributions are made to the Plan to provide benefits in accordance with the Plan agreement.

This description is a summary only. For more complete information, reference may be made to the official Plan text. The Plan is registered under the Ontario Pension Benefits Act, 1990: Registration Number 0312827.

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments and investment income

Investments, which include accrued income, are carried at fair value.

The Plan is invested in the University of Toronto Master Trust (the "Master Trust"). The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust. Net investment income (loss) includes interest, dividends, foreign exchange gains (losses), realized gains (losses) and net change in unrealized gains (losses) on investments held by the Master Trust.

b) **University of Toronto Master Trust**

Fair values of the investments held by the Master Trust are determined as follows:

(i) The fair values of publicly traded bonds and equities are determined based on quoted market values. Investments in pooled funds are valued at their unit values. Unlisted or infrequently traded securities are based on quoted market yields or comparable security prices, as appropriate. The real estate market values represent estimated year-end market values based on periodic cyclical appraisals by accredited appraisers.

(ii) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are supported by liquid assets with a market value approximately equal to the market value of the instruments underlying the derivative contract.

The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the Master Trust's derivative financial instruments. Gains and losses on these instruments are recognized as investment income in the year in which the changes in fair value occur.

(iii) Monetary assets denominated in foreign currencies are translated at the exchange rate in effect at the year-end.

Interest income is recorded by the Master Trust on an accrual basis. Dividends are recorded by the Master Trust as revenue on the record date. Unrealized gains and losses on investments are recorded by the Master Trust as a change in market value since the beginning of the year or since the date of purchase when purchased during the year.

Investment income and expenses denominated in foreign currencies are translated into Canadian dollars at the rate in effect at the date of the transaction. Gains or losses arising from those translations are included in investment income.

Purchases and sales of investments are recorded by the Master Trust on a trade date basis.

c) **Revenue and expense recognition**

All employer and employee contributions and other revenue are reflected in the year in which they are due. All expenses are recorded on an accrual basis.

3. University of Toronto Master Trust

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University's pension plans, in which each plan holds units of the Master Trust. The value of each unit held by the Plan increases or decreases every month based on the change in market value of the underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

a) **Statement of net assets**
(thousands of dollars)

As at June 30, 2004, the Plan held 19,606,126 (2003 – 20,050,301) of the 20,551,784 (2003 - 21,026,038) outstanding units of the Master Trust. The unit market value as at June 30, 2004 was $107.43 (2003 – $92.66). Investments held at market value by the Master Trust as at June 30 are as follows:

	2004	2003
	$	$
Short-term notes and deposits	**16,411**	24,806
Government and corporate bonds	**352,857**	
Common and preferred shares		
Canadian	**141,030**	9,779
Foreign	**421,008**	359,544
	562,038	369,323
Pooled Funds		
Canadian pooled bond funds		
TD Emerald Canadian Bond Index Fund	**333,823**	517,254
TD Emerald Canadian Long Bond Pooled Fund	**156,579**	255,706
Other	**8,675**	8,438
Canadian pooled equity funds		
BGIC Active Canadian Equity Fund	**111,822**	87,923
Burgundy Small Cap Pension Fund	**54,727**	38,352
TD Emerald Enhanced Canadian Equity Pooled Fund		38,340
Hillsdale Canadian Aggressive Hedged Equity Fund		3,619
Hillsdale Canadian Market Neutral Equity Fund		2,802
Other	**283**	27
Foreign pooled equity funds		
Northwater Derivatives Fund III U.S.	**211,522**	235,461
Northwater Derivatives Fund International	**153,174**	104,373
GMO US Core Fund	**66,838**	
Maverick Fund Limited	**39,361**	37,600
CCL Arrow Street Synthetic Fund	**23,377**	33,229
Formula Unit Trust	**37,910**	30,371
Northwater Derivatives Fund Mid Cap	**23,501**	26,425
Northwater Derivatives Fund Small Cap	**19,894**	21,129
Liberty Square Offshore Fund	**21,728**	20,390
GMO Diversified Futures Fund		20,078
Salomon Brothers Investment Series Capital Fund	**18,265**	14,710
Other	**7,949**	8,784
	1,289,428	1,505,011
Derivative related net receivables (payables) ***(note 3(d))***	**(12,878)**	49,066
	2,207,856	1,948,206
University of Toronto Pension Plan (95.4% of Master Trust)	**2,106,265**	1,857,797

b) Statement of changes in net assets
(thousands of dollars)

For the year ended June 30

	2004 **$**	2003 $
Net investment gain	**310,912**	7,883
Cash received on purchase of Master Trust units by pension plans	**69,436**	25,386
Cash paid on redemption of Master Trust units by pension plans	**(120,698)**	(114,244)
Net increase (decrease) in net assets for the year	**259,650**	(80,975)
Net assets, beginning of year	**1,948,206**	2,029,181
Net assets, end of year	**2,207,856**	1,948,206
University of Toronto Pension Plan (95.4% of Master Trust)	**2,106,265**	1,857,797

Net investment gain for the year ended June 30 for the Master Trust is comprised of the following:

	2004 **$**	2003 $
Common and preferred shares		
Canadian:		
Dividend income	**236**	227
Net realized and unrealized gains	**58,168**	160
Foreign:		
Dividend income	**10,205**	7,575
Net realized and unrealized gains (losses)	**109,656**	(83,529)
Foreign exchange gains (losses)	**(40,410)**	54,392
Interest on short-term notes and deposits	**7,127**	269
Other sources of income (loss)	**693**	(108)
Net investment income from pooled funds	**165,237**	28,897
	310,912	7,883
University of Toronto Pension Plan (95.4% of Master Trust)	**296,482**	7,502

The net gain was reported in the Plan's statement of changes in net assets available for benefits as net investment income from Master Trust.

c) Individually significant investments

The details of investments where the market value exceeds 1% of the total market value or book value of the Master Trust are listed below except for pooled funds which are provided in note 3(a).

Name	Coupon (%)	Maturity	Fair value
Government of Canada	4.25%	Dec. 01, 2026	80,091
Government of Canada	4%	Dec. 01, 2031	78,025
Government of Canada	4.25%	Dec. 01, 2021	73,713
Government of Canada	3%	Dec. 01, 2036	26,718

d) **Derivative financial instruments**

Description

The Master Trust has entered into equity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The Master Trust enters into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The Master Trust has significant contracts outstanding held in U.S. dollars, the Euro, Japanese yen and British pound.

Risks

The notional amounts of the derivative financial instruments do not represent amounts exchanged between related parties and are not a measure of the Master Trust's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

The Master Trust is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The Master Trust limits its derivative financial instruments' credit risk by dealing with counterparties that are at least rated "A".

Terms and conditions

The notional and fair value amounts of the financial instruments are as follows:

	(millions of dollars)			
	2004		2003	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency contracts:				
- U.S. dollars	**728.8**	**(8.9)**	873.8	39.7
- Global	**315.2**	**(4.0)**	302.8	9.7
		(12.9)		49.4
Equity futures contracts:				
- U.S. dollars	**0.8**	**(0.0)**	15.1	(0.3)

4. **Plan contributions**

Employer contributions were permitted (as defined under the Income Tax Act (Canada)) since the Plan's assets didn't exceeded the Plan's liabilities by more than 10% of the accrued pension liability based on the most recent actuarial valuation as at July 1, 2003.

5. **Voluntary Early Academic Retirement Program (VEARP)**

The University makes contributions to the Plan for the cost of waiving the actuarial reduction when faculty and librarians retire under VEARP.

6. **Refunds and transfers**
(thousands of dollars)

Refunds and transfers consist of the following:

	2004 **$**	2003 $
Refunds of contributions:		
Upon termination	**524**	951
Upon death	**989**	1,827
	1,513	2,778
Transfers to other plans upon termination	**6,557**	5,542
	8,070	8,320

7. **Fees and expenses**
(thousands of dollars)

Fees and expenses consist of the following:

	2004 **$**	2003 $
Investment management fees:		
External managers	**8,301**	7,401
University of Toronto Asset Management Corporation	**1,915**	2,101
Trustee and custodial fees	**501**	479
Actuarial and consulting fees	**387**	427
Pension records administration	**594**	533
External audit fees	**29**	34
Administration cost – University of Toronto	**1,268**	1,345
Other fees	**126**	268
	13,121	12,588

8. Obligations for pension benefits

(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions and the projected benefit method prorated on services. An actuarial valuation was performed as of July 1, 2004 by Hewitt Associates LLC, a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2004 and 2003 and the principal components of changes during the year are as follows:

	2004	2003
	$	$
Actuarial present value of accrued Pension benefits, beginning of year	**2,066,720**	1,904,858
Interest on accrued benefits	**141,876**	129,994
Benefits accrued	**71,680**	62,324
Benefits paid	**(103,500)**	(96,461)
Experience (gain) loss	**7,496**	22,590
Plan amendments[1]	**10,692**	
Legislative changes		43,415
Assumption changes	**30,065**	
Actuarial present value of accrued pension benefits, end of year	**2,225,029**	2,066,720

[1] Reflects plan augmentations for Faculty and Librarians staff groups effective February 1, 2004 and July 1, 2004.

Significant assumptions used in the actuarial valuation are as follows:

	2004	2003
	%	%
Interest rate	**6.50**	7.00
Consumers price index	**2.50**	3.00
Salary escalation rate	**4.00**	4.50

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

FINANCIAL STATEMENTS

JUNE 30, 2004

AUDITORS' REPORT

To the Administrator of the
University of Toronto (OISE) Pension Plan

We have audited the statement of net assets available for benefits of the **University of Toronto (OISE) Pension Plan** as at June 30, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at June 30, 2004 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
September 30, 2004.

Chartered Accountants

University of Toronto (OISE) Pension Plan

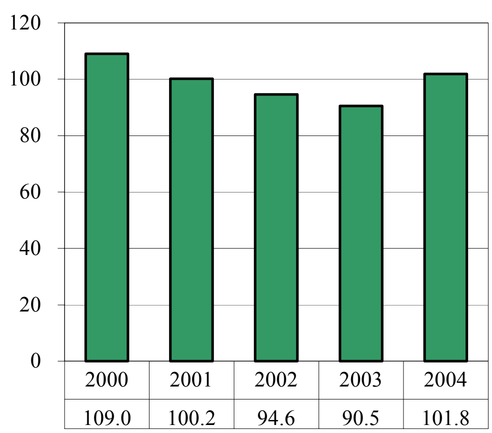
Highlights

The University of Toronto (OISE) Pension Plan is a contributory defined benefit plan.

The net assets available for benefits were $101.8 million at June 30, 2004, an increase of $11.3 million or 12.5% from the previous year. This increase was a result of an overall favourable market performance.

For the five-year period from 2000 to 2004, the net assets available for benefits have decreased from $109.0 million to $101.8 million.

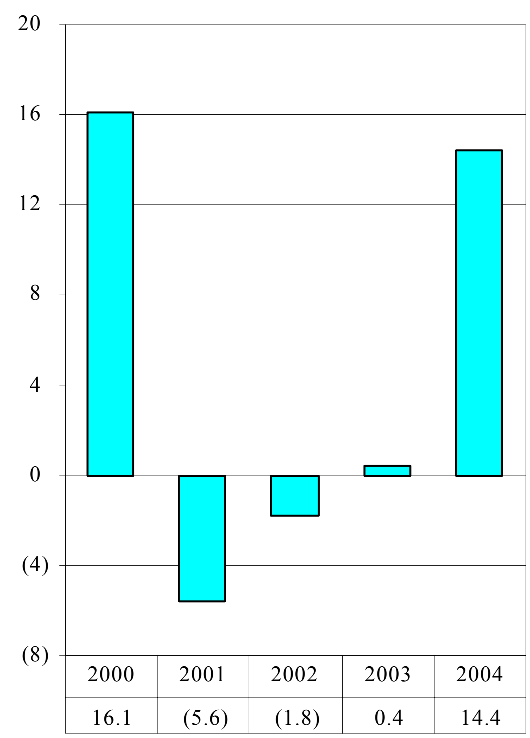
Net Assets Available (Market Value) for Benefits as at June 30 (millions of dollars)



The University of Toronto Master Trust holds the assets of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan. At June 30, 2004 the University of Toronto (OISE) Pension Plan assets represent 4.6% of the Master Trust. The University of Toronto Asset Management Corporation provides a high level of professional expertise to investment management of the Master Trust.

The total rate of investment return (including realized and unrealized gains and losses) for the pension Master Trust for the year ended June 30, 2004 was 15.96% (2003 – 0.41%) before fees and expenses. The pension Master Trust underperformed the investment policy benchmarks return of 16.04% by 0.08%. This benchmark is composed of major market indices representing Canadian equity, US equity, international equity and bonds.

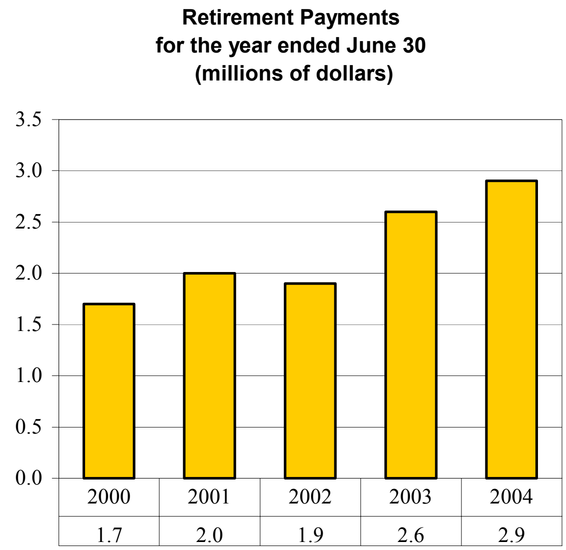
Total Return on Investments for the year ended June 30 (millions of dollars)



The University is currently not permitted to make contributions for current service cost into the University of Toronto (OISE) pension fund for the current plan year, since the July 1, 2003 actuarial surplus exceeds the greater of 10% of the accrued liability or twice the total current service cost (as defined under the Income Tax Act (Canada)).

Pension Plan fees and expenses for the University of Toronto (OISE) Pension Plan totalled \$0.9 million for 2003-2004, as compared to \$0.8 million for 2002-2003. The increase was largely due to the increase of \$0.1 million in investment management fees of external managers, due to the continuing diversification of investment mandates and the move towards more active investment strategies. Due to the fewer number of terminations in 2004, refunds and transfers to other plans decreased by \$1.6 million over 2003.

Retirement payments increased in 2004 by \$0.3 million, as compared to 2003. This reflects the increasing number of pensioners as well as augmentations paid to pensioners.



Accrued pension liabilities have also steadily increased over the years. Although total participants have slowly decreased, Plan improvements have offset the effect of the decrease, resulting in a net increase of total pension liability.

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2003)
(thousands of dollars)

As at June 30

	2004	2003
	$	$
ASSETS		
Investments, at fair market value *(note 3(a))*	**101,591**	90,408
Prepaid expenses	**287**	234
	101,878	90,642
LIABILITIES		
Accrued expenses	**80**	102
Net assets available for benefits	**101,798**	90,540

See accompanying notes

On behalf of the Governing Council of the University of Toronto:

Ms. Catherine J. Riggall
Interim Vice-President, Business Affairs

Mr. Louis Charpentier
Secretary of the Governing Council

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures for the year ended June 30, 2003)
(thousands of dollars)

Year ended June 30

	2004	2003
	$	$
INCREASE IN NET ASSETS		
Employee contributions *(note 4)*	**665**	582
Net investment gain from Master Trust *(note 3(b))*	**14,430**	381
Total increase in net assets	**15,095**	963
DECREASE IN NET ASSETS		
Retirement payments	**2,874**	2,613
Refunds and transfers *(note 5)*	**71**	1,670
Fees and expenses *(note 6)*	**892**	822
Total decrease in net assets	**3,837**	5,105
Net increase (decrease) in net assets for the year	**11,258**	(4,142)
Net assets available for benefits, beginning of year	**90,540**	94,682
Net assets available for benefits, end of year	**101,798**	90,540

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

1. Description of Plan

The University of Toronto Ontario Institute for Studies in Education (OISE) Pension Plan (the "Plan") is a defined benefit plan covering substantially all full-time and part-time employees of OISE who were members of the Plan as of June 30, 1996. Effective July 1, 1996, the Governing Council of the University of Toronto (the "University") acts as administrator for the Plan. Prior to July 1, 1996, the OISE Board of Governors acted as the administrator.

Member contributions are made in accordance with a prescribed formula. The University's contribution is determined annually on the basis of an actuarial valuation taking into account the assets of the Plan and all other relevant factors.

Contributions are made to the Plan to provide benefits in accordance with the Plan agreement.

This description is a summary only. For more complete information, reference may be made to the official Plan text. The Plan is registered under the Ontario Pension Benefits Act, 1990: Registration Number 0353854.

2. Summary of significant accounting policies

These financial statements have been prepared by the University in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

a) Investments and investment income

Investments, which include accrued income, are carried at fair value.

The Plan is invested in the University of Toronto Master Trust (the "Master Trust"). The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust. Net investment income (loss) includes interest, dividends, foreign exchange gains (losses), realized gains (losses) and net change in unrealized gains (losses) on investments held by the Master Trust.

b) University of Toronto Master Trust

Fair values of the investments held by the Master Trust are determined as follows:

(i) The fair values of publicly traded bonds and equities are determined based on quoted market values. Investments in pooled funds are valued at their unit values. Unlisted or infrequently traded securities are based on quoted market yields or comparable security prices, as appropriate. The real estate market values represent estimated year-end market values based on periodic cyclical appraisals by accredited appraisers.

(ii) Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the Master Trust's investments and as a substitute for more traditional investments. Derivative financial instruments and synthetic products that may be employed include debt, equity and currency futures, options, swaps and forward contracts. These contracts are supported by liquid assets with a market value approximately equal to the market value of the instruments underlying the derivative contract.

The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for substantially all of the Master Trust's derivative financial instruments. Gains and losses on these instruments are recognized as investment income in the year in which the changes in fair value occur.

(iii) Monetary assets denominated in foreign currencies are translated at the exchange rate in effect at the year-end.

Interest income is recorded by the Master Trust on an accrual basis. Dividends are recorded by the Master Trust as revenue on the record date. Unrealized gains and losses on investments are recorded by the Master Trust as a change in market value since the beginning of the year or since the date of purchase when purchased during the year.

Investment income and expenses denominated in foreign currencies are translated into Canadian dollars at the rate in effect at the date of the transaction. Gains or losses arising from those translations are included in investment income.

Purchases and sales of investments are recorded by the Master Trust on a trade date basis.

c) Revenue and expense recognition

All employer and employee contributions and other revenue are reflected in the year in which they are due. All expenses are recorded on an accrual basis.

3. University of Toronto Master Trust

On August 1, 2000, the Master Trust was established to facilitate the collective investment of the assets of the University's pension plans, in which each plan holds units of the Master Trust. The value of each unit held by the Plan increases or decreases every month based on the change in market value of the underlying assets of the Master Trust. This value is used as the basis for the purchase and sale of units by the pension plans in the following month.

a) <u>Statement of net assets</u>
(thousands of dollars)

As at June 30, 2004, the Plan held 945,658 (2003 - 975,737) of the 20,551,784 (2003 - 21,026,038) outstanding units of the Master Trust. The unit market value as at June 30, 2004 was $107.43 (2003 - $92.66). Investments held at market value by the Master Trust as at June 30 are as follows:

	2004	2003
	$	$
Short-term notes and deposits	**16,411**	24,806
Government and corporate bonds	**352,857**	
Common and preferred shares		
Canadian	**141,030**	9,779
Foreign	**421,008**	359,544
	562,038	369,323
Pooled Funds		
Canadian pooled bond funds		
TD Emerald Canadian Bond Index Fund	**333,823**	517,254
TD Emerald Canadian Long Bond Pooled Fund	**156,579**	255,706
Other	**8,675**	8,438
Canadian pooled equity funds		
BGIC Active Canadian Equity Fund	**111,822**	87,923
Burgundy Small Cap Pension Fund	**54,727**	38,352
TD Emerald Enhanced Canadian Equity Pooled Fund		38,340
Hillsdale Canadian Aggressive Hedged Equity Fund		3,619
Hillsdale Canadian Market Neutral Equity Fund		2,802
Other	**283**	27
Foreign pooled equity funds		
Northwater Derivatives Fund III U.S.	**211,522**	235,461
Northwater Derivatives Fund International	**153,174**	104,373
GMO US Core Fund	**66,838**	
Maverick Fund Limited	**39,361**	37,600
CCL Arrow Street Synthetic Fund	**23,377**	33,229
Formula Unit Trust	**37,910**	30,371
Northwater Derivatives Fund Mid Cap	**23,501**	26,425
Northwater Derivatives Fund Small Cap	**19,894**	21,129
Liberty Square Offshore Fund	**21,728**	20,390
GMO Diversified Futures Fund		20,078
Salomon Brothers Investment Series Capital Fund	**18,265**	14,710
Other	**7,949**	8,784
	1,289,428	1,505,011
Derivative related net receivables *(note 3(d))*	**(12,878)**	49,066
	2,207,856	1,948,206
University of Toronto (OISE) Pension Plan (4.6% of Master Trust)	**101,591**	90,408

b) Statement of changes in net assets
(thousands of dollars)

For the year ended June 30

	2004 **$**	2003 $
Net investment gain	**310,912**	7,883
Cash received on purchase of Master Trust units by pension plans	**69,436**	25,386
Cash paid on redemption of Master Trust units by pension plans	**(120,698)**	(114,244)
Net increase (decrease) in net assets for the year	**259,650**	(80,975)
Net assets, beginning of year	**1,948,206**	2,029,181
Net assets, end of year	**2,207,856**	1,948,206
University of Toronto (OISE) Pension Plan (4.6% of Master Trust)	**101,591**	90,408

Net investment gain for the year ended June 30 for the Master Trust is comprised of the following:

	2004 **$**	2003 $
Common and preferred shares		
Canadian:		
Dividend income	**236**	227
Net realized and unrealized gains	**58,168**	160
Foreign:		
Dividend income	**10,205**	7,575
Net realized and unrealized gains (losses)	**109,656**	(83,529)
Foreign exchange gains (losses)	**(40,410)**	54,392
Interest on short-term notes and deposits	**7,127**	269
Other sources of income (loss)	**693**	(108)
Net investment income from pooled funds	**165,237**	28,897
	310,912	7,883
University of Toronto (OISE) Pension Plan (4.6% of Master Trust)	**14,430**	381

The net gain was reported in the Plan's statement of changes in net assets available for benefits as net investment gain from Master Trust.

c) <u>Individually significant investments</u>

The details of investments where the market value exceeds 1% of the total market value or book value of the Master Trust are listed below except for pooled funds which are provided in note 3(a).

Name	Coupon (%)	Maturity	Fair value
Government of Canada	4.25%	Dec. 01, 2026	80,091
Government of Canada	4%	Dec. 01, 2031	78,025
Government of Canada	4.25%	Dec. 01, 2021	73,713
Government of Canada	3%	Dec. 01, 2036	26,718

d) Derivative financial instruments

Description

The Master Trust has entered into equity index futures contracts which oblige it to pay the difference between a predetermined amount and the market value of certain equities when the market value is less than the predetermined amount, or receive the difference when the market value is more than the predetermined amount.

The Master Trust enters into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting uncertainty on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The Master Trust has significant contracts outstanding held in U.S. dollars, the Euro, Japanese yen and British pound.

Risks

The notional amounts of the derivative financial instruments do not represent amounts exchanged between related parties and are not a measure of the Master Trust's exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

The Master Trust is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The Master Trust limits its derivative financial instruments' credit risk by dealing with counterparties that are at least rated "A".

Terms and conditions

The notional and fair value amounts of the financial instruments are as follows:

	(millions of dollars)			
	2004		2003	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency contracts:				
- U.S. dollars	**728.8**	**(8.9)**	873.8	39.7
- Global	**315.2**	**(4.0)**	302.8	9.7
		(12.9)		49.4
Equity futures contracts:				
- U.S. dollars	**0.8**	**(0.0)**	15.1	(0.3)

4. Plan contributions

Employer contributions were not permitted (as defined under the Income Tax Act (Canada)) since the Plan's assets exceeded the Plan's liabilities by more than 10% of the accrued pension liability based on the most recent actuarial valuation as at July 1, 2003.

5. Refunds and transfers

(thousands of dollars)

Refunds and transfers consist of the following:

	2004	2003
	$	$
Refunds of contributions:		
Upon termination		123
Upon death		316
		439
Transfers to other plans upon termination	**71**	1,231
	71	1,670

6. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2004	2003
	$	$
Investment management fees:		
External managers	**469**	375
University of Toronto Asset Management Corporation	**101**	111
Trustee and custodial fees	**26**	25
Actuarial and consulting fees	**88**	117
Pension records administration	**109**	98
External audit fees	**11**	12
Administration cost – University of Toronto	**83**	71
Other fees	**5**	13
	892	822

7. Obligations for pension benefits

(thousands of dollars)

The actuarial present value of accrued pension benefits is determined by applying best estimate assumptions and the projected benefit method prorated on services. An actuarial valuation was performed as of July 1, 2004 by Hewitt Associates LLC, a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2004 and 2003 and the principal components of changes during the year are as follows:

	2004	2003
	$	$
Actuarial present value of accrued Pension benefits, beginning of year	**83,417**	77,851
Interest on accrued benefits	**5,736**	5,300
Benefits accrued	**2,342**	2,247
Benefits paid	**(2,945)**	(4,283)
Experience (gain) loss	**569**	(268)
Plan amedments[1]	**441**	
Legislative changes		2,570
Assumption changes	**734**	
Actuarial present value of accrued pension benefits, end of year	**90,294**	83,417

[1] Reflects plan augmentations for Faculty and Librarians staff groups effective February 1, 2004 and July 1, 2004.

Significant assumptions used in the actuarial valuation are as follows:

	2004	2003
	%	%
Interest rate	**6.50**	7.00
Consumers price index	**2.50**	3.00
Salary escalation rate	**4.00**	4.50

8. Partial plan wind–up

Certain members and former members employed by the Ontario Institute for Studies in Education between February 1996 and June 30th 1996 were offered special early retirement or voluntary severance packages. Employees who accepted either package became part of a partial wind-up group of the Plan. The decision in the Monsanto case confirms the position of the Superintendent of Financial Services Commission of Ontario that on the partial wind-up of a pension plan, the assets of the pension fund related to that part of the pension plan being wound up must be distributed, which includes any surpluses. The University is currently in the process of determining the financial impact of the Monsanto decision on the Plan.

UNIVERSITY OF TORONTO
PENSION PLANS

ACTUARIAL REPORTS

JUNE 30, 2004

University Of Toronto Pension Plan
Actuarial Report
June 30, 2004

Summary

	As of July 1, 2003	As of July 1, 2004 Before Assumption Change	As of July 1, 2004 After Assumption Change
Going Concern Valuation Results (thousands of dollars)			
Past Service			
Actuarial Value of Assets	$ 2,068,883	$ 2,155,790	$ 2,155,790
Less: Accrued Liability	2,066,720	2,194,964	2,225,029
Surplus (Unfunded Accrued Liability)	$ 2,163	$ (39,174)	$ (69,239)
As a % of Accrued Liability	0.1%	(1.8)%	(3.1)%
Market Value of Assets	$ 1,863,209	$ 2,111,841	$ 2,111,841
Deferred Asset Gain (Loss)	$ (205,674)	$ (43,949)	$ (43,949)
Current Service			
Total Current Service Cost	$ 67,275	$ 71,701	$ 72,715
Less: Required Participant Contributions	24,383	25,622	25,622
Remaining Current Service Cost	$ 42,892	$ 46,079	$ 47,093
As a % of Participant Salary Base	9.07%	9.17%	9.37%
As a % of Participant Salary Base (Capped at $150,000)	9.27%	9.32%	9.52%
Participant Salary Base	$ 473,078	$ 502,596	$ 502,596
Participant Salary Base (Capped at $150,000)	$ 462,487	$ 494,550	$ 494,550
Solvency Valuation Results			
Market Value of Assets	$ 1,863,209		$ 2,111,841
Solvency Liability – Without Escalated Adjustments[1]	$ 1,820,048		$ 1,911,134
Solvency Liability – With Escalated Adjustments[1]	$ 2,205,869		$ 2,599,052

[1] The Regulations to the Pension Benefits Act (Ontario) allow the Solvency Liability to exclude the liabilities associated with escalated adjustments (future indexing). Solvency Liabilities are shown both with and without the value of future escalated adjustments.

Summary (continued)

	As of July 1, 2003	As of July 1, 2004
Funding Requirements (thousands of dollars)		
Required Participant Contributions	$ 24,383	$ 25,622
Remaining Current Service Cost	$ 42,892	$ 47,093
Special Payments to Amortize Unfunded Liability	n/a	$ 7,165
Minimum Required University Contributions	$ 40,729	$ 54,258
As a % of Participant Salary Base	8.61%	10.80%
As a % of Participant Salary Base (Capped $150,000)	8.81%	10.97%
Personnel Data		
Active Participants	7,141	7,288
Retired Participants	3,942	4,078
Terminated Vested	489	961
Suspended, Exempt or Pending Status	1,447	1,076
Total	13,019	13,403

Assets and Liabilities

Going Concern Valuation Results (thousands of dollars)

Past Service		
Actuarial Value of Assets		$ 2,155,790
Less: Accrued Liability		
Active Participants	$ 1,036,380	
Retired Participants	1,118,020	
Terminated Vested Participants	31,867	
Suspended, Exempt or Pending Status	38,762	
Total		2,225,029
Surplus (Unfunded Accrued Liability)		$ (69,239)
As a % of Accrued Liability		(3.1%)
Market Value of Assets		$ 2,111,841
Deferred Asset Gain (Loss)		$ (43,949)
Current Service		
Total Current Service Cost		$ 72,715
Less: Required Participant Contributions		25,622
Remaining Current Service Cost		$ 47,093
As a % of Participant Salary Base		9.37%
As a % of Participant Salary Base (With $150,000 Pay Cap)		9.52%
Participant Salary Base		$ 502,596
Participant Salary Base (With $150,000 Pay Cap)		$ 494,550

Experience

Reconciliation of Surplus (thousands of dollars)

Surplus at July 1, 2003		$	2,163
Less:	University Current Service Cost for Plan Year Ending June 30, 2004		(42,892)
Plus:	University Contributions		41,011
Plus:	Interest at 7.0% per annum		86
Equals:	Expected Surplus/(Deficit) at July 1, 2004, Before Experience Gains (Losses)	$	368
Plus:	Increase (Decrease) in Surplus at July 1, 2004 Due to:		
	Gains (Losses):		
	Return on Assets	$	(21,971)
	Pay and YMPE Increases		(4,107)
	Indexation of Benefits		8,089
	Retirement Ages		(3,790)
	Retiree Mortality		(1,304)
	Personnel Changes, Data Adjustments, Turnover, etc.		(5,767)
	Pensioner Augmentation		(10,692)
	Change in Actuarial Assumptions		(30,065)
Equals:	Surplus/(Deficit) at July 1, 2004	$	(69,239)

Experience (continued)

Comments Regarding Experience

Return on Assets

The assumed rate of return for actuarial valuation purposes was 7.0% per annum or $143,607,000, based on the actuarial value of assets as at July 1, 2003. After allowance is made for the market value adjustment under the asset valuation method of ($21,971,000), the net return on the actuarial value of assets was 5.9% or $121,636,000. The market value adjustment of ($21,971,000) represents the asset gain/(loss) under the asset valuation method. The total return based on the actual market value of assets after allowing for the full amount of capital appreciation during the year was 15.4% after expenses, assuming contributions and benefit payments take place in the middle of the year.

Pay and YMPE Increases

Average pay for those participants present in both the 2003 and 2004 valuations increased by 5.6% This increase was higher than the 4.5% increase anticipated by the assumption. The Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan increased by 1.5% from 2003 to 2004. This was less than the 4.0% increase anticipated by the assumptions. Pay increases higher than assumed, and a YMPE increase lower than assumed, each contributed to an actuarial loss of $4,107,000.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants as of July 1, 2004 increased by 1.50%. The increase was lower than the 2.25% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of $8,089,000.

Retirement Ages

Retirements since July 1, 2003 earlier than assumed resulted in an actuarial loss of $3,790,000.

Retiree Mortality

Retiree mortality experience since July 1, 2003 was lower than expected under the valuation assumptions. This resulted in an actuarial loss of $1,304,000.

Miscellaneous

Other factors such as personnel changes, data corrections, mortality among terminated vested participants, etc., deviated from expected resulting in a net actuarial loss of $5,767,000.

Pensioner Augmentation

An interim cost certificate effective February 1, 2004 was filed to reflect the increase in accrued liability of $6,340,000 associated with the 0.94% increase in pensions on February 1, 2004, for Faculty/Librarian retirees who retired prior to January 1, 2003, and surviving beneficiaries of such retirees.

In addition, effective July 1, 2004, Faculty/Librarian retirees who retired prior to July 1, 2003, and surviving beneficiaries of such retirees, received an augmentation of 0.50% to bring the combined increase in pensions from indexation/augmentation to 2.0%.

The pensioner augmentations increased the accrued liability by $10,692,000 (including the $6,340,000 increase in accrued liability from the February 1, 2004 interim cost certificate).

Change in Actuarial Assumptions

Effective July 1, 2004, the actuarial assumptions were changed as follows:

	Old Assumption	New Assumption
Increase in CPI	3.0% per annum	2.5% per annum
Cost-of-Living Adjustments	2.25% per annum (75% of CPI)	1.875% per annum (75% of CPI)
Increase in CPP Maximum Salary	4.0% per annum (CPI + 1.0%)	3.5% per annum (CPI + 1.0%)
Increase in Income Tax Act Maximum Benefit	4.0% per annum (CPI + 1.0%)	3.5% per annum (CPI + 1.0%)
Increase in Salaries	4.5% per annum (CPI + 1.5%)	4.0% per annum (CPI + 1.5%)
Interest Rate	7.0% per annum (CPI + 4.0%)	6.5% per annum (CPI + 4.0%)

The change in actuarial assumptions increased the Accrued Liability by $30,065,000 and increased the Remaining Current Service Cost by $1,014,000 (0.2% of the Participant Salary Base).

University Of Toronto (OISE) Pension Plan
Actuarial Report
June 30, 2004

Summary

	As of July 1, 2003[1]	As of July 1, 2004 — Before Assumption Change[1]	As of July 1, 2004 — After Assumption Change[1]
Going Concern Valuation Results (thousands of dollars)			
Past Service			
Actuarial Value of Assets	$ 101,390	$ 104,684	$ 104,684
Less: Accrued Liability	83,417	89,560	90,294
Surplus (Unfunded Accrued Liability)	$ 17,973	$ 15,124	$ 14,390
As a % of Accrued Liability	21.5%	16.9%	15.9%
Excess Surplus	$ 9,631	$ 6,418	$ 5,361
Market Value of Assets	$ 90,540	$ 101,798	$ 101,798
Deferred Asset Gain (Loss)	$ (10,850)	$ (2,886)	$ (2,886)
Current Service			
Total Current Service Cost	$ 2,270	$ 2,147	$ 2,178
Less: Required Participant Contributions	(657)	(615)	(615)
Remaining Current Service Cost[2]	$ 1,613	$ 1,532	$ 1,563
As a % of Participant Salary Base	13.8%	13.9%	14.2%
Participant Salary Base	$ 11,671	$ 11,020	$ 11,020

[1] On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to members who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. The impact of the partial wind-up order is being determined, and has not been reflected in the valuation results.

[2] Since the Surplus exceeds 10% of the Accrued Liability, Section 147.2 of the *Income Tax Act* requires that the excess surplus must be used to reduce the Remaining Current Service Cost.

Summary (continued)

	As of July 1, 2003[1]	As of July 1, 2004[1]
Funding Requirements (thousands of dollars)		
Required Participant Contributions	$ 657	$ 615
Minimum Required University Current Service Contributions	$ 0	$ 0
As a % of Participant Salary Base	0.0%	0.0%
Remaining Current Service Cost	$ 1,613	$ 1,563
Less: Required Application of Excess Surplus[2]	(1,613)	(1,563)
Maximum Eligible University Current Service Contributions	$ 0	$ 0
As a % of Participant Salary Base	0.0%	0.0%
Solvency Valuation Results		
Market Value of Assets	$ 90,540	$ 101,798
Solvency Liability - Without Escalated Adjustments[3]	$ 73,478	$ 86,072
Solvency Liability - With Escalated Adjustments[3]	$ 89,391	$ 108,284

[1] On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to members who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. The impact of the partial wind-up order is being determined, and has not been reflected in the valuation results.

[2] Since the Surplus exceeds 10% of the Accrued Liability, Section 147.2 of the *Income Tax Act* requires that the excess surplus must be used to reduce the Remaining Current Service Cost.

[3] The Regulations to the Pension Benefits Act (Ontario) allow the Solvency Liability to exclude the liabilities associated with escalated adjustments (future indexing). Solvency Liabilities are shown both with and without the value of future escalated adjustments.

Summary (continued)

	As of July 1, 2003	As of July 1, 2004
Personnel Data		
Active Participants	176	159
Retired Participants	131	145
Terminated Vested Participants	16	18
Total	323	322

Assets and Liabilities

Going Concern Valuation Results (thousands of dollars)		
Past Service		
Actuarial Value of Assets		$ 104,684
Less: Accrued Liability		
Active Participants	$ 49,209	
Retired Participants	40,099	
Terminated Vested Participants	986	
Total		90,294
Surplus (Unfunded Accrued Liability)		$ 14,390
As a % of Accrued Liability		15.9%
Excess Surplus		$ 5,361
Market Value of Assets		$ 101,798
Deferred Asset Gain (Loss)		$ (2,886)
Current Service		
Total Current Service Cost		$ 2,178
Less: Required Participant Contributions		615
Remaining Current Service Cost		$ 1,563[1]
As a % of Participant Salary Base		14.2%
Participant Salary Base		$ 11,020

[1] Since the Surplus exceeds 10% of the Accrued Liability, Section 147.2 of the *Income Tax Act* requires that the excess surplus must be used to reduce the Remaining Current Service Cost.

Experience

Reconciliation of Surplus (thousands of dollars)

Surplus at July 1, 2003		$ 17,973
Less:	Surplus Applied Against Current Service Cost, and Special Past Service Contributions Under VEARP	(1,613)
Plus:	Interest at 7.0% per annum	1,202
Equals:	Surplus at July 1, 2004, Before Experience Gains (Losses)	$ 17,562
Plus:	Increase (Decrease) in Surplus at July 1, 2004 Due to:	
	Gains (Losses):	
	Return on Assets	$ (1,443)
	Pay and YMPE Increases	(335)
	Indexation of Benefits	190
	Retiree Mortality, Personnel Changes Retirement Ages, etc.	(409)
	Pensioner Augmentation	(441)
	Change in Actuarial Assumptions	(734)
Equals:	Surplus at July 1, 2004	$ 14,390

Comments Regarding Experience

Return on Assets

The assumed rate of return for actuarial valuation purposes was 7.0% per annum or $7,017,000, based on the actuarial value of assets as at July 1, 2003. After allowance is made for the market value adjustment under the asset valuation method of ($1,443,000), the net return was 5.6% or $5,574,000. The market value adjustment of ($1,443,000) represents the asset gain/(loss) under the asset valuation method. The total return based on the actual market value of assets was 15.1% after expenses, assuming contributions and benefit payments take place in the middle of the year.

Pay and YMPE Increases

Average pay for those participants present in both the 2002 and 2003 valuations increased by 6.1%. This increase was higher than the 4.5% increase anticipated by the assumptions. The Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan increased by 1.5% from 2003 to 2004. This was less than the 4.0% increase anticipated by the assumptions. In combination, the deviation from expected experience generated an actuarial loss of $335,000.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants as of July 1, 2004 increased by 1.50% for retiree under the 75% indexing provision (and corresponding higher percentages for retirees under one of the pre-integration provisions). The increase was less than the 2.25% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of $190,000.

Miscellaneous

Other factors such as personnel changes, retirements earlier than assumed, mortality among retirees and terminated vested participants, etc., deviated from expected resulting in a net actuarial loss of $409,000. The primary factor was retiree mortality lower than assumed under the valuation.

Pensioner Augmentation

An interim cost certificate effective February 1, 2004 was filed to reflect the increase in accrued liability of $347,000 associated with pensioner augmentation granted on that date. Faculty/Librarian retirees who retired prior to January 1, 2003, and surviving beneficiaries of such retirees received a pension increase to bring the total increases since retirement up to 100% of the increase in CPI to July 1, 2003.

In addition, effective July 1, 2004, Faculty/Librarian retirees who retired prior to July 1, 2003, and surviving beneficiaries of such retirees, received a pension increase to bring the total increases since retirement up to 100% of the increase in CPI to July 1, 2004. For retirees who have benefits under the post-integration provisions, the augmentation percentage was 0.50% to bring the combined increase in pensions from indexation/augmentation to 2.0%.

The pensioner augmentations increased the accrued liability by $441,000 (including the $347,000 increase in accrued liability from the February 1, 2004 interim cost certificate).

Experience (continued)

Change in Actuarial Assumptions

Effective July 1, 2004, the actuarial assumptions were changed as follows:

	Old Assumption	New Assumption
Increase in CPI	3.0% per annum	2.5% per annum
Cost-of-Living Adjustments	2.25% per annum (75% of CPI)	1.875% per annum (75% of CPI)
Increase in CPP Maximum Salary	4.0% per annum (CPI + 1.0%)	3.5% per annum (CPI + 1.0%)
Increase in Income Tax Act Maximum Benefit	4.0% per annum (CPI + 1.0%)	3.5% per annum (CPI + 1.0%)
Increase in Salaries	4.5% per annum (CPI + 1.5%)	4.0% per annum (CPI + 1.5%)
Interest Rate	7.0% per annum (CPI + 4.0%)	6.5% per annum (CPI + 4.0%)

The change in actuarial assumptions increased the Accrued Liability by $734,000 and increased the Remaining Current Service Cost by $31,000 (0.3% of the Participant Salary Base).

University Of Toronto Pension Plan
Supplemental Retirement Arrangement
Actuarial Report
June 30, 2004

Valuation Results

		As of July 1, 2004	
	As of July 1, 2003	Before Assumption Change	After Assumption Change[1]
Going Concern Valuation Results (thousands of dollars)			
Past Service			
Accrued Liability			
Active Participants	$ 47,825	$ 39,177	$ 43,582
Retired Participants	60,824	78,356	79,091
Total SRA	$ 108,649	$ 117,533	$ 122,673

For financial accounting purposes, the University from time to time appropriates funds which are set aside as a "fund for specific purpose" in respect of the obligations under the SRA. The assets in this fund are $115,779,000 as of June 30, 2004. 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.

	As of July 1, 2003	Before Assumption Change	After Assumption Change[1]
Current Service			
Current Service Cost for SRA	$ 1,473	$ 1,205	$ 1,386
As a % of Participant Salary Base	0.30%	0.23%	0.27%
As a % of Participant Salary Base (With Cap)	0.31%	0.24%	0.27%
Participant Salary Base[2]	$ 484,748	$ 513,616	$ 513,616
Participant Salary Base With $150,000 Pay Cap[2]	$ 474,157	$ 504,570	$ 504,570

[1] Effective July 1, 2004, the actuarial assumptions for the funding valuation were changed by decreasing all economic assumptions by 0.50%. The old assumptions had a 3.0% per annum increase in CPI, a 4.5% per annum salary increase, and a 7.0% per annum interest rate; the new assumptions use a 2.5% per annum increase in CPI, a 4.0% per annum salary increase, and a 6.5% per annum interest rate.

[2] Includes participants in both the University of Toronto Pension Plan and University of Toronto (OISE) Pension Plan.

University of Toronto

(OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS – FINANCIAL SERVICES DEPARTMENT

TO: Business Board

SPONSOR: Sheila Brown
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

DATE: January 12, 2004 for January 19, 2004

AGENDA ITEM:

ITEM IDENTIFICATION:

Pension Strategy

JURISDICTIONAL INFORMATION:

The Business Board approves policies with respect to financial programs and transactions, and approves individual programs and transactions as required by those policies.

PREVIOUS ACTION TAKEN:

In October 1997, Business Board approved the funding strategy for the registered University Pension Plan (RPP) and the unregistered Supplemental Retirement Arrangement (SRA).

HIGHLIGHTS:

In 1997, the University had a registered pension plan in surplus, to which it was not permitted to make contributions, and had just established the SRA. The strategy that was adopted in 1997 was to utilize pension budget, established at 75% of employer current service cost, to fund the SRA unfunded liability over 5 years, and for other University purposes.

At July 1, 2003, the RPP was in deficit. The SRA, while also in deficit, had assets of $91.2 million, exceeding the original funding commitment, and liabilities are moving back and forth between the SRA and RPP in accordance with the rate of increase in the Income Tax Act maximum pension over time. The RPP deficit requires payment of full current service pension contributions and special payments in respect of unfunded past service.

The proposed pension strategy going forward is to consider the RPP and SRA together, to put in place a funding mechanism that amortizes deficits in both plans over the 15 year period permitted under pension regulations and to do so using a smoothed approach that is both prudent and predictable. Here are the specific recommendations:

1. Employees make their regular annual contributions.

2. For the 2003-04 fiscal year, the University contributes $26.8 million to the RPP and $9.5 million to the SRA.

3. Beginning May 1, 2004, the University contributes 100% of the required employer current service cost for the RPP and SRA. This will require restoration of the operating budget pension budget to 100% of the RPP current service cost.

4. Beginning May 1, 2004, the SRA is put on the same basis as the RPP with respect to deficits. With the achievement of full funding of the original past service liability occurring at the time the SRA was established in 1997 and because a portion of the liabilities will move back and forth between the SRA and the RPP in accordance with the Income Tax Act maximum pension over time, future SRA deficits should now be treated like those of the RPP and funded over 15 years.

5. Beginning May 1, 2004, the University makes special payments of no less than $26.4 million annually to deal with the RPP and SRA deficits by way of a smoothed budget allocation over about 15 years. This smoothed approach provides for higher payments than required in the earlier years, thus holding off any possible solvency issues and providing for predictability.

6. The OISE plan is a closed plan (no new members) and is still in a surplus position. It is unlikely that the university will have to make a current service cost contribution to this plan in the near future and therefore no budget is proposed for this.

7. Steadfastly make a special payment of no less than $26.4 million annually in respect of the RPP and the SRA even if investment returns reduce plan deficits. By doing this, the University will be making provision for future periods of poor investment returns.

8. Continue to set these funds aside, regardless of Income Tax Act restrictions. If not permitted to make contributions to the RPP, reserves should be set aside outside the RPP.

9. Make provision for funding any future augmentations that might occur by setting aside the corresponding amount from pension surpluses existing at the time.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

To implement this strategy, the University's operating budget allocation for pensions must rise from $31.2 million for fiscal year 2003-04 to $65.9 million for 2004-05, $75.5 million for 2005-06, $77.8 million in 2006-07, $80.3 million in 2007-08, $82.7 million in 2008-09 and $85.0 million in 2009-10.

With these contributions and if the assumptions contained in the projections with respect to investment returns, participation, etc. would be achieved, the RPP deficit would increase to about $236 million in 2004-05 and then gradually decline over time. The SRA deficit would remain approximately at current levels even though liabilities are projected to rise. There is considerable variability expected in these liabilities since they will be influenced by the rate of increase in the Income Tax Act maximum pension, which is pegged to the increase in the industrial wage starting in 2006.

The impact on the financial statements is expected to be an increase in pension expense on the income statement from $39.7 million in 2002-03 to about $90 million annually. Pension liability on the balance sheet is expected to rise to about $131 million by 2007-08 and then begin to fall as the deficit is reduced over time.

RECOMMENDATION:

That the Business Board approves the funding strategy contained in the nine recommendations provided above.

January 12, 2004

To: Members of the Business Board

From: Sheila Brown, Acting Chief Financial Officer

Subject: **Pension Strategy - Funding of Pension Plans and Supplemental Retirement Arrangement**

The purpose of this report is to recommend a strategy for funding the pension plans and supplemental retirement arrangement to ensure that the plans can continue to meet their obligations to provide pensions to current and future pensioners.

The University of Toronto has two registered pension plans and one unregistered plan. The University of Toronto Pension Plan ("RPP") is the main plan which covers most employees at the university. The University of Toronto (OISE) Pension Plan ("OISE") covers University of Toronto employees who were previously employees of OISE prior to June 30, 1996 and are either continuing employees of the University or retirees. The unregistered Supplemental Retirement Arrangement ("SRA") was established in 1997 and provides additional retirement income to compensate for the limitations prescribed under the Income Tax Act (Canada) on the amount of lifetime retirement benefits payable from the registered pension plans.

Financial Status of Pension Plans at July 1, 2003:

University of Toronto Pension Plan:

- Deficit based on market value of assets $203.5 million
- Surplus based on actuarial value of assets $2.2 million
- Solvency ratio excluding indexing 1.02

Supplemental Retirement Arrangement:

- Deficit at market value of assets $17.4 million

University of Toronto (OISE) Pension Plan:

- Surplus based on market value of assets $7.1 million
- Surplus based on actuarial value of assets $18.0 million

Current pension funding strategy:

The current pension plan funding strategy was approved by the Business Board in 1997 and was imbedded in the University's long-range budget plan. This strategy recognized that the University was prohibited under the Income Tax Act from contributing to the University Pension Plan since the pension surplus at the time was greater than 10% of liabilities. This strategy established the supplemental retirement arrangement and provided for the funding of its past service cost over five years as a first priority for allocation of funds generated from the required employer contribution holiday. The resulting operating budget strategy provided for the ongoing base budget for the current service costs of the RPP to be maintained at its then current level, which amounted to 75% of the annual employer current service cost. The OISE current service cost base budget was eliminated since the interest on the OISE surplus each year was sufficient to cover the yearly current service cost obligations.

What has changed since 1997?

The RPP has moved from a market surplus position to a market deficit position due to poor investment returns, pension enhancements and employer and employee contribution holidays. The SRA is no longer a new plan and enough funds have been set aside to cover the original SRA obligation of $78.0 million. Some of the liability is transferring back and forth between the SRA and the RPP in accordance with the increase in the Income Tax Act maximum pension. The University and employees must contribute the full current service cost and the University will be required to make additional special payments to deal with the pension deficit. These factors require a revised pension strategy going forward.

Proposed pension strategy:

The University's actuary, Hewitt Associates, has modeled a number of alternative strategies that have been considered. The proposed strategy is the one that best combines the need for financial prudence, maintenance of a solvency ratio greater than 1.0, and operating budget predictability. The proposed strategy incorporates the following recommendations:

10. Employees make their regular annual contributions.

11. For the 2003-04 fiscal year, the University contributes $26.8 million to the RPP and $9.5 million to the SRA.

12. Beginning May 1, 2004, the University contributes 100% of the required employer current service cost for the RPP and SRA. This will require restoration of the operating budget pension budget to 100% of the RPP current service cost.

13. Beginning May 1, 2004, the SRA is put on the same basis as the RPP with respect to deficits. With the achievement of full funding of the original past service liability occurring at the time the SRA was established in 1997 and because a portion of the liabilities will move back and forth between the SRA and the RPP in accordance with the Income Tax Act maximum pension over time, future SRA deficits should now be treated like those of the RPP and funded over 15 years.

14. Beginning May 1, 2004, the University makes special payments of no less than $26.4 million annually to deal with the RPP and SRA deficits by way of a smoothed budget allocation over about 15 years. This smoothed approach provides for higher payments than required in the earlier years, thus holding off any possible solvency issues and providing for predictability.

15. The OISE plan is a closed plan (no new members) and is still in a surplus position. It is unlikely that the university will have to make a current service cost contribution to this plan in the near future and therefore no budget is proposed for this.

16. Steadfastly make a special payment of no less than $26.4 million annually in respect of the RPP and the SRA even if investment returns reduce plan deficits. By doing this, the University will be making provision for future periods of poor investment returns.

17. Continue to set these funds aside, regardless of Income Tax Act restrictions. If not permitted to make contributions to the RPP, reserves should be set aside outside the RPP.

This strategy provides for prudent financial management of the pension plans combined with a level of predictability for the operating long-range budget plan.

Pension Projections Illustrating this Strategy:

The graphs at the end of this paper illustrate the impact of the proposed strategy on the pension surplus (Graph # 1) and on the pension budget (Graph # 2). It is important to note that:

-the nominal investment return assumption used for both the RPP and the SRA is 7% for 2004 and thereafter. The models are therefore based on a 7% per annum average return over 15 years. It should be noted that 67% of the time, actual returns will fluctuate between minus 3% and plus 17%.

-The annual special payment has been determined by the actuary to be $26.4 million representing approximately the amount that would be required to amortize the expected market value deficit as of July 1, 2004 in the combined RPP and the SRA over 15 years. The $26.4 million annual payment will be allocated as follows, $24.8 million in the RPP and $1.6 million in the SRA.

-the proposed strategy, and thus these projections, includes the cost of pension augmentation from 75% of CPI to 100% of CPI for faculty and librarian retirees up to and including July 1, 2004, but not beyond July 1, 2004.

What about Possible Future Augmentations

As noted above, the recent UTFA settlement provided for an augmentation to faculty and librarian pensioners benefits from 75% to 100% of inflation for 2003 and 2004. The cost of that augmentation is $12 million for faculty and librarian retirees. The cost of this augmentation has been amortized over 15 years with the addition of $1.4 million per annum to the annual special payment required. This does not however address the possibility of other future augmentations. Over the past years, augmentation has essentially represented a distribution of surplus. In the absence of a pension surplus, provision of further augmentation is very uncertain. However any augmentations that might be provided in future would have to be funded, either by contributions to the plan or from any future pension surpluses. The latter strategy makes the most sense given the rationale for making augmentations. Therefore, this gives rise to the following additional recommendation:

9. Make provision for funding any future augmentations that might occur by setting aside the corresponding amount from pension surpluses existing at the time.

To implement this strategy, the University's operating budget allocation for pensions must rise from $31.2 million for fiscal year 2003-04 to $65.9 million for 2004-05, $75.5 million for 2005-06, $77.8 million in 2006-07, $80.3 million in 2007-08, $82.7 million in 2008-09 and $85.0 million in 2009-10.

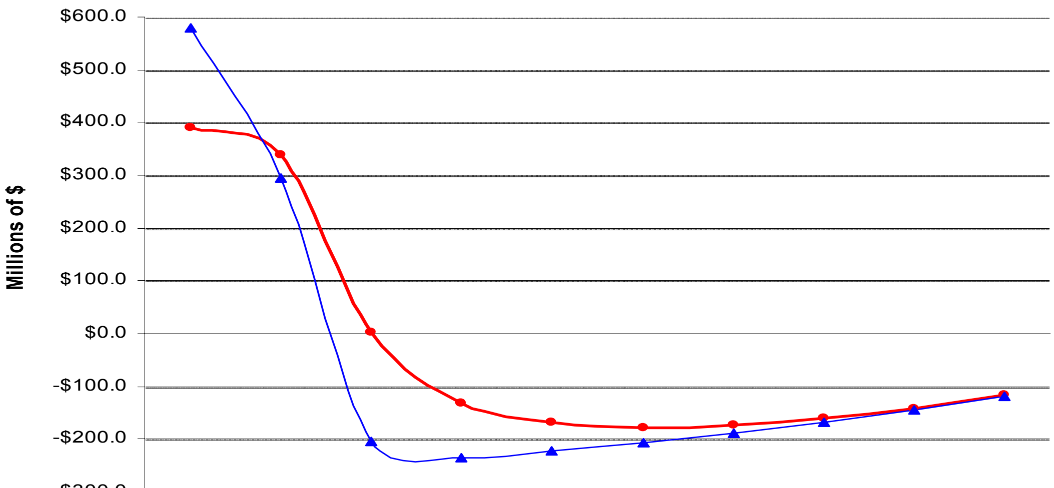
With these contributions and if the assumptions contained in the projections with respect to investment returns, participation, etc. would be achieved, the RPP deficit would increase to about $236 million in 2004-05 and then gradually decline over time. The SRA deficit would remain approximately at current levels even though liabilities are projected to rise. There is considerable variability expected in these liabilities since they will be influenced by the rate of increase in the Income Tax Act maximum pension, which is pegged to the increase in the industrial wage starting in 2006.

The impact on the financial statements is expected to be an increase in pension expense on the income statement from $39.7 million in 2002-03 to about $90 million annually. Pension liability on the balance sheet is expected to rise to about $131 million by 2007-08 and then begin to fall as the deficit is reduced over time.

Recommendation

That the Business Board approves the funding strategy contained in the nine recommendations provided above.

GRAPH #1
Registered Pension Plan Actuarial and Market Surplus

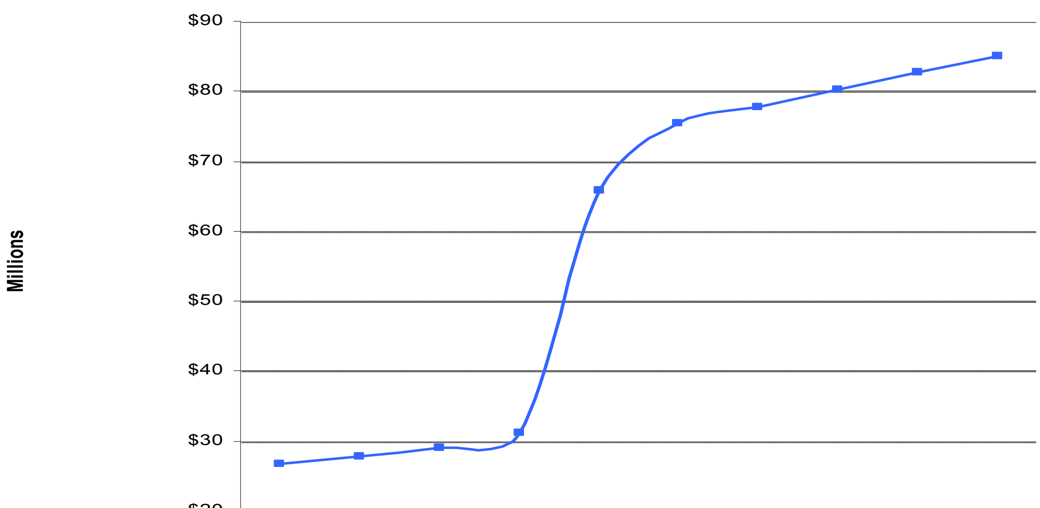


	2000	2001	2003	2005	2007	2009	2011	2013	2015	2017
Actuarial Surplus	391.8	337.7	2.2	-131.3	-168.5	-178.6	-173.9	-160.4	-141.0	-117.1
Market Surplus	579.1	294.4	-203.5	-236.0	-221.7	-205.7	-187.7	-167.4	-144.6	-118.9

Actuarial and market at July 1

GRAPH #2

Operating budget required



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating budget required	26.7	27.9	29.0	31.2	65.9	75.5	77.8	80.3	82.7	85.0

As at April 30