University of Toronto

(FINANCIAL SERVICES DEPARTMENT, BUSINESS AFFAIRS)

TO: Audit Committee

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AGENDA ITEM:

ITEM IDENTIFICATION:

Pension Plans – Annual Financial Report for the Year Ended June 30, 2006

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:

The pension contribution strategy was originally approved by the Business Board in January 2004. Annually the Audit Committee receives and reviews the pension stewardship report and recommends the pension plan financial statements to the Business Board. In 2005, the Audit Committee reviewed the stewardship report and recommended the 2004-05 pension plan financial statements for Business Board approval. Pension master trust investment policy was most recently approved by the Business Board in March 2006.

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, 2006 are summarized by plan in the following table.

	RPP	OISE/UT (includes partial wind-up)	SRA (1)
Accrued liabilities	$2,540.6 million	$108.6 million	$122.1 million
Market value of assets (1)	$2,489.9 million	$113.8 million	$136.2 million
Market surplus or (deficit)	($50.7 million)	$5.2 million	$ 14.1 million
Actuarial surplus or (deficit)	($93.4 million)	$4.0 million	

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

The RPP solvency ratio, which is a measure of the assets' market value as compared to the solvency liability of the plan (before indexing), was 1.00 at July 1, 2006. It has remained unchanged from July 1, 2005. On a wind-up basis (after indexing and incorporating early retirement windows) the deficit is $800.1 million.

The OISE/UT solvency ratio was 1.05 at July 1, 2006, taking the partial wind-up into account. At July 1, 2005 it was 1.09 after taking the partial wind-up into account. On a windup basis (after indexing and incorporating early retirement windows) the deficit is $27.7 million.

The OISE/UT 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, 2006 is $12.6 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 results for the RPP and the OISE/UT plans reflect a one-year return for the pension master trust of 7.0%, net of fees and expenses and excluding returns on private investment interests. Fees and expenses for the year totaled $16.6 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, 2006. The position of the RPP and the SRA to 2015 was projected using the following assumptions:

-Investment returns for 2006-07 at 3.5% to allow for a year with investment returns less than the mean of 6.5%.
-Investment returns for years beyond 2006-07 were projected at 6.5%.
-Contributions continuing in accordance with the strategy, including special payments of $27.2 million per annum.
-Arbitration award to UTFA pensioners who retired prior to January 1, 2006 received an augmentation from 75% of CPI to 100% for July 1, 2005 and July 1, 2006.

-Elimination of mandatory retirement and the associated Plan changes.
-Extension of the 1.6% accrual rate to various trade unions groups and to non-unionized administrative staff.
-Extension of temporary early retirement windows to various trade union groups and to certain non-unionized administrative staff.

Under this scenario, the result for 2006 was a $50.7 million market deficit and a $14.1 million SRA market reserve (excess of SRA assets over SRA liabilities).

The unfunded position has clearly improved. However, while the deficit is smaller, there are still a number of issues that continue to cause concern including the potential need to make payments into the OISE/UT plan, continuing increases in life expectancy that may require a change in mortality tables thus increasing liabilities, expected volatility in investment returns, whether we will meet the long-term return expectations given financial market trends, and the very large unfunded postretirement benefits liabilities, which we need to manage and control.

There is also great concern this year about the University's financial situation given the extraordinary pressures on the institution at this time, which must be factored into our short-term decisions about pension funding. Therefore, while we are currently recommending the continuation of the pension contribution strategy adopted in 2004 over the longer term, we are continuing to evaluate these issues, and short-term variations to that strategy may be recommended where this can be achieved without a major impact on the long-term goals for the pension plan.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The pension contribution strategy continues to require 100% current service cost employer contributions and additional special payments of $27.2 million. 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, 2006, 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, 2006, a copy of which is included in Appendix "B" hereto, be approved