TO: Business Board

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AGENDA ITEM: **4(b)**

## ITEM IDENTIFICATION:

Pension Contribution 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:

The Business Board approved the current Pension contribution strategy on January 19, 2004.

## HIGHLIGHTS:

The University of Toronto provides pension benefits to current and future pensioners via two registered defined benefit plans – the University of Toronto pension plan and the University of Toronto (OISE) pension plan – and one unregistered defined benefit plan – the Supplemental Retirement Arrangement.

The University of Toronto registered pension plans have a large going concern deficit of $997.3 million and a solvency deficiency of $1,068.0 billion as of July 1, 2011. The Province of Ontario has established a regulation providing temporary solvency funding relief if certain conditions are met, and, in its budget of March 27, 2012, has signaled other measures that may potentially enhance that relief. The attached paper outlines the magnitude of the deficit problem, reflects the University's acceptance to Stage 1 of the solvency relief regime and assumes that the University will be accepted to Stage 2 of the regime. It considers the January 2004 strategy that is still in force and updates the paper, entitled *Ensuring a Sustainable Pension Plan for the University of Toronto* that was presented to the Business Board in January 2011 and that considered a range of approaches for dealing with the deficit. It does not reflect any possible further changes the government might make, but does discuss their implications in appropriate places in the document. It discusses the current 2004 strategy and proposes a revised pension contribution strategy going forward to ensure that the plans can continue to meet their obligations to provide pensions to current and future pensioners and can meet the government’s regulatory requirements.

It is important to note that this analysis assumes the continuation of the current legislative and regulatory environment. Future changes to that environment, at either the federal or provincial levels could require future changes to the contribution strategy that is proposed here for approval. It is also important to note that this analysis includes future projections that are based on numerous assumptions, including assumptions about investment returns and interest rates. Any material deviation in actual results from those assumptions would also likely require future changes to this proposed strategy.

The key elements of the proposed contribution strategy are:

1. **Current Service Contributions:**

    a. Members and the University make 100% of required current service contributions into the RPP and RPP (OISE) each year, i.e. no current service contribution holidays.

    b. University RPP current service contributions are to be no less than 10.77% (i.e. the July 1, 2008 level) of the capped participant salary base.

    c. In the event that legislation or regulation prohibits the deposit of some or all of University current service contributions into the registered pension plans, those contributions will be reserved for pensions outside the registered pension plans.

2. **Deficit Funding:**

    a. Lump sum payments: that a second lump sum payment in the amount of $150 million be made into the registered pension plans before July 1, 2014, utilizing SRA assets and internal borrowing as required.

    b. Supplemental Retirement Arrangement (SRA):

        i. No further current service or special payment contributions will be made into the SRA.
        ii. Deposit the balance of the SRA assets into the registered pension plan(s) by June 30, 2014.

iii. Payments to current and future pensioners will be made by the University beginning when the SRA assets are transferred into the registered pension plans.

c. Borrowing: up to $150 million internal borrowing for pensions. (Note: Business Board approved internal borrowing for pensions of up to $150 million on January 31, 2011. Inclusion of this item again here is for completeness).

d. Letters of Credit will be utilized to address the net solvency special payments to the fullest extent permitted by legislation and regulation.

e. Operating Fund Special Payments Budget:
   i. Increase this budget line to an amount deemed sufficient to meet the plan's special payment funding requirements, currently estimated to be $97.2 million per annum. (Governing Council approved the first $50 million of this estimated increase as part of its approval of the Budget Reports for 2011-12 and 2012-13).
   ii. Utilize this budget to fund special payments into the registered pension plans and to fund other costs related to this pension contribution strategy such as borrowing repayment costs and SRA pension payments for pensioners.
   iii. Maintain that higher budget, currently estimated at $97.2 million, until the pension deficit is extinguished.
   iv. Do not decrease the annual special payments budget below $27.2 million per annum, even after the deficit and other costs related to this strategy have been extinguished. If funds designated to be paid into the registered pension plans are not required for, and/or permitted to be added to the registered pension plans, reserve outside the registered plans.
   v. Maintain the Pension Reserve structure for current service or special payments that in future would not be permitted to be made into the registered pension plans.

## FINANCIAL AND/OR PLANNING IMPLICATIONS:

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## RECOMMENDATION:

THAT the Business Board approve the Pension Contribution Strategy attached as Appendix A to the memorandum from the Chief Financial Officer dated April 20, 2012, and specifically including the points contained in the summary section, replacing the Pension strategy approved by the Business Board on January 19, 2004.