University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS - FINANCE

TO: Audit Committee

SPONSOR: Sheila Brown
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca
DATE: October 13, 2005 for October 26, 2005

AGENDA ITEM: 3

ITEM IDENTIFICATION:

Pension Plans – Annual Financial Report for the Year Ended June 30, 2005

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

Pension contribution strategy was approved by the Business Board in January 2004.
Audit Committee received and reviewed the 2003-04 report and recommended the 2003-04 financial statements to the Business Board in October 2004. This report updated the pension contribution strategy to reflect the actuarial report at July 1, 2004, the investment return to June 30, 2004 and a CPI assumption of 2.5%, reduced from 3.0%.
Pension master trust investment policy was most recently approved by the Business Board in April 2005.

HIGHLIGHTS:

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

The University of Toronto provides pension benefits to current and future pensioners via three defined benefit pension plans: the registered University of Toronto Pension Plan (RPP), the

registered University of Toronto (OISE) Pension Plan (OISE/UT), and the unregistered Supplemental Retirement Arrangement (SRA).

The actuarial results at July 1, 2005 are summarized in the following table.

	RPP	OISE/UT Plan (includes partial wind-up)	SRA (1)
Accrued liabilities	$2,407.0 million	$103.7 million	$112.9 million
Market value of assets (1)	$2,320.6 million	$109.0 million	$130.6 million
Market surplus or (deficit)	($86.4 million)	$5.3 million	$ 17.7 million
Actuarial surplus or (deficit)	($117.2 million)	$4.6 million	

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

The OISE plan results include the assets and accrued liabilities related to the members of the 1996 partial plan wind-up. The amount of assets allocable to the partial plan wind-up members as at June 30, 2005 is $12.0 million. These assets will be used to provide for settlement of pension entitlements and surplus allocation for partial plan wind-up members and expenses associated with the partial plan wind-up and surplus distribution.

The RPP solvency ratio, which is a measure of the assets' market value as compared to the solvency liability of the plan (before escalated adjustments) has declined from 1.11 at July 1, 2004 to 1.00 at July 1, 2005, predominantly due to a reduction in the current long-term bond rates.

The OISE solvency ratio was 1.09 at July 1, 2005, taking the partial wind-up into account. At July 1, 2004 it was 1.18 before the partial wind-up and 1.10 after taking the partial wind-up into account.

These actuarial results reflect a changed actuarial assumption for salary escalation rate from 4.0% to 4.5%. The last six actuarial valuations have resulted in losses, suggesting that this assumption was low.

The results for the RPP and the OISE/UT plans reflect a one-year return for the pension master trust of 11.6% before fees and expenses. Fees and expenses for the year totaled $15.3 million, and amounted to 0.7% of master trust assets. The financial statements for the pension plans show the audited values of the assets available for benefits.

The pension contribution strategy that was originally approved by the Business Board in January 2004 has been updated to June 30, 2005. The position of the RPP and the SRA to 2013 was projected using the following assumptions:

-Investment returns for 2005-06 at 3.5% to allow for a year with investment returns less than the mean of 6.5%.

-Investment returns for years beyond 2005-06 were projected at 6.5%.
-Salary escalation assumption rate increased from 4.0% to 4.5% to better reflect actual salary increases over time.
-Contributions continuing in accordance with the strategy, including special payments of $26.5 million per annum.
-Settlement with United Steelworkers (USW) that provides for an increase in the pension accrual rate from 1.5% to 1.6% for salaries below the YMPE maximum, with an associated increase in employee contributions from 4.5% to 5.0% and a requirement for an additional $800K special payment. This brings the total annual special payment required to $27.3 million.

Under this scenario, the result was an RPP market deficit of $86.4 million, and a SRA market surplus of $17.7 million in 2005. Continuing forward under these assumptions would bring the RPP into equilibrium (assets and liabilities approximately equal) by July 1, 2016.

The pension contribution strategy adopted in January 2004 has contributed to the improvement in pension plan health. However, this financial health is dependent on the continued contribution of full current service costs and special payments over the full 15 year period and the continued reserving of funds in the SRA against investment volatility. It is important to note that any future plan improvements will also require additional funding above what is currently contemplated.

At this time based on the above analysis, it is appropriate to continue to apply the pension contribution strategy with the increase in special payments of $0.8 million, required as a result of the USW settlement. It will continue to be monitored annually, and may be fine-tuned over time, with the agreement of the Business Board.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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

RECOMMENDATION:

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

1) that the audited financial statements for the University of Toronto Pension Plan, June 30, 2005, a copy of which is included in Appendix "A" hereto, be approved, and
2) that the audited financial statements for the University of Toronto (OISE) Pension Plan, June 30, 2005, a copy of which is included in Appendix "B" hereto, be approved.

Appendix "A"
Report Number 78 of the Audit Committee
October 26, 2005

DRAFT V7

(as of October 12, 2005)

University of Toronto

Pension Plans

Annual Financial Report

For the Year Ended June 30, 2005

Table of Contents

Introduction 3
The University of Toronto Pension Plan ("RPP") 4
University of Toronto (OISE) Pension Plan ("OISE/UT") 6
Supplemental Retirement Arrangement ("SRA") 8
Pension Liabilities - Benefits 10
Pension Assets 11
  Investment Strategy and Investment Performance 12
  Contribution Strategy 14
  Change in Actuarial Assumption 17
  Solvency Valuation 21
Conclusions about Pension Financial Health 22

Appendices

Financial Statements for the Year Ended June 30, 2005

A. University Of Toronto Pension Plan 2424
B. University of Toronto (OISE) Pension Plan 37

Actuarial Report at July 1, 2005:

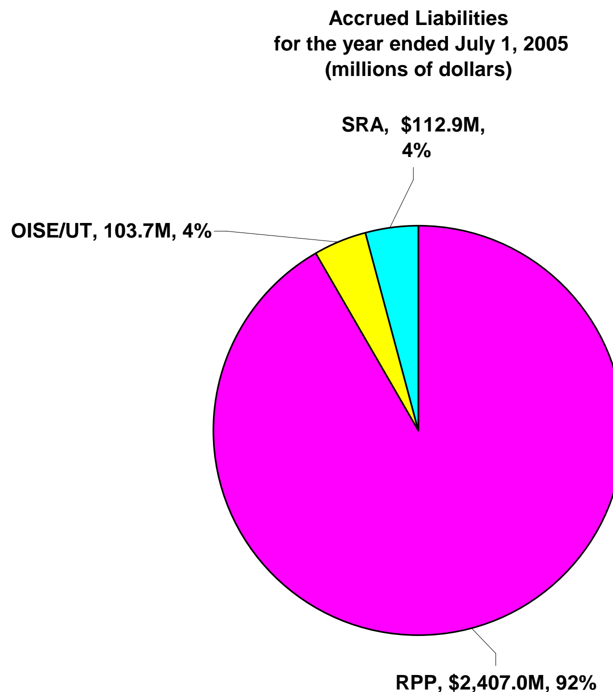
C. University of Toronto Pension Plan 51
D. University of Toronto (OISE) Pension Plan 59
E. Supplemental Retirement Arrangement 67

Pension Strategy 69

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.

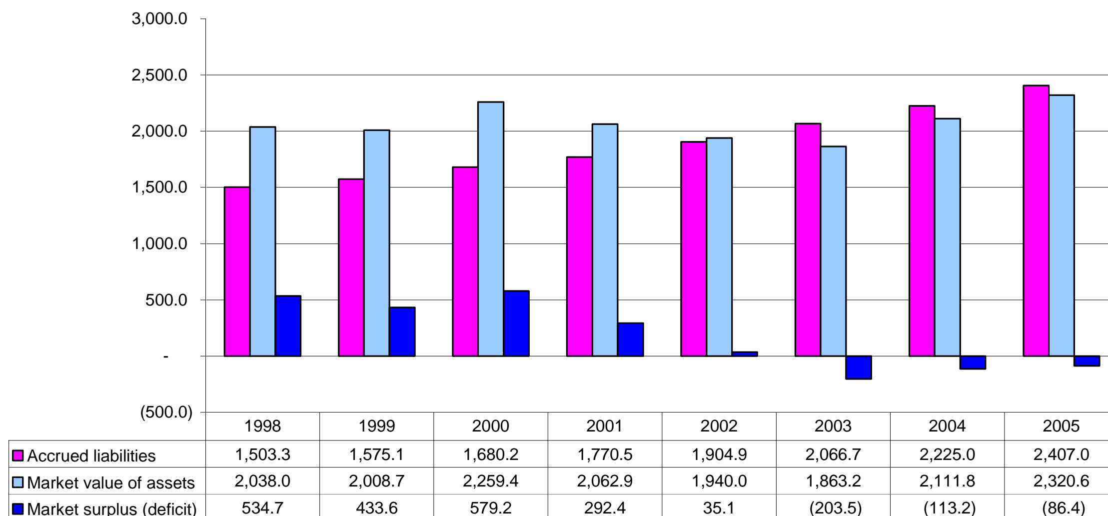
The Governing Council of the University of Toronto is the administrator and sponsor of all three plans. The Vice-President, Human Resources and Equity is responsible for the formulation of pension plan policy, employee communication and benefits administration, and negotiation of plan benefits. The Vice-President, 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, 2005, accrued liabilities for members of the RPP were $2.4 billion, while the market value of assets was $2.3 billion for a market deficit of $86.4 million. This reflects the change in assumption (which will be explained later in the report) and the increase in pension provisions as a result of the United Steelworkers ("USW") settlement. 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, 2005.

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

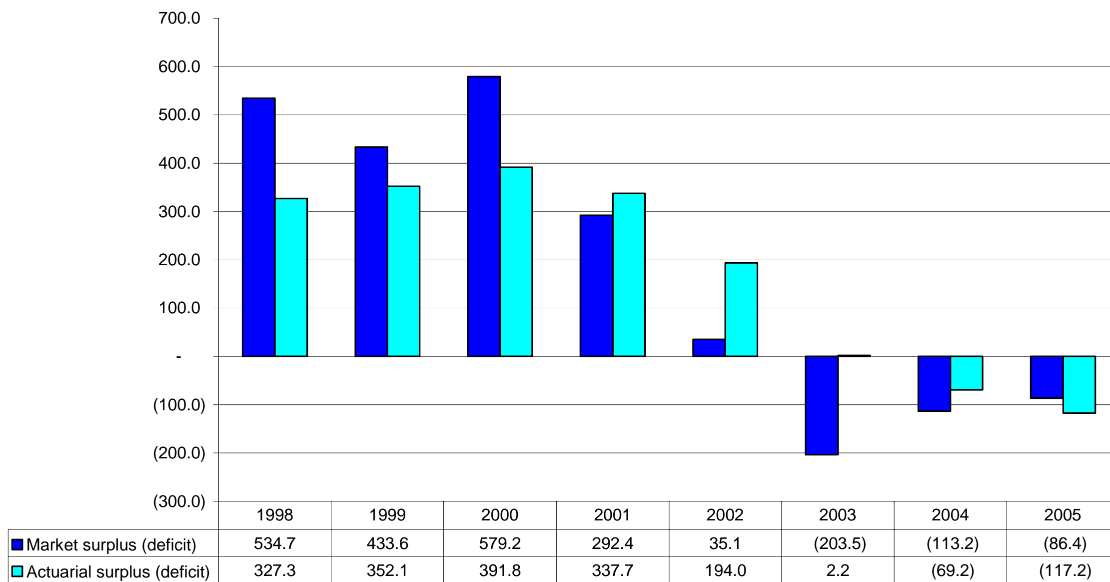


	1998	1999	2000	2001	2002	2003	2004	2005
Accrued liabilities	1,503.3	1,575.1	1,680.2	1,770.5	1,904.9	2,066.7	2,225.0	2,407.0
Market value of assets	2,038.0	2,008.7	2,259.4	2,062.9	1,940.0	1,863.2	2,111.8	2,320.6
Market surplus (deficit)	534.7	433.6	579.2	292.4	35.1	(203.5)	(113.2)	(86.4)

While the market deficit at July 1, 2005 was $86.4 million the actuarial deficit was $117.2 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.

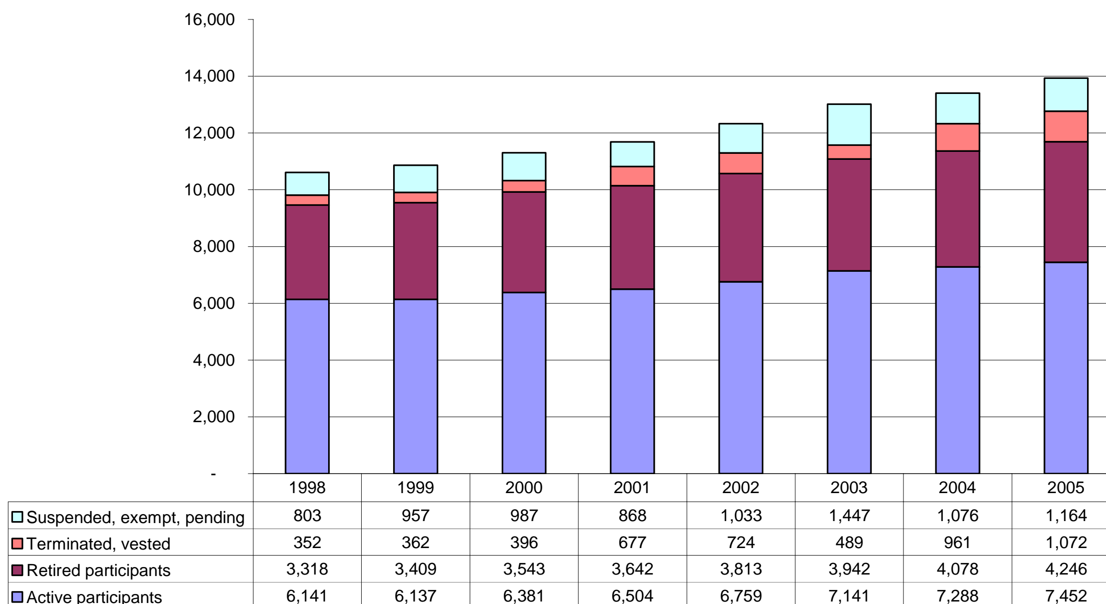
During 2004-05 the financial health of the RPP improved as a result of investment returns which benefited from the rebound in financial markets. The University also provided funding for the current service cost and the amortization of the deficit with a cash contribution of $60.6 million.

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



	1998	1999	2000	2001	2002	2003	2004	2005
Market surplus (deficit)	534.7	433.6	579.2	292.4	35.1	(203.5)	(113.2)	(86.4)
Actuarial surplus (deficit)	327.3	352.1	391.8	337.7	194.0	2.2	(69.2)	(117.2)

Plan participation is increasing steadily, with current enrolment at 7,452 active participants and 4,246 retirees.



	1998	1999	2000	2001	2002	2003	2004	2005
Suspended, exempt, pending	803	957	987	868	1,033	1,447	1,076	1,164
Terminated, vested	352	362	396	677	724	489	961	1,072
Retired participants	3,318	3,409	3,543	3,642	3,813	3,942	4,078	4,246
Active participants	6,141	6,137	6,381	6,504	6,759	7,141	7,288	7,452

While retires represent 30% of the total plan participants, they represent 50% of the plan liabilities (because the average liability is higher for retirees, who are already receiving payments, than for actives, whose pensions will not start for many years).

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

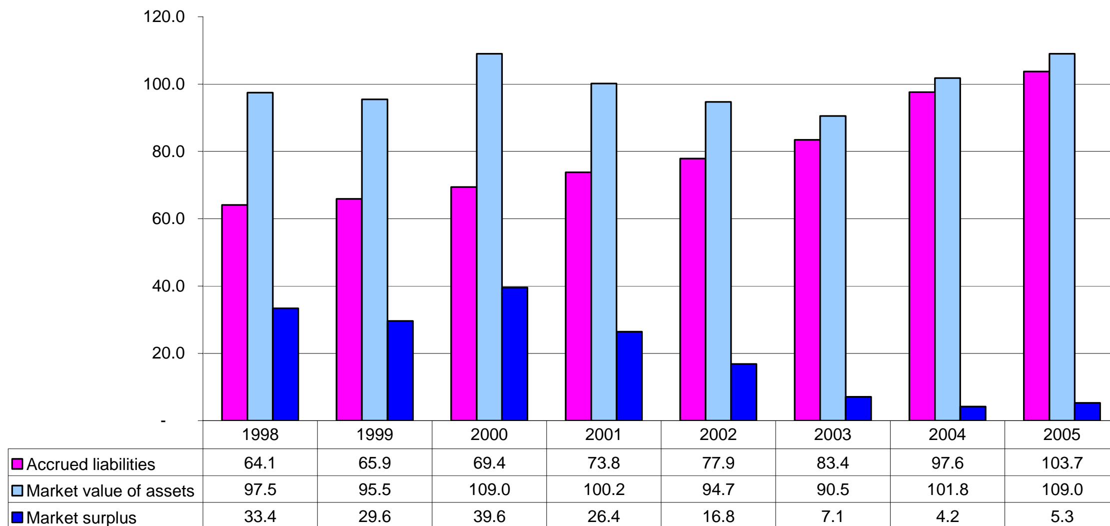
At July 1, 2005, accrued liabilities for members of the OISE/UT plan amounted to \$103.7 million, while the assets of the OISE/UT plan amounted to \$109.0 million for a market surplus of \$5.3 million. These figures incorporate the assets and accrued liability related to the partial plan wind-up (mentioned in the paragraph below).

On August 16, 2000 the Superintendent of Financial Services ordered that the OISE/UT pension plan be wound-up in part in relation to members who terminated employment with the Ontario Institute for Studies in Education between February 1996 and June 30th 1996 under special early retirement or severance packages. 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. An actuarial report on the partial plan wind-up was filed in June 2005 to determine the assets allocable to the partial plan wind-up group as of June 30, 1996. The assets allocable to the partial plan wind-up group as of June 30, 2004 was \$11.2 million. The July 1, 2005 actuarial report updates the assets allocable to the partial plan wind-up group to \$12.0 million as of June 30, 2005. The assets allocable to the

partial plan wind-up group will be used to provide for settlement of pension entitlements still remaining in the plan for partial wind-up members (settlement through annuity purchase or lump sum transfer), surplus allocation for partial wind-up members, and expenses associated with the partial wind-up and surplus distribution.

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, 2005.

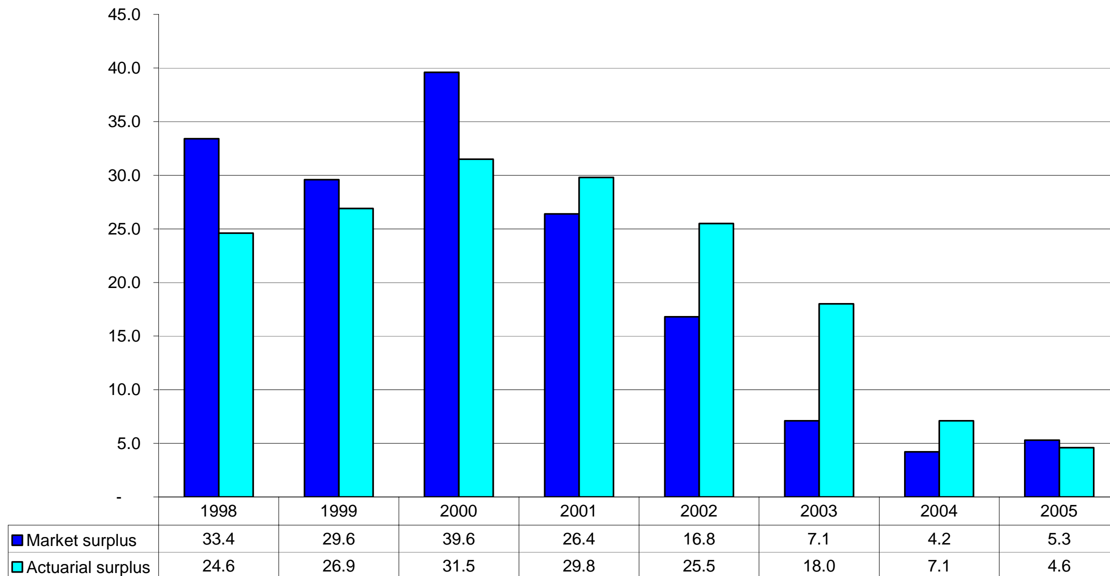
OISE/UT
Accrued Liabilities, Market Value of Assets, and Market Surplus at July 1
(in millions of dollars)



	1998	1999	2000	2001	2002	2003	2004	2005
Accrued liabilities	64.1	65.9	69.4	73.8	77.9	83.4	97.6	103.7
Market value of assets	97.5	95.5	109.0	100.2	94.7	90.5	101.8	109.0
Market surplus	33.4	29.6	39.6	26.4	16.8	7.1	4.2	5.3

After a change in assumption (which will be explained later in the report) and incorporating the impact of the partial plan wind up (noted above), the market surplus at July 1, 2005 was $5.3 million, and the actuarial surplus was $4.6 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 2004-05 the financial health of the OISE/UT plan improved as a result of investment returns which benefited from the rebound in financial markets.



	1998	1999	2000	2001	2002	2003	2004	2005
Market surplus	33.4	29.6	39.6	26.4	16.8	7.1	4.2	5.3
Actuarial surplus	24.6	26.9	31.5	29.8	25.5	18.0	7.1	4.6

Since the OISE/UT plan is a closed plan, member participation has decreased from 371 in 1998 to 319 in 2005. The number of active members has declined from 239 in 1998 to 146 in 2005.

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 through to 2009 or 2010.

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 $110,000 in 2005 increasing to about $133,000 by 2009) to the pensionable earnings cap of $150,000. It was created on July 1, 1996.

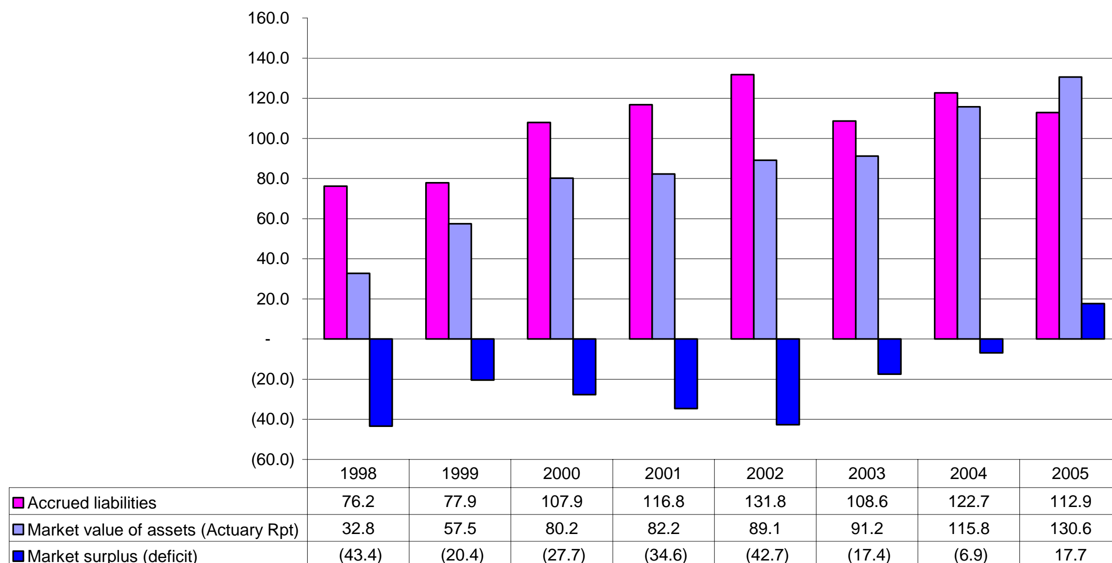
In 1997, the Business Board approved a funding strategy whereby funds would be set aside for specific purposes to fund the SRA liability. A funding strategy was put in place whereby the amount equal to the unfunded liability would be set aside over a five year period. Any subsequent plan improvements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

The Federal budget of February 2005 provided for increases in the defined benefit maximum pension limits under the Income Tax Act. As a result, a portion of the active

accrued liability has shifted from the SRA to the RPP. When the Income Tax Act maximum salary and the current SRA earnings cap of $150,000 converge, there will be essentially no SRA benefit for active members.

The SRA accrued liabilities at July 1, 2005 were $112.9 million and the market value of the assets of the funds set aside was $130.6 million, for a market surplus of $17.7 million. These excess funds are to be used as a reserve against investment volatility.

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	2005
Accrued liabilities	76.2	77.9	107.9	116.8	131.8	108.6	122.7	112.9
Market value of assets (Actuary Rpt)	32.8	57.5	80.2	82.2	89.1	91.2	115.8	130.6
Market surplus (deficit)	(43.4)	(20.4)	(27.7)	(34.6)	(42.7)	(17.4)	(6.9)	17.7

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 2004-05 the financial health of the SRA improved as a result of University's cash contributions of $10.5 million into the SRA, combined with investment returns which benefited from the rebound in financial markets as well as the increase in the defined benefit limit under the Income Tax Act (which reduces SRA obligations, but increases the obligations of the registered pension plan).

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 6.9% 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% (effective January 1, 2006 USW employees accrued pension benefits at a rate of 1.6%) 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.

There are various early retirement windows in place for administrative staff and unionized administrative staff. The Agreement on Retirement Matters with the Faculty Association will impact retirements on and after June 30, 2006. This Agreement will be reflected in the July 1, 2006 actuarial valuation, but is not expected to have a material impact.

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) and new liability created by plan amendments during the year (past 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.
- 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 (not a 100% holiday in all years).

- poor investment returns from 2001 through 2003.
- experience losses due to pay increases higher than assumed in the valuation and the mortality rates lower than assumed in the valuation.
- changes in the valuation assumptions to better reflect anticipated future experience.

Both the investment strategy and contribution strategy were reviewed and changed in April 2003. The pension investment policy was reconfirmed in March 2004 and April 2005, 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 April 4, 2005. 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 have 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.

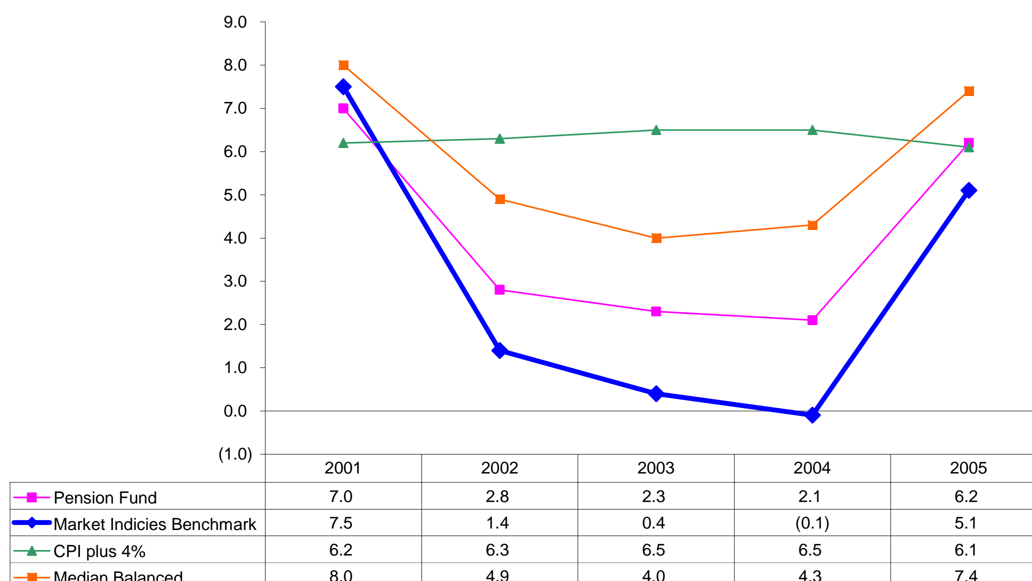
The pension master trust has a long-term horizon, so investment performance is evaluated over a multi-year period. To assess how adequately the returns are meeting the longer term requirements set by the University, performance is assessed versus the 4.0% real investment return target. In addition, performance is evaluated versus a market index benchmark comprised of major market indices such as Canadian Equities, US Equities, International Equities and Canadian Fixed Income.

The one-year return to June 30, 2005 for the pension master trust was 11.6% before fees and expenses, and the four-year annualized return was 6.2%. The table below summarizes investment performance for the periods ending June 30, 2005.

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
2005	11.6	10.4	5.7	11.3	6.2	5.1	6.1	7.4
2004	16.0	16.0	6.5	14.9	2.1	-0.1	6.5	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

* Refers to the actual return, before fees and expenses.

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



	2001	2002	2003	2004	2005
Pension Fund	7.0	2.8	2.3	2.1	6.2
Market Indicies Benchmark	7.5	1.4	0.4	(0.1)	5.1
CPI plus 4%	6.2	6.3	6.5	6.5	6.1
Median Balanced	8.0	4.9	4.0	4.3	7.4

Annual performance, and four-year annualized performance, has exceeded the market indices benchmark each year for the past four years. When compared to the real return objective, annual performance over the past four years has moved towards, and for the past two years notably exceeded, this target. The four-year annualized performance has recently moved closer to this target, after lagging it for several years, mainly due to performance in 2001 through 2003 when market conditions were difficult.

Pension plan fees and expenses for the pension master trust totaled $15.3 million for 2004-05 compared to $14.0 million for 2003-04. The change was largely due to an increase in fees paid to investment managers, which reflects the net increase in assets managed due to growth in the pension master trust asset values. On a percentage basis,

total fees and expenses for 2004-05 were 0.66% of total master trust assets, effectively unchanged from the 0.67% for 2003-04.

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. The MER includes expenses incurred by UTAM, all investment management fees and the University of Toronto 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 0.58% for 2004-05, unchanged from 2003-04.

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 was to provide smoothed funding to deal 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, beginning May 1, 2004.
- additional special payments of $26.5 million ($24.8 million per annum to the RPP plus $1.7 million to the SRA fund) to address the pension deficits, beginning May 1, 2004.

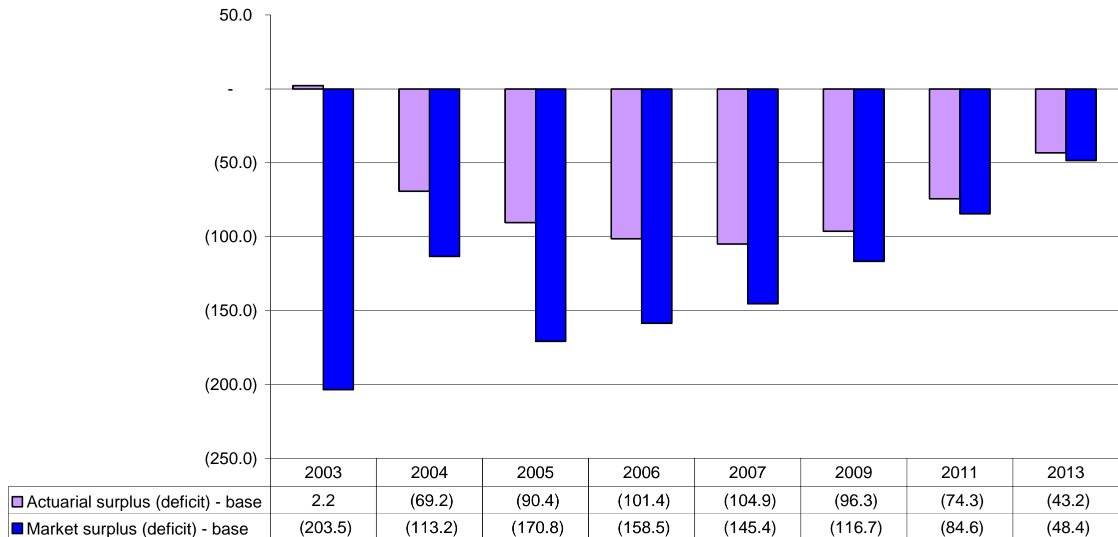
- continue to set these funds aside, regardless of Income Tax restrictions. If not permitted to make contributions to the RPP, reserves should be set aside outside the RPP.

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.

In November 2004, the pension projections that had been prepared the previous January were updated for the actual investment return for 2004, a forecasted investment return of 3% in 2005 and 6.5% return in the outer years. They were also updated for a reduction in the CPI assumption to 2.5% from 3.0%. The following graph shows the expected actuarial and market surplus projected at that time. This is the starting point to which this year's results will be added and now forms the ***base case*** for assessing the continued appropriateness and prudence of the pension contribution strategy.

Base Case (Projection done November 2004)

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



	2003	2004	2005	2006	2007	2009	2011	2013
Actuarial surplus (deficit) - base	2.2	(69.2)	(90.4)	(101.4)	(104.9)	(96.3)	(74.3)	(43.2)
Market surplus (deficit) - base	(203.5)	(113.2)	(170.8)	(158.5)	(145.4)	(116.7)	(84.6)	(48.4)

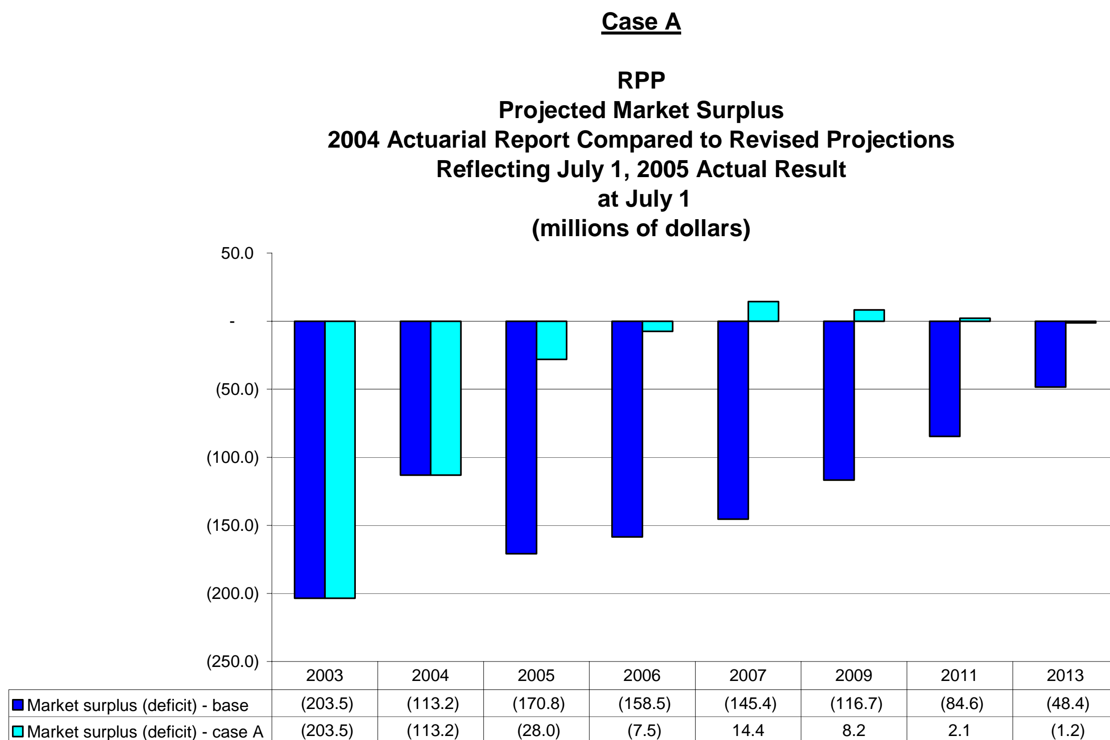
The base case shows a market deficit of $170.8 million at July 1, 2005. By 2013, the market deficit is projected to be $48.4 million. Under the base case, the SRA market deficit is projected to be $6.8 million by 2013.

The actual RPP investment return net of fees of 10.9% for 2004-05 was greater than the 3.0% investment return assumed in the base case. The following graph updates the base case for this actual investment return of 10.9% for 2005, while leaving all other

assumptions unchanged. It is ***case A***. It shows that the effect of the improved investment return is a reduction in the market deficit at July 1, 2005 from the $170.8 million projected in the base case to $28.0 million.

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

By 2013, the effect is that the market deficit for case A would be $1.2 million, rather than the $48.0 million projected in the base case. Under case A the projected SRA market surplus by 2013 would be $196.8 million as compared to a market deficit of $6.8 million in the base case.

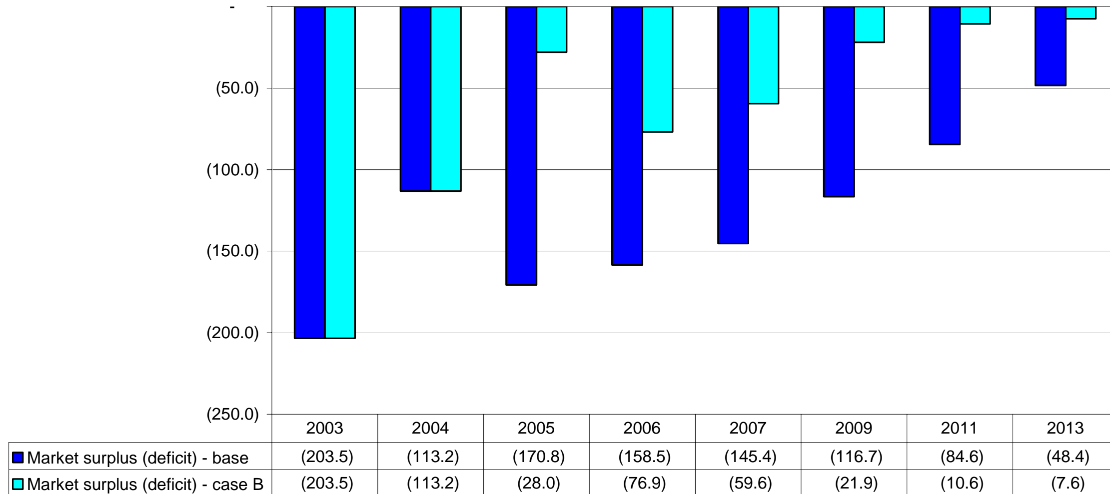


	2003	2004	2005	2006	2007	2009	2011	2013
Market surplus (deficit) - base	(203.5)	(113.2)	(170.8)	(158.5)	(145.4)	(116.7)	(84.6)	(48.4)
Market surplus (deficit) - case A	(203.5)	(113.2)	(28.0)	(7.5)	14.4	8.2	2.1	(1.2)

However, simply including an excellent investment return for 2005 and leaving future years at 6.5% is not reasonable. The target risk tolerance of 10% standard deviation over 10 years means that the actual real investment return is expected to be between -6% and +14% two thirds of the time over a ten year period. Therefore, there is likely to be a year in which returns are less than 6.5%. The following graph modifies case A with a projected 3.5% return in 2006 rather than 6.5% while leaving the outer years at 6.5% and while leaving all other assumptions unchanged. This is ***case B***.

Case B

RPP
Projected Market Surplus
2004 Actuarial Report Compared to Revised Projections
Reflecting July 1, 2005 Actual Result
at July 1
(millions of dollars)



	2003	2004	2005	2006	2007	2009	2011	2013
Market surplus (deficit) - base	(203.5)	(113.2)	(170.8)	(158.5)	(145.4)	(116.7)	(84.6)	(48.4)
Market surplus (deficit) - case B	(203.5)	(113.2)	(28.0)	(76.9)	(59.6)	(21.9)	(10.6)	(7.6)

The effect of a return less than 6.5% in one future year has a significant impact on the deficit by increasing the projected 2006 market deficit from $7.5 million in case A to $76.9 million in case B and in 2013 from $1.2 million to $7.6 million. Given the risk tolerance target, Case B is considered to be a more likely scenario of pension master trust investment performance then case A. The SRA surplus in 2013 is projected to be $90.9 million in case B.

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

Change in Actuarial Assumption

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. It is consistent with the investment policy.

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 2.0%. Equity returns are more volatile, but a reasonable assumption for the expected real return on equities would be 5.0% to 5.5% (representing a 3.0%-3.5% risk premium over fixed income investments).

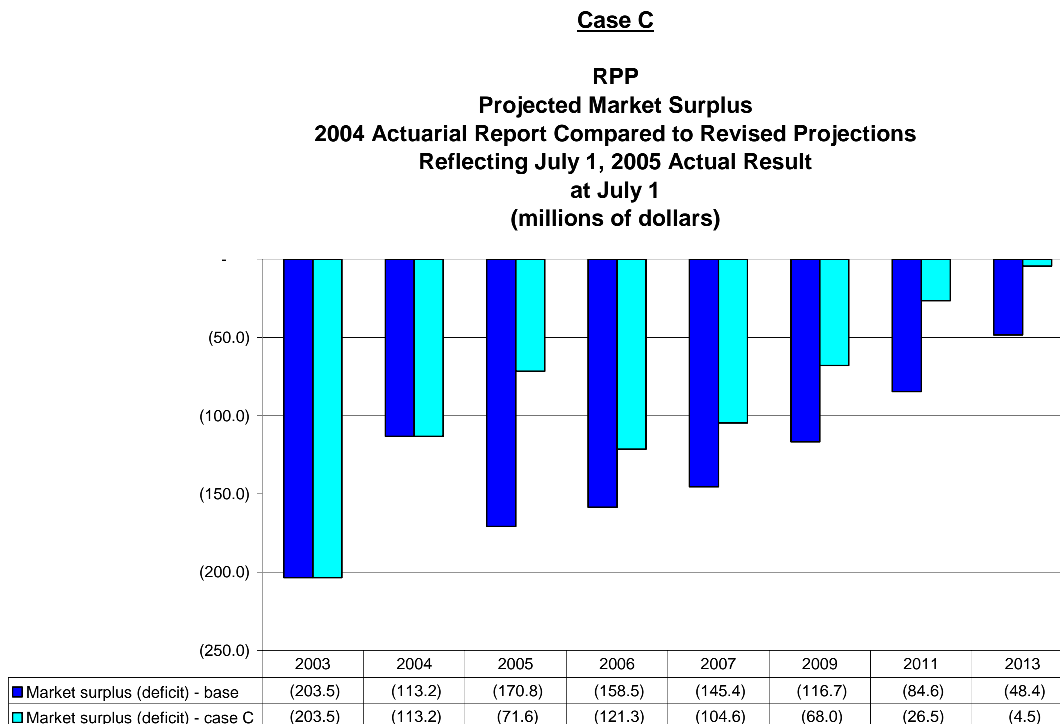
With the continued decline in real yields available in the marketplace, our current real return assumption of 4.0%, while still reasonable, no longer includes much margin for adverse deviation. If real yields continue to fall, we will likely need to review the real return assumption used for the pension valuation in the future.

Nominal Level of Assumptions

Looking at the current funding assumptions, the nominal levels of the assumptions are comparable to current market expectations, except for the salary escalation assumption. The inflation assumption of 2.5% appears fair, 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%). However, the salary escalation assumption rate appears to be low. The last six actuarial valuations have revealed actuarial losses due to salary increases in excess of the assumed rate. The combination of across-the-board increases with PTR, merit and grid steps has continued to result in salary increases of more than 1.5% above inflation. Therefore, to better reflect expected actual experience, the salary escalation assumption rate has been increased from 4% to 4.5% or CPI +2.0%.

The following graph compares the projected market surplus (deficit) in the base case to the forecasted market surplus (deficit) after updating the investment return for 2005, a forecasted 3.5% return in 2006 and 6.5% return in the outer years, combined with an increase in the salary escalation assumption rate from 4.0% to 4.5%. This case also reflects the change in the Income Tax Maximum that was permitted in recent federal legislation. This is ***case C.***

Case C



	2003	2004	2005	2006	2007	2009	2011	2013
Market surplus (deficit) - base	(203.5)	(113.2)	(170.8)	(158.5)	(145.4)	(116.7)	(84.6)	(48.4)
Market surplus (deficit) - case C	(203.5)	(113.2)	(71.6)	(121.3)	(104.6)	(68.0)	(26.5)	(4.5)

The effect of the assumption change, when added to the investment return changes for 2005 and 2006, changes the market deficit for 2005 from $28.0 million in case B to $71.6 million in case C, and the projected market deficit for 2013 from $7.6 million to $4.5 million. It also requires an additional $42.6 million of cumulative contributions to the plan to the end of 2013. The SRA surplus in 2013 is projected to be $41.6 million in case C.

Finally, case C needs to be updated to reflect the recent settlement with the USW.

Settlement with the United Steelworkers

The USW represent 2,743 administrative staff and 20% of the liabilities for active plan members in the RPP.

The recent USW settlement includes an increase in the pension benefit multiplier from 1.5% to 1.6% (on the average 3yr CPP maximum salary) for past and future service, along with an increase in participant contribution rate from 4.5% to 5.0% (on the average 3yr CPP maximum salary). To provide for the increase in pension provisions, an additional $800,000 annually in special payments from the University is required.

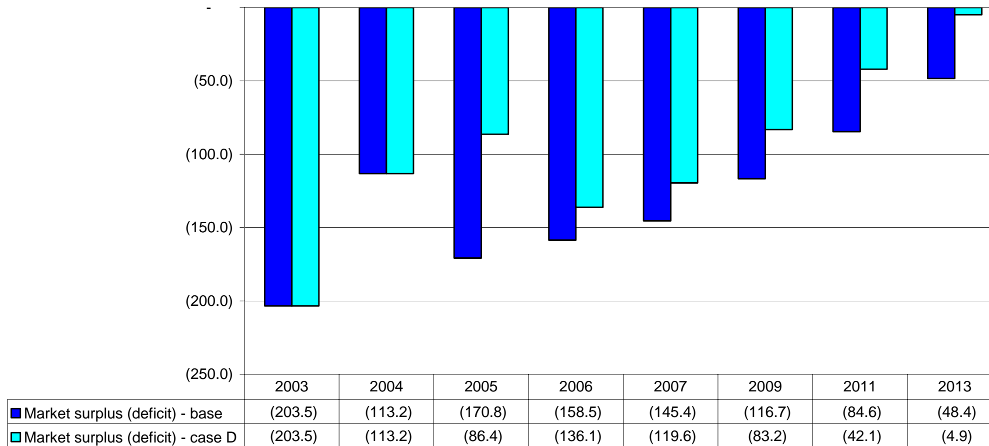
Case D updates case C with the provisions of the recent settlement with the USW, and therefore includes the following:

- The actual 2005 RPP investment return net of fees and expenses of 10.9%
- A projected RPP investment return for 2006 of 3.5% and 6.5% thereafter.
- The increase in the Income Tax Act maximum pension.
- A changed salary escalation assumption of 4.5%, increased from 4.0%.
- The impact of the recent settlement with the USW including the increase in special payments.

The following graph compares the market surplus (deficit) in the base case to the forecasted market surplus (deficit) in case D, reflecting all of the above provisions.

Case D

RPP
Projected Market Surplus
2004 Actuarial Report Compared to Revised Projections
Reflecting July 1, 2005 Actual Result
at July 1
(millions of dollars)



	2003	2004	2005	2006	2007	2009	2011	2013
Market surplus (deficit) - base	(203.5)	(113.2)	(170.8)	(158.5)	(145.4)	(116.7)	(84.6)	(48.4)
Market surplus (deficit) - case D	(203.5)	(113.2)	(86.4)	(136.1)	(119.6)	(83.2)	(42.1)	(4.9)

The effect of adding the USW settlement to case C is to increase the market deficit for 2005 from $71.6 million in case C to $86.4 million in case D and to increase the projected market deficit for 2013 from $4.5 million in case C to $4.9 million in case D.

The difference between the base case and case D, reflecting all the changes listed above, is to change the market deficit in 2005 from $170.8 million to $86.4 million and to change the projected market deficit in 2013 from $48.4 million to $4.9 million.

Case D is considered to be the best predictor of the future financial status of the RPP of all the models considered above. A further projection of case D indicates that the RPP would be in an equilibrium position (assets and liabilities approximately equal) by July 1, 2016.

It is important to note that case D also directs a greater proportion of the special payments into the RPP and less into the SRA than case C. In 2013, the SRA market surplus is projected to be $29.5 million under case D in accordance with the approved pension strategy that provides for any funding not permitted to be added to the RPP under Income Tax rules to be instead added to the SRA as a reserve against future investment return fluctuations.

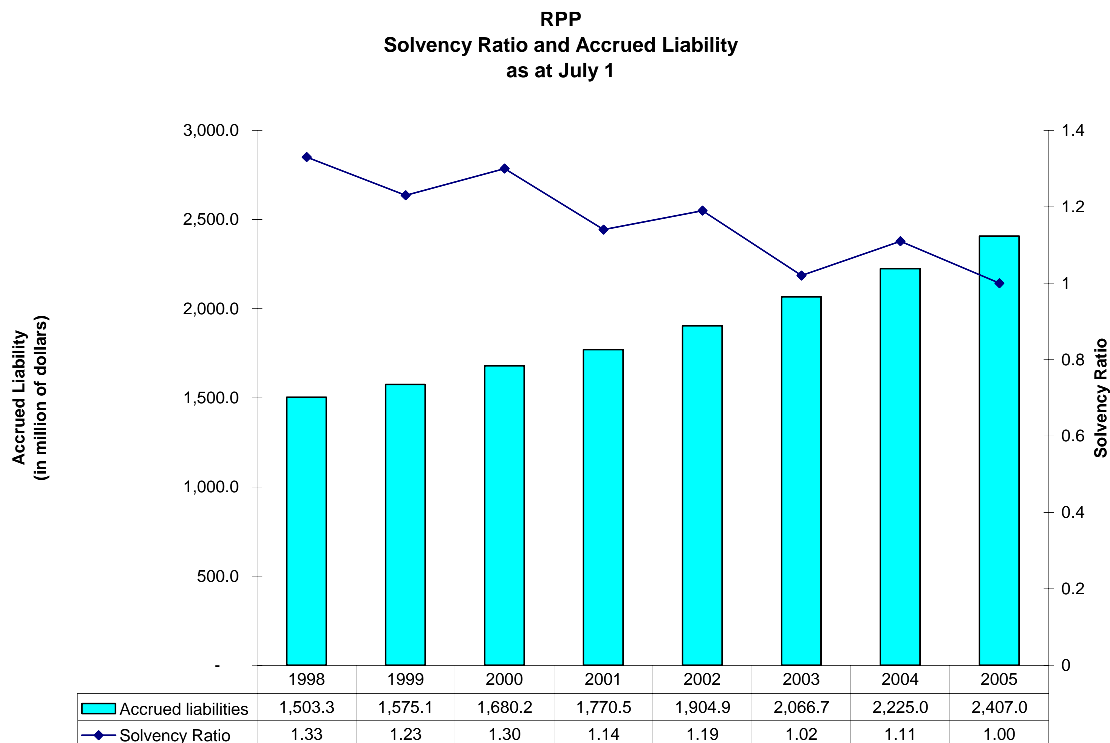
The assumption change for the salary escalation and the USW settlement have been reflected in the actuarial report of July 1, 2005.

Solvency Valuation

In addition to the regular actuarial calculations, each year we are legally required to perform a solvency calculation, which has different assumptions. It essentially determines the status of the pension on a wind-up basis, and requires that the liabilities be discounted at current market rates rather than at long-term rates, without indexing. The solvency ratio is then determined as a ratio of assets to liabilities. Where the ratio is less than 1.0, a solvency deficit exists, and special payments must fund this deficit over 5 years rather than over the normal 14 years.

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 declined from 1.11 at July 1, 2004 to 1.00 at July 1, 2005. As of July 1, 2005, the plan has a small solvency deficiency of $10.5 million (RPP solvency ratio however is still at 1.00 to two decimal places). The reason for the decline is the very low long-term bond rates that are currently being experienced. Discounting at these low rates, together with the reflection of some changes in the prescribed basis for determining solvency liability, had the effect of significantly increasing the liabilities by approximately 12.4%.

Budgeted annual special payments of $27.3 million, of which $25.6 million are to be added to the RPP, are more than sufficient to meet the solvency funding requirement.



	1998	1999	2000	2001	2002	2003	2004	2005
Accrued liabilities	1,503.3	1,575.1	1,680.2	1,770.5	1,904.9	2,066.7	2,225.0	2,407.0
Solvency Ratio	1.33	1.23	1.30	1.14	1.19	1.02	1.11	1.00

The OISE solvency ratio was 1.09 at July 1, 2005, taking the partial wind-up into account. At July 1, 2004 it was 1.18 before the partial wind-up and 1.10 after taking the partial wind-up into account.

Conclusions about Pension Financial Health

RPP and SRA:

When the pension contribution strategy was formulated in January 2004, it projected a market deficit for the RPP of $236.0 million in 2005 and $167.4 million in 2013.

During the intervening 2 years, the University has contributed full current service costs and has made significant additional special payments well in excess of those required under legislation. The pension master trust has also experienced investment returns net of fees of 15.3% in 2004 and 10.9%, both years well in excess of the target investment return of 4.0% plus inflation. All of these factors have contributed to an improvement in the assets beyond that projected in January 2004.

At the same time, there have been several factors impacting the liabilities. The CPI assumption was reduced from 3.0% to 2.5% and the salary escalation assumption was increased from 4.0% to 4.5%. The benefits accrual rate for USW members was increased from 1.5% to 1.6% effective January 2006. The increase in the Income Tax maximum pension has added to the RPP liabilities that were previously recorded in the SRA. All of these factors have contributed to a growth in liabilities beyond that projected in January 2004.

The net effect of all these changes has been that the market deficit at July 1, 2005 was $86.4 million, as compared to the $236.0 million predicted for 2005 back in January 2004, while the market deficit projected for 2013 is $4.9 million rather than $167.4 million. By 2016, pension assets and liabilities are projected to be in equilibrium (no deficit).

The SRA is projected to have a surplus of approximately $29.5 million by 2013. These funds represent a reserve against the investment volatility inherent in the target risk tolerance of 10% standard deviation over 10 years and would be available to be deposited into the RPP should the need arise.

The solvency ratio has declined from 1.11 to 1.00, with an actual solvency deficit of $10.5 million. This solvency deficit is essentially due to very low current long-term bond rates. The budgeted annual special payments are more than sufficient to provide the necessary funding to address this.

The pension contribution strategy adopted in January 2004 has contributed to the improvement in pension plan health. However, this financial health is dependent on the

continued contribution of full current service costs and special payments over the full 15 year period and the continued reserving of funds in the SRA against investment volatility. It is important to note that any future plan improvements will also require additional funding above what is currently contemplated.

OISE:

When the pension contribution strategy was formulated in January 2004, it projected a market surplus for the OISE/UT plan. It was also unlikely that the University would have to make current service contributions in the near future. At July 1, 2003 the market surplus was $7.1 million.

Within the past 2 years, there have been plan augmentations as a result of changes to negotiated staff group pension benefits, changes to plan assumptions and the actuarial report for partial plan wind-up was been filed with the Superintendent of Financial Services of Ontario. Even with good investment returns over the past two years, when combined with the various changes to the plan, the market surplus has declined and is now $5.3 million as at July 1, 2005. The impact can be seen in the solvency ratio, which has declined from 1.23 at July 1, 2003 to 1.09 at July 1, 2005.

Although nothing can be certain, the current plan asset base is larger than the accrued liabilities and the surplus should be adequate to meet the University's current service obligations for its declining member base through to 2009 or 2010.

Overall conclusion:

At this time based on the above analysis, it is appropriate to continue to apply the pension contribution strategy with the increase in special payments of $0.8 million, required as a result of the USW settlement. It will continue to be monitored annually, and may be fine-tuned over time, with the agreement of the Business Board.

Sheila Brown
Chief Financial Officer
October 6, 2005

UNIVERSITY OF TORONTO
PENSION PLAN

FINANCIAL STATEMENTS

JUNE 30, 2005

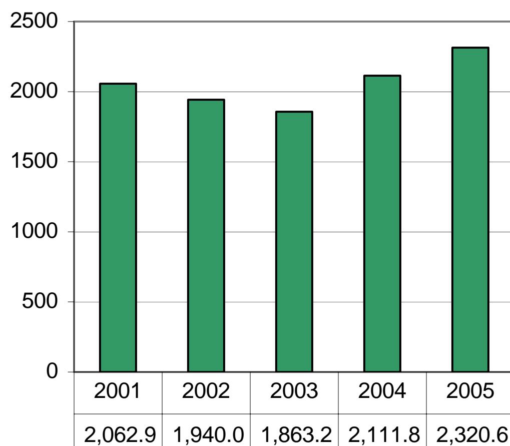
University of Toronto Pension Plan

Highlights

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

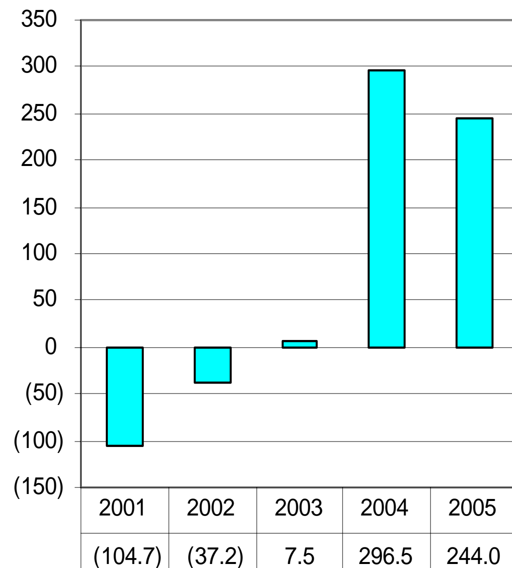
The net assets available for benefits were $2,320.6 million at June 30, 2005, an increase of $208.8 million or 9.9% from the previous year. This increase was a result of an overall favourable market performance.

For the five-year period from 2001 to 2005, the net assets available for benefits have increased from $2,062.9 million to $2,320.6 million.



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, 2005 the University of Toronto Pension Plan assets represent 95.5% of the Master Trust. The University of Toronto Asset Management Corporation ("UTAM") 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 Master Trust for the year ended June 30, 2005 was 11.58% (2004 – 15.96%) before fees and expenses. The Master Trust out-performed the investment policy benchmark return of 10.36% by 1.22%. This benchmark is composed of major market indices representing Canadian equities, US equities, international equities and bonds.

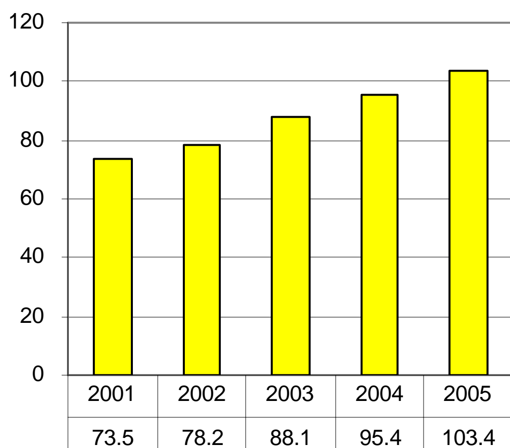


Since the July 1, 2004 actuarial valuation report showed actuarial liabilities exceeded Plan assets, the University of Toronto has been making both current service cost contributions and additional contributions, to amortize the unfunded liability into the Plan. The University made employer contributions of $60.6 million in 2005 and $41.0 million in 2004.

Pension plan fees and expenses for the University of Toronto Pension Plan totalled $14.4 million in 2005, as compared to $13.1 million in 2004. The investment management fees increased by $1.9 million, primarily due to moving various asset mix weightings closer to planned target weights. A decrease in administration costs of $0.6 million helped to offset the increase from investment management fees. Due to the fewer number of terminations in 2005, refunds and transfers to other plans decreased by $2.0 million, as compared to 2004.

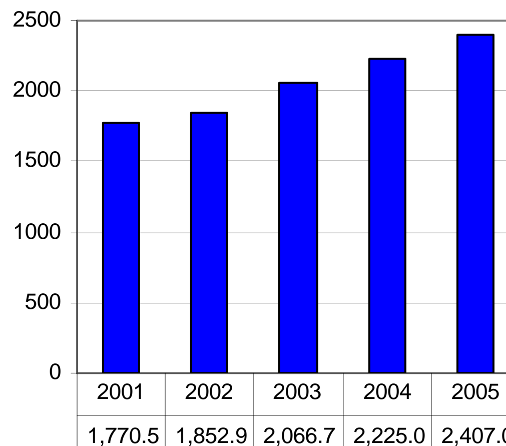
Retirement payments increased in 2005 by $8.0 million, as compared to 2004. This reflects the increasing number of pensioners as well as augmentations paid to pensioners.

Retirement Payments
for the year ended June 30
(millions of dollars)



Accrued pension liabilities have also increased steadily over the years, as expected, due to continued accruals for active members, interest on accrued pension liabilities, as well as plan improvements.

Accrued Pension Liability
as at July 1
(millions of dollars)



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** (the "Plan") as at June 30, 2005 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's 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's 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, 2005 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, 2005. Chartered Accountants

UNIVERSITY OF TORONTO PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(with comparative figures as at June 30, 2004)
(thousands of dollars)

As at June 30

	2005	2004
	$	$
ASSETS		
Investments, at fair market value *(note 3(a))*	**2,312,854**	2,106,265
Prepaid expenses	**10,798**	8,771
	2,323,652	2,115,036
LIABILITIES		
Refunds in transit	**1,558**	1,881
Accrued expenses	**1,445**	1,314
	3,003	3,195
Net assets available for benefits	**2,320,649**	2,111,841

See accompanying notes

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

Ms. Catherine J. Riggall
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, 2004)

(thousands of dollars)

Year ended June 30

	2005	2004
	$	$
INCREASE IN NET ASSETS		
Employer contributions *(note 4)*	**60,585**	41,011
Employee contributions	**26,929**	25,487
Net investment income from Master Trust *(note 3(b))*	**244,031**	296,482
Transfers from other plans	**1,056**	2,273
Total increase in net assets	**332,601**	365,253
DECREASE IN NET ASSETS		
Retirement payments	**103,411**	95,430
Refunds and transfers *(note 6)*	**6,030**	8,070
Fees and expenses (*note 7)*	**14,352**	13,121
Total decrease in net assets	**123,793**	116,621
Net increase in net assets for the year	**208,808**	248,632
Net assets available for benefits, beginning of year	**2,111,841**	1,863,209
Net assets available for benefits, end of year	**2,320,649**	2,111,841

See accompanying notes

UNIVERSITY OF TORONTO PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

1. Description of Plan

The following description of the University of Toronto Pension Plan (the “Plan”) is a summary only. For more complete information, reference may be made to the official Plan text. The Plan is a contributory defined benefit plan open to all full-time and part-time employees of the University of Toronto (the “University”) meeting the eligibility conditions.

The Plan is registered under the Pension Benefits Act of Ontario (1990) (Ontario Registration Number 0312827) and with the Canada Revenue Agency (“CRA”).

The Governing Council of the University of Toronto acts as administrator for the Plan and the investments are managed by the University of Toronto Asset Management Corporation (“UTAM”).

Plan benefits are funded by contributions and investment earnings. 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.

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 net asset value per unit. Unlisted or infrequently traded securities are based on quoted market yields or prices of comparable securities, as appropriate. The value recorded for Limited Partnership interests is based on the most recently available estimate from the General Partner, adjusted for the cash invested into, or distributions received from, the Partnership since that most recently valuation date. Real estate is generally valued through an appraisal

process, which utilizes discounted future cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out periodically by accredited appraisers. A year – end estimate is then arrived at by considering the appraisals performed.

(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.

For all derivative financial instruments, the gains and losses arising from changes in the fair value of such derivatives are recognized as investment income (loss) in the year in which the changes in fair value occur. 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.

(iii) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars 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.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year end. Income and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from those translations are included in income.

Purchases and sales of investments are recorded by the Master Trust on a settlement 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. Each pension plan holds units of the Master Trust. The value of each unit held by a 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, 2005, the Plan held 19,331,786 (2004 – 19,606,126) of the 20,241,812 (2004 - 20,551,784) outstanding units of the Master Trust. The unit market value as at June 30, 2005 was $119.63 (2004 – $107.43). Investments held at market value by the Master Trust as at June 30 are as follows:

	2005 **$**	2004 $
Short-term notes and deposits	**257,408**	16,411
Government and corporate bonds	**379,520**	352,857
Common and preferred shares		
Canadian	**204,889**	141,030
Foreign	**405,263**	421,008
	610,152	562,038
Pooled Funds		
Canadian pooled bond funds		
TD Emerald Canadian Bond Index Fund	**271,361**	333,823
TD Emerald Canadian Long Bond Pooled Fund	**182,631**	156,579
Other		8,675
Canadian pooled equity funds		
BGIC Active Canadian Equity Fund	**133,808**	111,822
Burgundy Small Cap Pension Fund	**9,703**	54,727
Other		283
Foreign pooled equity funds		
Northwater Derivatives Fund International	**189,398**	153,174
Aetos Capital	**86,613**	
GMO US Core Fund	**65,851**	66,838
Goldman Sachs US Enhanced Cash Fund	**57,083**	
Trent River Ofshore Ltd.	**35,127**	
Pioneer Alternative Investment Mgmt Ltd.	**29,952**	
Quellos ARS (Pension) III Ltd.	**29,663**	
CCL Arrow Street Synthetic Fund	**25,634**	23,377
Robec Sage Capital International	**15,404**	
Arden Alternative Advisors SPC USD	**15,038**	
Northwater Derivatives Fund III U.S.		211,522
Maverick Fund Limited		39,361
Formula Unit Trust		37,910
Northwater Derivatives Fund Mid Cap		23,501
Northwater Derivatives Fund Small Cap		19,894
Liberty Square Offshore Fund		21,728
Salomon Brothers Investment Series Capital Fund		18,265
Other	**19,721**	7,949
	1,166,987	1,289,428
Derivative related net receivables (payables) ***(note 3(d))***	**7,664**	(12,878)
	2,421,731	2,207,856
University of Toronto Pension Plan (95.5% of Master Trust)	**2,312,854**	2,106,265

b) **Statement of changes in net assets**

(thousands of dollars)

For the year ended June 30

	2005 **$**	2004 $
Net investment income	**255,633**	310,912
Cash received on purchase of Master Trust units by pension plans	**89,156**	69,436
Cash paid on redemption of Master Trust units by pension plans	**(130,914)**	(120,698)
Net increase in net assets for the year	**213,875**	259,650
Net assets, beginning of year	**2,207,856**	1,948,206
Net assets, end of year	**2,421,731**	2,207,856
University of Toronto Pension Plan (95.5% of Master Trust)	**2,312,854**	2,106,265

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

	2005 **$**	2004 $
Interest income		
Government and Corporate Bonds	**12,714**	6,280
Short-Term Investments	**785**	309
Dividend income		
Canadian equities	**6,136**	1,486
Foreign equities	**10,842**	10,205
Income distribution from funds	**52,713**	35,706
Net realized gains from investments	**18,529**	59,582
Net unrealized gains from investments	**152,610**	196,960
Other income	**1,304**	384
	255,633	310,912
University of Toronto Pension Plan (95.5% of Master Trust)	**244,031**	296,482

The net investment income 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

(thousands of dollars)

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 of issuer	Coupon range	Maturity range	Fair value
Government of Canada Bonds	3.00% - 8.00%	Sep. 1, 2005 – Dec. 1, 2036	$330,334
Province of Quebec Bonds	4.50% - 9.50%	Dec. 1, 2021 – Dec. 1, 2031	$ 29,656

d) Derivative financial instruments

(thousands of dollars)

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 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:

	2005		2004	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts:				
- U.S. dollars	**783,785**	**(5,153)**	728,837	(8,943)
- Global	**392,181**	**12,906**	315,152	(3,949)
		7,753		(12,892)
Equity index futures contracts:				
- U.S. dollars	**339,740**	**(853)**	753	(41)

4. Plan contributions

The University is making current service cost contributions and additional special payments to amortize the unfunded liability. The actuarial valuation as at July 1, 2004 showed accrued pension liabilities exceeding Plan assets. Therefore special payments are being made to amortize the unfunded liability.

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 the VEARP.

6. Refunds and transfers

(thousands of dollars)

Refunds and transfers consist of the following:

	2005 **$**	2004 $
Refunds of contributions:		
Upon termination	**251**	524
Upon death	**1,754**	989
	2,005	1,513
Transfers to other plans upon termination	**4,025**	6,557
	6,030	8,070

7. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2005 **$**	2004 $
Investment management fees:		
External managers[1]	**10,070**	8,301
University of Toronto Asset Management Corporation[1,2]	**2,054**	1,915
Trustee and custodial fees[1]	**425**	501
Actuarial and consulting fees	**317**	387
Pension records administration	**573**	594
External audit fees	**55**	29
Administration cost – University of Toronto[2]	**705**	1,268
Other fees	**153**	126
	14,352	13,121

[1] Reflects expenses that are directly charged to the Master Trust and are allocated back to the Plan.
[2] Represents related party transactions.

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, 2005 by Hewitt Associates Inc., a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2005 and 2004 and the principal components of changes during the year are as follows:

	2005	2004
	$	$
Actuarial present value of accrued pension benefits, beginning of year	**2,225,029**	2,066,720
Interest on accrued benefits	**142,023**	141,876
Benefits accrued	**74,857**	71,680
Benefits paid	**(108,385)**	(103,500)
Experience (gain) loss	**15,120**	7,496
Plan amendments[1]	**14,667**	10,692
Legislative changes	**17,094**	
Assumption changes[2]	**26,600**	30,065
Actuarial present value of accrued pension benefits, end of year	**2,407,005**	2,225,029

[1] Reflects Plan augmentations for Faculty and Librarians staff groups effective February 1, 2004 and July 1, 2004, and change in Plan formula for unionized administrative staff, effective January 1, 2006.

[2] Reflects change in salary escalation assumption from 4.0% in 2004 to 4.5% in 2005.

Significant assumptions used in the actuarial valuation are as follows:

	2005	2004
	%	%
Interest rate	**6.50**	6.50
Consumer Price Index	**2.50**	2.50
Salary escalation rate	**4.50**	4.00

9. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 financial statements.

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

FINANCIAL STATEMENTS

JUNE 30, 2005

University of Toronto (OISE) Pension Plan

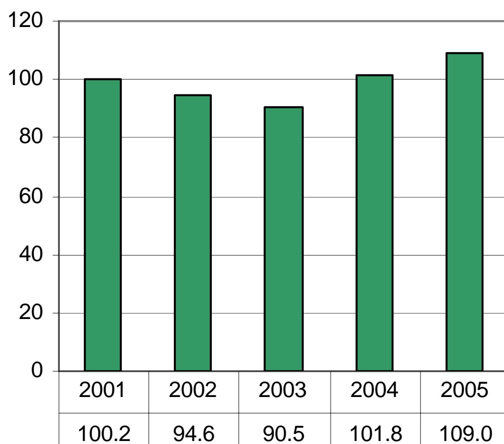
Highlights

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

The net assets available for benefits were $109.0 million at June 30, 2005, an increase of $7.2 million or 7.0% from the previous year. This increase was a result of an overall favourable market performance.

For the five-year period from 2001 to 2005, the net assets available for benefits have increased from $100.2 million to $109.0 million.

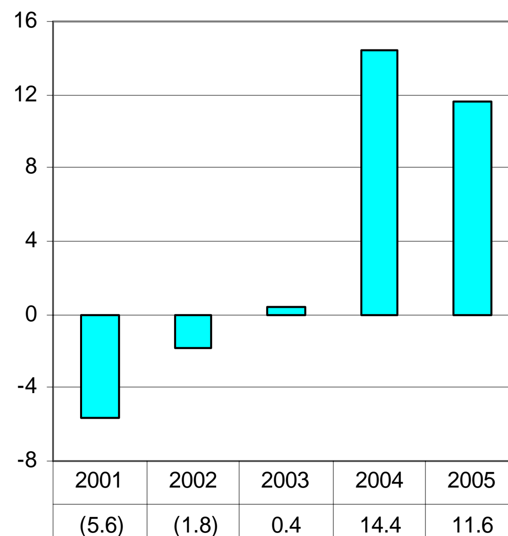
Net Assets Available (Market Value) for Benefits as at June 30 (millions of dollars)



The University of Toronto Master Trust ("Master Trust") holds the assets of the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan. At June 30, 2005 the University of Toronto (OISE) Pension Plan assets represent 4.5% of the Master Trust. The University of Toronto Asset Management Corporation ("UTAM") 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 Master Trust for the year ended June 30, 2005 was 11.58% (2004 – 15.96%) before fees and expenses. The Master Trust out-performed the investment policy benchmark return of 10.36% by 1.22%. This benchmark is composed of major market indices representing Canadian equities, US equities, international equities and bonds.

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

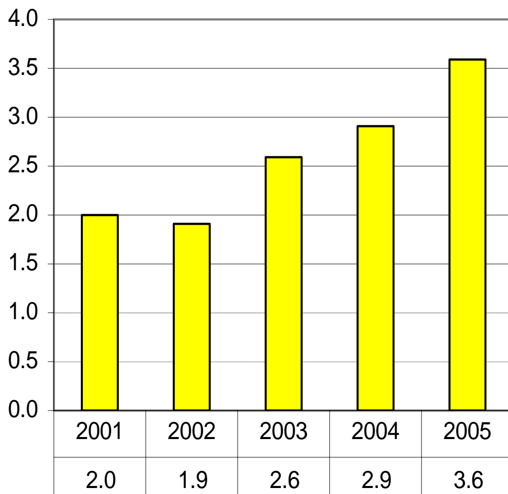


The University did not make contributions for current service cost into the University of Toronto (OISE) Pension Plan for the

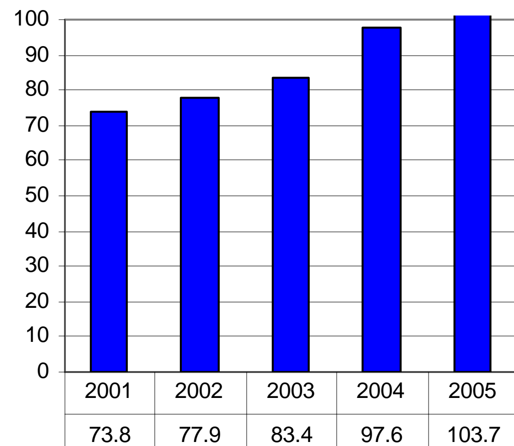
current plan year since the July 1, 2004 actuarial valuation report shows the Plan has an actuarial surplus.

Pension Plan fees and expenses for the University of Toronto (OISE) Pension Plan totalled $1.0 million for 2005, as compared to $0.9 million for 2004. The increase is a result of higher investment management fees, due to adjusting various asset mix weightings closer to planned target weights, and actuarial consulting fees related to the OISE partial plan wind-up.

Retirement payments increased in 2005 by $0.7 million, as compared to 2004. This reflects the increasing number of pensioners as well as augmentations paid to pensioners.



Accrued pension liabilities have also increased steadily, over the years. Although total participants have slowly decreased, the accrued pension liability continues to increase, as expected, due to continued benefit accruals for active members, interest on accrued pension liabilities, as well as Plan improvements.



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** (the "Plan") as at June 30, 2005 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's 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's 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, 2005 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, 2005.

Chartered Accountants

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
(with comparative figures as at June 30, 2004)
(thousands of dollars)

As at June 30

	2005	2004
	$	$
ASSETS		
Investments, at fair market value *(note 3(a))*	**108,877**	101,591
Prepaid expenses	**337**	287
	109,214	101,878
LIABILITIES		
Refunds in transit	**110**	
Accrued expenses	**137**	80
	247	80
Net assets available for benefits	**108,967**	101,798

See accompanying notes

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

Ms. Catherine J. Riggall
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, 2004)
(thousands of dollars)

Year ended June 30

	2005	2004
	$	$
INCREASE IN NET ASSETS		
Employee contributions *(note 4)*	**587**	665
Net investment income from Master Trust *(note 3(b))*	**11,602**	14,430
Total increase in net assets	**12,189**	15,095
DECREASE IN NET ASSETS		
Retirement payments	**3,563**	2,874
Refunds and transfers *(note 5)*	**487**	71
Fees and expenses *(note 6)*	**970**	892
Total decrease in net assets	**5,020**	3,837
Net increase in net assets for the year	**7,169**	11,258
Net assets available for benefits, beginning of year	**101,798**	90,540
Net assets available for benefits, end of year	**108,967**	101,798

See accompanying notes

UNIVERSITY OF TORONTO (OISE) PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

1. Description of Plan

The following description of the University of Toronto Ontario Institute for Studies in Education (OISE) Pension Plan (the "Plan") is a summary only. For more complete information, reference may be made to the official Plan text. 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.

The Plan is registered under the Pension Benefits Act of Ontario (1990) (Ontario Registration Number 0353854) and with the Canada Revenue Agency ("CRA").

Effective July 1, 1996, the Governing Council of the University of Toronto (the "University") became administrators of the Plan. Prior to July 1, 1996, the OISE Board of Governors acted as the administrator. The investments are managed by the University of Toronto Asset Management Corporation ("UTAM").

Plan benefits are funded by contributions and investment earnings. 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.

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 net asset value per unit. Unlisted or infrequently traded securities are based on quoted market yields or prices of

comparable securities, as appropriate. The value recorded for Limited Partnership interests is based on the most recently available estimate from the General Partner, adjusted for the cash invested into, or distributions received from, the Partnership since that most recently valuation date. Real estate is generally valued through an appraisal process, which utilizes discounted future cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out periodically by accredited appraisers. A year – end estimate is then arrived at by considering the appraisals performed.

(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 fair value approximately equal to the fair value of the instruments underlying the derivative contract.

For all derivative financial instruments, the gains and losses arising from changes in the fair value of such derivatives are recognized as investment income (loss) in the year in which the changes in fair value occur. 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.

(iii) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars 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.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year end. Income and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from those translations are included in income.

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

c) <u>Revenue and expense recognition</u>

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. Each pension plan holds units of the Master Trust. The value of each unit held by a 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, 2005, the Plan held 910,026 (2004 - 945,658) of the 20,241,812 (2004 - 20,551,784) outstanding units of the Master Trust. The unit market value as at June 30, 2005 was $119.63 (2004 - $107.43). Investments held at market value by the Master Trust as at June 30 are as follows:

	2005 **$**	2004 $
Short-term notes and deposits	**257,408**	16,411
Government and corporate bonds	**379,520**	352,857
Common and preferred shares		
Canadian	**204,889**	141,030
Foreign	**405,263**	421,008
	610,152	562,038
Pooled Funds		
Canadian pooled bond funds		
TD Emerald Canadian Bond Index Fund	**271,361**	333,823
TD Emerald Canadian Long Bond Pooled Fund	**182,631**	156,579
Other		8,675
Canadian pooled equity funds		
BGIC Active Canadian Equity Fund	**133,808**	111,822
Burgundy Small Cap Pension Fund	**9,703**	54,727
Other		283
Foreign pooled equity funds		
Northwater Derivatives Fund International	**189,398**	153,174
Aetos Capital	**86,613**	
GMO US Core Fund	**65,851**	66,838
Goldman Sachs US Enhanced Cash Fund	**57,083**	
Trent River Offshore Ltd.	**35,127**	
Pioneer Alternative Investment Mgmt Ltd.	**29,952**	
Quellos ARS (Pension) III Ltd.	**29,663**	
CCL Arrow Street Synthetic Fund	**25,634**	23,377
Robec Sage Capital International	**15,404**	
Arden Alternative Advisors SPC USD	**15,038**	
Northwater Derivatives Fund III U.S.		211,522
Maverick Fund Limited		39,361
Formula Unit Trust		37,910
Northwater Derivatives Fund Mid-Cap		23,501
Northwater Derivatives Fund Small-Cap		19,894
Liberty Square Offshore Fund		21,728
Salomon Brothers Investment Series Capital Fund		18,265
Other	**19,721**	7,949
	1,166,987	1,289,428
Derivative related net receivables (payables) ***(note 3(d))***	**7,664**	(12,878)
	2,421,731	2,207,856
University of Toronto (OISE) Pension Plan (4.5% of Master Trust)	**108,877**	101,591

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

For the year ended June 30

	2005	2004
	$	$
Net investment income	**255,633**	310,912
Cash received on purchase of Master Trust units by pension plans	**89,156**	69,436
Cash paid on redemption of Master Trust units by pension plans	**(130,914)**	(120,698)
Net increase in net assets for the year	**213,875**	259,650
Net assets, beginning of year	**2,207,856**	1,948,206
Net assets, end of year	**2,421,731**	2,207,856
University of Toronto (OISE) Pension Plan (4.5% of Master Trust)	**108,877**	101,591

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

	2005	2004
	$	$
Interest income		
Government and Corporate Bonds	**12,714**	6,280
Short-Term Investments	**785**	309
Dividend income		
Canadian equities	**6,136**	1,486
Foreign equities	**10,842**	10,205
Income distribution from funds	**52,713**	35,706
Net realized gains from investments	**18,529**	59,582
Net unrealized gains from investments	**152,610**	196,960
Other income	**1,304**	384
	255,633	310,912
University of Toronto (OISE) Pension Plan (4.5% of Master Trust)	**11,602**	14,430

The net investment income 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
(thousands of dollars)

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 of issuer	Coupon range	Maturity range	Fair value
Government of Canada Bond	3.00% - 8.00%	Sep. 1, 2005 – Dec. 1, 2036	$330,334
Province of Quebec Bond	4.50% - 9.50%	Dec. 1, 2021 – Dec. 1, 2031	$ 29,656

d) Derivative financial instruments
(thousands of dollars)

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 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:

	2005		2004	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Foreign currency forward contracts:				
- U.S. dollars	**783,785**	**(5,153)**	728,837	(8,943)
- Global	**392,181**	**12,906**	315,152	(3,949)
		7,753		(12,892)
Equity index futures contracts:				
- U.S. dollars	**339,740**	**(853)**	753	(41)

4. Plan contributions

Employer contributions are not being made in the current fiscal year since the Plan's assets exceeded the Plan's liabilities as reported in the actuarial valuation as at July 1, 2004.

5. Refunds and transfers

(thousands of dollars)

Refunds and transfers consist of the following:

	2005	2004
	$	$
Refunds of contributions upon termination	**7**	-
Transfers to other plans upon termination	**480**	71
	487	71

6. Fees and expenses

(thousands of dollars)

Fees and expenses consist of the following:

	2005	2004
	$	$
Investment management fees:		
External managers[1]	**535**	469
University of Toronto Asset Management Corporation[1,2]	**108**	101
Trustee and custodial fees[1]	**22**	26
Actuarial and consulting fees	**130**	88
Pension records administration	**102**	109
External audit fees	**12**	11
Administration cost – University of Toronto[2]	**55**	83
Other fees	**6**	5
	970	892

[1] Reflects expenses that are charged directly to the Master Trust and are allocated back to the Plan.
[2] Represents related party transactions.

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, 2005 by Hewitt Associates Inc., a firm of consulting actuaries.

The actuarial present value of accrued pension benefits as at July 1, 2005 and 2004 and the principal components of changes during the year are as follows:

	2005	2004
	$	$
Actuarial present value of accrued pension benefits, beginning of year	**86,363**	83,417
Interest on accrued benefits	**5,493**	5,736
Benefits accrued	**2,242**	2,342
Benefits paid	**(3,736)**	(2,945)
Adjustment for liability for Partial Wind-up members		(3,931)
Experience (gain) loss	**(1,168)**	569
Plan amendments[1]	**1,073**	441
Legislative changes	**814**	
Assumption changes[2]	**610**	734
Actuarial present value of accrued pension benefits for ongoing members, end of year	**91,691**	86,363
Partial plan wind-up benefits (note 8)	**12,012**	11,231
Total obligation for pensions	**103,703**	97,594

[1] Reflects Plan augmentations for Faculty and Librarians staff groups effective February 1, 2004 and July 1, 2004 and change in Plan formula for unionized administrative staff, effective January 1, 2006.
[2] Reflects change in salary escalation assumption from 4.0% in 2004 to 4.5% in 2005.

Significant assumptions used in the actuarial valuation are as follows:

	2005	2004
	$	$
Interest rate	**6.50**	6.50
Consumer Price Index	**2.50**	2.50
Salary escalation rate	**4.50**	4.00

8. Partial plan wind–up

(thousands of dollars)

Certain members and former members employed by the Ontario Institute for Studies in Education between February 1996 and June 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 the 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. An actuarial report on the partial plan wind-up was filed in June 2005 to determine the assets allocable to the partial plan wind-up group as of June 30, 1996. The assets allocable to the partial plan wind-up group, as of June 30, 2004 was $11,231. The July 1, 2005 actuarial report updates the assets allocable to the partial plan wind-up group to $12,012 as of June 30, 2005. The assets allocable to the partial plan wind-up group will be used to provide for settlement of pension entitlements still remaining in the plan for partial wind-up members (settlement through annuity purchase or lump sum transfer), surplus allocation for partial wind-up members, and expenses associated with the partial wind-up and surplus distribution.

9. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 financial statements.

Actuarial Report

University of Toronto Pension Plan

As of July 1, 2005

Summary

	As of July 1, 2004	As of July 1, 2005	
		Before Assumption and Plan Changes	After Assumption and Plan Changes[2]
Going Concern Valuation Results (thousands of dollars)			
Past Service			
Actuarial Value of Assets	$ 2,155,790	$ 2,289,792	$ 2,289,792
Less: Accrued Liability	2,225,029	2,348,644	2,407,005
Surplus (Unfunded Accrued Liability)	$ (69,239)	$ (58,852)	$ (117,213)
As a % of Accrued Liability	(3.1)%	(2.5)%	(4.9)%
Market Value of Assets	$ 2,111,841	$ 2,320,649	$ 2,320,649
Deferred Asset Gain (Loss)	$ (43,949)	$ 30,857	$ 30,857
Current Service			
Total Current Service Cost	$ 72,715	$ 72,865	$ 78,274
Less: Required Participant Contributions	25,622	26,093	26,663
Remaining Current Service Cost	$ 47,093	$ 46,771	$ 51,641
As a % of Participant Salary Base	9.37%	8.98%	9.92%
As a % of Participant Salary Base (Capped at $150,000)	9.52%	9.15%	10.10%
Participant Salary Base	$ 502,596	$ 520,634	$ 520,634
Participant Salary Base (Capped at $150,000)	$ 494,550	$ 511,264	$ 511,264
Solvency Valuation Results			
Market Value of Assets	$ 2,111,841		$ 2,320,649
Solvency Liability – Without Escalated Adjustments[1]	$ 1,911,134		$ 2,330,186
Solvency Liability – With Escalated Adjustments[1]	$ 2,599,052		$ 3,020,738

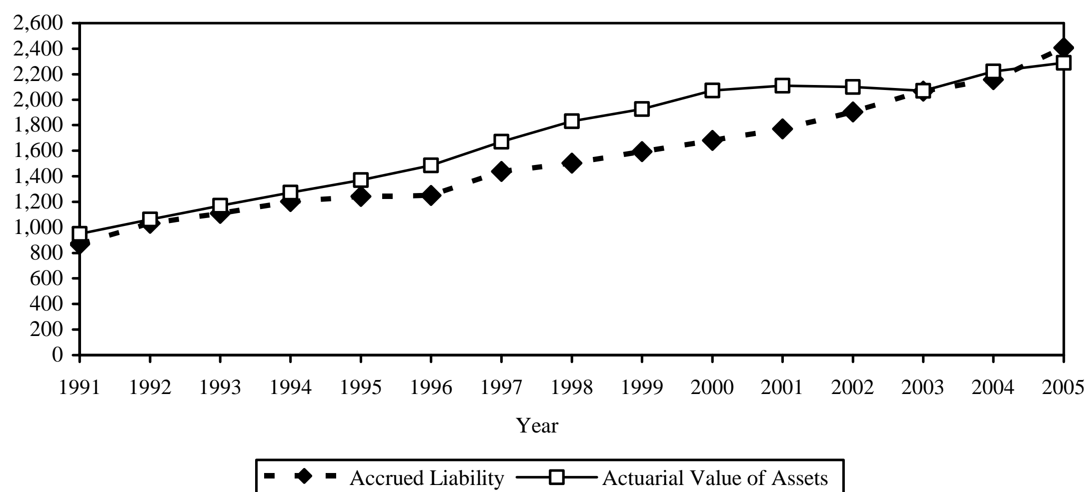
[1] The Regulations to the Pension Benefits Act (Ontario) allow the Solvency Liability to exclude the liabilities associated with escalated adjustments (future indexing). Solvency Liabilities are shown both with and without the value of future escalated adjustments.

[2] Does not reflect the Agreement on Retirement Matters reached with the Faculty Association which will impact retirements on and after June 30, 2006. This Agreement will be reflected in the July 1, 2006 actuarial valuation, but is not expected to have a material impact.

Summary (continued)

	As of July 1, 2004	As of July 1, 2005
Funding Requirements (thousands of dollars)		
Required Participant Contributions	$ 25,622	$ 26,663
Remaining Current Service Cost	$ 47,093	$ 51,641
Special Payments to Amortize Unfunded Liability	$ 7,165	$ 12,419
Minimum Required University Contributions	$ 54,258	$ 64,060
As a % of Participant Salary Base	10.80%	12.30%
As a % of Participant Salary Base (Capped $150,000)	10.97%	12.53%
Personnel Data		
Active Participants	7,288	7,452
Retired Participants	4,078	4,246
Terminated Vested Participants	961	1,072
Suspended, Exempt or Pending Status	1,076	1,164
Total	13,403	13,934

Summary (continued)



History of Accrued Liability and Surplus

Year	Actuarial Value of Assets (AVA)	Accrued Liability (AL)	Surplus/ (Deficit)	Surplus as a Percentage of AL
(millions of dollars)				
1991	$949.4	$869.7	$ 79.8	9.2%
1992	$1,061.0[1]	$1,031.5[1]	$ 29.4[1]	2.9%
1993	$1,169.3	$1,110.3	$ 59.1	8.3%
1994	$1,271.7	$1,201.9	$ 69.9	5.8%
1995	$1,370.5	$1,243.6	$ 126.9	10.2%
1996	$1,484.3	$1,249.1[2]	$ 235.2[2]	18.8%
1997	$1,671.4	$1,436.7[3]	$ 234.7[3]	16.3%
1998	$1,830.6	$1,503.3	$ 327.4	21.8%
1999	$1,927.2[4]	$1,593.6[4]	$ 333.6[4]	20.9%
2000	$2,072.0	$1,680.2	$ 391.9	23.3%
2001	$2,108.2	$1,770.5	$ 337.7	19.1%
2002	$2,098.9	$1,904.9[5]	$ 194.1[5]	10.1%
2003	$2,068.9	$2,066.7	$ 2.2	0.1%
2004	$2,155.8	$2,225.0	$ (69.2)[6]	(3.1%)
2005	$2,289.8	$2,407.0	$ (117.2)[7]	(4.8%)

Notes:
[1] After plan amendments and restatement of actuarial value of assets

[2] After six-year deferral of the increase in the maximum pension limit
[3] After plan amendments and change in actuarial assumptions
[4] After plan amendments for all staff groups (interim cost certificate) and change in assumptions
[5] After plan amendments
[6] After plan amendments and change in actuarial assumptions
[7] After plan amendments and change in actuarial assumptions

Assets and Liabilities

Going Concern Valuation Results (thousands of dollars)

The going concern valuation results shown below are after all changes to Plan provisions and actuarial assumptions. The valuation results do not reflect the Agreement on Retirement Matters reached with the Faculty Association which will impact retirements on and after June 30, 2006:

Past Service		
Actuarial Value of Assets		$ 2,289,792
Less: Accrued Liability		
Active Participants	$ 1,136,222	
Retired Participants	1,192,123	
Terminated Vested Participants	37,041	
Suspended, Exempt or Pending Status	41,619	
Total		2,407,005
Surplus (Unfunded Accrued Liability)		$ (117,213)
As a % of Accrued Liability		(4.9%)
Market Value of Assets		$ 2,320,649
Deferred Asset Gain (Loss)		$ 30,857
Current Service		
Total Current Service Cost		$ 78,274
Less: Required Participant Contributions		26,633
Remaining Current Service Cost		$ 51,641
As a % of Participant Salary Base		9.92%
As a % of Participant Salary Base (With $150,000 Pay Cap)		10.10%
Participant Salary Base		$ 520,634
Participant Salary Base (With $150,000 Pay Cap)		$ 511,264

Experience

Reconciliation of Surplus (thousands of dollars)

Surplus/(Deficit) at July 1, 2004		$	(69,239)
Less:	University Current Service Cost for Plan Year Ending June 30, 2005		(47,093)
Plus:	University Contributions		60,585
Plus:	Interest at 6.5% per annum		(4,103)
Equals:	Expected Surplus/(Deficit) at July 1, 2005, Before Experience Gains (Losses)	$	(59,850)
Plus:	Increase (Decrease) in Surplus at July 1, 2005 Due to:		
	Gains (Losses):		
	Return on Assets	$	15,426
	Salary and YMPE Increases		(12,171)
	Indexation of Benefits		3,422
	Retiree Mortality		(12,660)
	All Other Sources		6,981
	Increase in *Income Tax Act* Maximum Pension Limit		(17,094)
	Plan Amendments		(14,667)
	Change in Actuarial Assumptions		(26,600)
Equals:	Surplus/(Deficit) at July 1, 2005	$	(117,213)

Comments Regarding Experience

Return on Assets

The assumed rate of return for actuarial valuation purposes was 6.5% per annum or $139,447,000, based on the actuarial value of assets as at July 1, 2004. After allowance is made for the market value adjustment under the asset valuation method of $15,426,000, the net return on the actuarial value of assets was 7.2% or $154,873,000. The market value adjustment of $15,426,000 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 10.9% after expenses, assuming contributions and benefit payments take place in the middle of the year.

Salary and YMPE Increases

Average Salary for those participants present in both the 2004 and 2005 valuations increased by 5.8% This increase was higher than the 4.0% increase anticipated by the assumption. The Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan increased by 1.5% from 2004 to 2005. This was less than the 3.5% increase anticipated by the assumptions. Salary increases higher than assumed, and a YMPE increase lower than assumed, each contributed to an actuarial loss of $12,171,000.

Indexation of Benefits

Benefit entitlements for retired and terminated vested participants as of July 1, 2005 increased by 1.58%. The increase was lower than the 1.875% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of $3,422,000.

Retiree Mortality

Retiree mortality experience since July 1, 2004 was lower than expected under the valuation assumptions. This resulted in an actuarial loss of $12,660,000.

All Other Sources

Other factors such as personnel changes, retirement ages, data corrections, mortality among terminated vested participants, etc., deviated from expected resulting in a net actuarial gain of $6,981,000.

Increase in *Income Tax Act* Maximum Pension Limit

The February 2005 Federal budget announced changes in the scheduled increases to the defined benefit limit under the *Income Tax Act*. As a result, the valuation assumption for future increases in the maximum pension limit was changed to reflect the new schedule with the maximum increasing by $111.11 per year from $2,000.00 in 2005 to $2,444.44 in 2009, with increases of 3.5% per annum thereafter.

This increase in the maximum pension limit increased the Accrued Liability by $17,094,000 and the Current Service Cost by $974,000 (0.19% of Participant Salary Base).

Plan Amendments

The following Plan amendments have been reflected in the actuarial liabilities as of July 1, 2005:

- Effective January 1, 2006, for Unionized Administrative Staff and certain Unionized Staff, the accrual rate on Highest Average Salary below the Average CPP Maximum Salary will increase from 1.5% to 1.6%. This change will apply to both past and future pensionable service. At the same time, the participant contribution rate on Salary below the CPP Maximum Salary will increase from 4.5% to 5.0%.

  The Plan amendment has been fully reflected in the liabilities (including Solvency Liabilities) as of July 1, 2005. The Plan amendment increased the Accrued Liability by $9,667,000 and increased the Remaining Current Service Cost by $354,000 (0.07% of the total Participant Salary Base).

- Effective July 1, 2005, for Unionized Administrative Staff who take early retirement on or before June 30, 2008 having attained age 55 with 75 or more age-plus-service points, no early retirement reduction will apply unless required under the *Income Tax Act*. Furthermore, a bridge benefit will be provided to age 65 equal to 0.4% of Highest Average Salary up to the Average CPP Maximum Salary times Pensionable Service, subject to a reduction of 3% per year from age 60. The going concern accrued liability has been increased by $5,000,000 to reflect early retirements anticipated over the period from July 1, 2005 to June 30, 2008.

Change in Actuarial Assumptions

Effective July 1, 2005, the actuarial assumption for future salary increases was changed from 4.0% per year to 4.5% per year to better reflect experience. This change in assumption increased the Accrued Liability by $26,600,000, and increased the Remaining Current Service Cost by $3,541,000 (0.69% of the Participant Salary Base).

Actuarial Report

University of Toronto (OISE) Pension Plan

As of July 1, 2005

Summary

	As of July 1, 2004		
	Before Partial Wind-Up	**After Partial Wind-Up[1]**	**As of July 1, 2005[2]**
Going Concern Valuation Results (thousands of dollars)			
Past Service			
Actuarial Value of Assets	$ 104,684	$ 93,135	$ 96,276
Less: Accrued Liability	90,294	86,363	91,691
Surplus (Unfunded Accrued Liability)	$ 14,390	$ 6,772	$ 4,585
As a % of Accrued Liability	15.9%	7.8%	5.0%
Excess Surplus	$ 5,361	$ 0	$ 0
Market Value of Assets	$ 101,798	$ 90,567	$ 96,955
Deferred Asset Gain (Loss)	$ (2,886)	$ (2,568)	$ 679
Current Service			
Total Current Service Cost	$ 2,178	$ 2,178	$ 1,891
Less: Required Participant Contributions	615	615	547
Remaining Current Service Cost	$ 1,563	$ 1,563	$ 1,344
As a % of Participant Salary Base	14.2%	14.2%	13.1%
Participant Salary Base	$ 11,020	$ 11,020	$ 10,244

[1] On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to participants who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. On June 23, 2005, a Partial Plan Wind-Up Report was filed with the Financial Services Commission of Ontario to determine the portion of assets allocable to the partial wind-up group as of June 30, 1996, and to update the assets allocable to the partial wind-up group to June 30, 2004. The assets allocable to the partial wind-up group as of June 30, 2004 were $11,230,713 (representing 11.04% of total assets as of June 30, 2004); the actuarial value of assets for the Remaining Plan has been reduced by 11.04%, and liabilities related to partial wind-up participants were removed. The valuation results for July 1, 2005 only reflect the portion of the Plan remaining after the partial wind-up.

[2] After Plan and assumption changes; does not reflect the Agreement on Retirement Matters reached with the Faculty Association which will impact retirements on and after June 30, 2006. This Agreement will be reflected in the July 1, 2006 actuarial valuation but is not expected to have a material impact.

Summary (continued)

	As of July 1, 2004		
	Before Partial Wind-Up[1]	After Partial Wind-Up[1]	As of July 1, 2005
Funding Requirements (thousands of dollars)			
Required Participant Contributions	$ 615	$ 615	$ 547
Minimum Required University Current Service Contributions	$ 0	$ 0	$ 0
As a % of Participant Salary Base	0.0%	0.0%	0.0%
Remaining Current Service Cost	$ 1,563	$ 1,563	$ 1,344
Less: Required Application of Excess Surplus	1,563	0	0
Maximum Eligible University Current Service Contributions	$ 0	$ 1,563	$ 1,344
As a % of Participant Salary Base	0.0%	14.2%	13.1%
Solvency Valuation Results			
Market Value of Assets (Net of Wind-up Expenses)	$ 101,798	$ 90,567	$ 96,555
Solvency Liability - Without Escalated Adjustments[2]	$ 86,072	$ 82,483	$ 88,414
Solvency Liability - With Escalated Adjustments[2]	$ 108,284	$ 103,700	$ 115,264

[1] On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to participants who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. On June 23, 2005, a Partial Plan Wind-Up Report was filed with the Financial Services Commission of Ontario to determine the portion of assets allocable to the partial wind-up group as of June 30, 1996, and to update the assets allocable to the partial wind-up group to June 30, 2004. The assets allocable to the partial wind-up group as of June 30, 2004 were $11,230,713 (representing 11.04% of total assets as of June 30, 2004); the actuarial value of assets for the Remaining Plan has been reduced by 11.04%, and liabilities related to partial wind-up participants were removed. The valuation results for July 1, 2005 only reflect the portion of the Plan remaining after the partial wind-up.

[2] 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, 2004	As of July 1, 2005
Personnel Data		
Participants Not Affected by Partial Wind-Up		
Active Participants	159	146
Retired Participants	125	130
Terminated Vested Participants	12	17
Total	306	293
Partial Wind-Up Participants With Entitlements Remaining in Plan		
Partial Wind-Up Participants Receiving Immediate Pension	20	20
Partial Wind-Up Participants Pending Elections	6	6
Total	26	26

Assets and Liabilities (continued)

Revenue Account (dollars, not thousands of dollars)

Total Trust	
Market Value, July 1, 2004	$101,798,000
Contributions	587,000
Net Investment Gain from Master Trust	11,602,000
Pensions Paid	(3,563,000)
Refunds and Transfers	(487,000)
Fees and Expenses (excluding partial wind-up expenses)	(878,414)
Partial Wind-Up Expenses	(91,586)
Market Value, June 30, 2005	$108,967,000
Return on Market Value (after Fees and Expenses, but before Partial Wind-Up Expenses)	10.7%
Asset Attributable to Partial Wind-Up Members	
Market Value for Partial Wind-Up Members, July 1, 2004	$ 11,230,713
Pensions Paid to Partial Wind-Up Members	(313,913)
Investment Return (10.7%)	1,186,714
Partial Wind-Up Expenses	(91,586)
Market Value for Partial Wind-Up Members, June 30, 2005	$ 12,011,928
Asset for Remaining Plan	
Total Market Value	$108,967,000
Less: Market Value for Partial Wind-Up Members	12,011,928
Market Value of Assets for Remaining Plan	$ 96,955,072

Experience

Reconciliation of Surplus (thousands of dollars)

Surplus at July 1, 2004, Before Partial Wind-up Impact		$ 14,390
Less:	Impact of Partial Wind-Up On Assets and Liabilities As of June 30, 2004	(7,618)
Less:	Surplus Applied Against Current Service Cost, and Special Past Service Contributions Under VEARP	(1,563)
Plus:	Interest at 6.5% per annum	389
Equals:	Surplus at July 1, 2005, Before Experience Gains (Losses)	$ 5,598
Plus:	Increase (Decrease) in Surplus at July 1, 2005 Due to:	
	Gains (Losses):	
	Return on Assets	$ 339
	Salary and YMPE Increases	(480)
	Indexation of Benefits	116
	Retiree Mortality	635
	All Other Sources	874
	Increase in *Income Tax Act* Maximum Pension Limit	(814)
	Plan Amendments	(1,073)
	Change in Actuarial Assumptions	(610)
Equals:	Surplus at July 1, 2005	$ 4,585

Comments Regarding Experience

Return on Assets
The assumed rate of return for actuarial valuation purposes was 6.5% per annum or $5,951,000, based on the actuarial value of assets as at July 1, 2004. After allowance is made for the market value adjustment under the asset valuation method of $339,000, the net return was 7.2% or $6,390,000. The market value adjustment of $339,000 represents the asset gain/(loss) under the asset valuation method. The total return based on the actual market value of assets was 10.7% after expenses (but before partial wind-up expenses), assuming contributions and benefit payments take place in the middle of the year.

Salary and YMPE Increases
Average salary for those participants present in both the 2004 and 2005 valuations increased by 5.9%. This increase was higher than the 4.0% increase anticipated by the assumptions. The Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan increased by 1.5% from 2004 to 2005. This was less than the 3.5% increase anticipated by the assumptions. In combination, the deviation from expected experience generated an actuarial loss of $480,000.

Indexation of Benefits
Benefit entitlements for retired and terminated vested participants as of July 1, 2005 increased by 1.58% under the 75% of CPI indexing provision (and corresponding higher percentages for retirees under one of the pre-integration provisions). The increase was less than the 1.875% increase anticipated under the actuarial assumptions, resulting in an actuarial gain of $116,000.

Retiree Mortality
Retiree mortality experience since July 1, 2004 was higher than expected under the valuation assumptions. This resulted in an actuarial gain of $635,000.

All Other Sources
All other factors combined resulted in a net actuarial gain of $874,000.

Impact of Partial Wind-Up

On August 16, 2000, the Superintendent of Financial Services ordered that the Plan be wound-up in part in relation to participants who terminated employment between February 1996 and June 1996 under special voluntary retirement or severance programs in effect at that time. On June 23, 2005, a Partial Plan Wind-Up Report was filed with the Financial Services Commission of Ontario to determine the portion of assets allocable to the partial wind-up group as of June 30, 1996, and to update the assets allocable to the partial wind-up group to June 30, 2004. The assets allocable to the partial wind-up group as of June 30, 2004 were $11,230,713 (representing 11.04% of total assets as of June 30, 2004). Therefore the valuation results as of July 1, 2004 for the ongoing plan should be adjusted to reflect a reduction in the Actuarial Value of Assets of $11,549,000 (11.04% of the actuarial value of assets), and a reduction in Accrued Liabilities of $3,931,000 (as liabilities for 20 retirees in the Partial Wind-Up Group will be paid from Partial Wind-Up assets). The net reduction in surplus as of July 1, 2004 was $7,618,000.

Increase in *Income Tax Act* Maximum Pension Limit

The February 2005 Federal budget announced changes in the scheduled increases to the defined benefit limit under the *Income Tax Act*. As a result, the valuation assumption for future increases in the maximum pension limit was changed to reflect the new schedule with the maximum increasing by $111.11 per year from $2,000.00 in 2005 to $2,444.44 in 2009, with increases of 3.5% per annum thereafter.

This increase in the maximum pension limit increased the Accrued Liability by $814,000 and the Remaining Current Service Cost by $31,000 (0.30% of Participant Salary Base).

Plan Amendments

The following Plan amendments have been reflected in the actuarial liabilities as of July 1, 2005:

- Effective January 1, 2006, for Unionized Administrative Staff and certain Unionized Staff, the accrual rate on Highest Average Salary below the Average CPP Maximum Salary will increase from 1.5% to 1.6%. This change will apply to both past and future service. At the same time, the participant contribution rate on Salary below the CPP Maximum Salary will increase from 4.5% to 5.0%.

  The Plan amendment has been fully reflected in the liabilities (including Solvency Liabilities) as of July 1, 2005. The Plan amendment increased the Accrued Liability by $823,000 and increased the Remaining Current Service Cost by $26,000 (0.26% of the total Participant Salary Base).

- Effective July 1, 2005, for Unionized Administrative Staff who take early retirement on or before June 30, 2008 having attained age 55 with 75 or more age-plus-service points, no early retirement reduction will apply unless required under the *Income Tax Act*. Furthermore, a bridge benefit will be provided to age 65 equal to 0.4% of Highest Average Salary up to the Average CPP Maximum Salary times Pensionable Service, subject to a reduction of 3% per year from age 60. The going concern accrued liability has been increased by $250,000 to reflect early retirements anticipated over the period from July 1, 2005 to June 30, 2008.

Change in Actuarial Assumptions

Effective July 1, 2005, the actuarial assumption for future salary increases was changed from 4.0% per year to 4.5% per year to better reflect experience. This change in assumption increased the Accrued Liability by $610,000, and increased the Remaining Current Service Cost by $49,000 (0.48% of the Participant Salary Base).

Actuarial Report

University of Toronto Supplemental Retirement Arrangement

As of July 1, 2005

Valuation Results

	As of July 1, 2004	As of July 1, 2005 Before Changes	As of July 1, 2005 After Changes
Going Concern Valuation Results (thousands of dollars)			
Past Service			
Accrued Liability			
Active Participants	$ 43,582	$ 33,326	$ 22,475
Retired Participants	79,091	90,417	90,417
Total SRA	$ 122,673	$ 123,743	$ 112,892

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 $130,597,000 as of June 30, 2005. 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, 2004	As of July 1, 2005 Before Changes	As of July 1, 2005 After Changes
Current Service			
Current Service Cost for SRA	$ 1,386	$ 732	$ 393
As a % of Participant Salary Base	0.27%	0.14%	0.07%
As a % of Participant Salary Base (With Cap)	0.27%	0.15%	0.08%
Participant Salary Base[2]	$ 513,616	$ 530,879	$ 530,879
Participant Salary Base With $150,000 Pay Cap[2]	$ 504,570	$ 521,508	$ 521,508

[1] After change in Income Tax Act maximum pension limits, and after increase in the valuation assumption for salary increases from 4.0% to 4.5%.

[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.

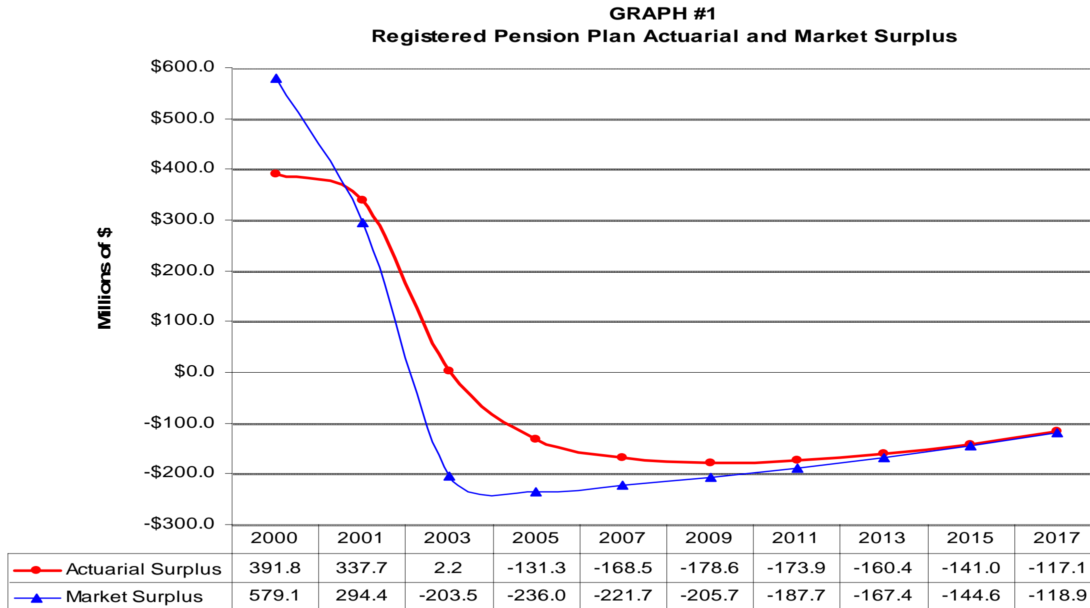
To implement this strategy, the University's operating budget allocation for pensions must rise from $31.2 million for fiscal year 2003-04 to $65.9 million for 2004-05, $75.5 million for 2005-06, $77.8 million in 2006-07, $80.3 million in 2007-08, $82.7 million in 2008-09 and $85.0 million in 2009-10.

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.

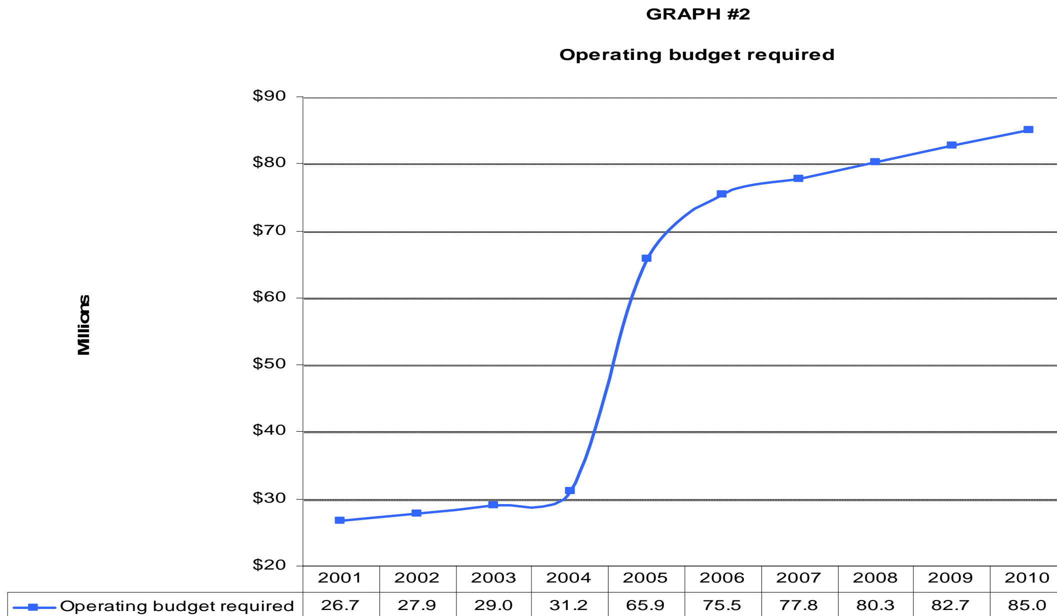
Recommendation

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



	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



	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