UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Audit Committee

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DATE: November 16 for December 8, 2010 meeting.

AGENDA ITEM:

**ITEM IDENTIFICATION:**

Pension Plans – Annual Financial Report for the Year Ended June 30, 2010

**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:**

Annually the Audit Committee receives and reviews the pension annual financial report and recommends the pension plan financial statements to the Business Board, most recently for the year ended June 30, 2009. The pension contribution strategy was originally approved by the Business Board in January 2004. The pension master trust investment policy was most recently approved by the Business Board in December 2009.

**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 (RPP(OISE)), and the unregistered Supplemental Retirement Arrangement (SRA).

The actuarial results at July 1, 2010 are summarized by plan in the following table:

| | RPP | RPP(OISE) | SRA [1] | Pension Reserve [1] |
|---|---|---|---|---|
| Accrued liabilities | $3,126.0 million | $109.0 million | $138.3 million | - |
| Market value of assets [1] | $2,093.9 million | $72.8 million | $115.8 million | $24.9 million |
| Market surplus or (deficit) | ($1,032.1 million) | ($36.2 million) | ($22.5 million) | $24.9 million |
| Actuarial deficit | ($776.3 million) | ($26.9 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 and as a pension reserve. 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 had a solvency deficit of $1,171.3 million at July 1, 2010 compared to a solvency deficit of $880.0 million at July 1, 2009.

The RPP(OISE) had a solvency deficit of $45.1 million at July 1, 2010 compared to a solvency deficit of $33.0 million at July 1, 2009.

The results for the RPP and the RPP(OISE) plans reflect a one-year return for the pension master trust of 8.2%, net of fees and expenses. Fees and expenses for the year totaled $25.4 million, and amounted to 1.17% of master trust assets. The financial statements for the pension plans show the audited values of the assets available for benefits.

There were no changes to the assumptions in the July 1, 2010 actuarial reports as compared to last year. The financial statements for both registered plans, including the statement of net assets available for benefits and the statement of changes in net assets available for benefits, were given an unqualified auditors' report by the University appointed external auditors.

**Conclusion:**

The RPP market deficit position has remained essentially unchanged between 2009 and 2010 reflecting increasing plan liabilities offset by an improvement in global financial markets during the year. There are a number of issues that continue to cause concern, including current solvency deficit funding requirements, potential volatility in investment returns over the coming years as the global economy deals with the fallout from the financial crisis, the potential need to make payments into the RPP(OISE), and whether it will be possible to meet the long-term return expectations given financial market trends.

The University must file a valuation report with the Financial Services Commission of Ontario (FSCO) as of July 1, 2011. While the University would normally be required to fund any solvency deficits over five years, the Province of Ontario has proposed legislation with a two stage process that is intended to provide institutions in the broader public sector with an opportunity to make solvency payments over a longer period than would otherwise be required. Generally, these institutions, such as the University of Toronto, would need to negotiate with plan members and their representatives to "enhance the sustainability" of our defined benefit plans.

To enter stage one, universities will need to submit a plan to the Ministry of Finance that identifies how they intend to address the sustainability issue and to share that plan with members and collective bargaining agents. Stage one would be a three-year period (i.e. from July 1, 2011 to July 1, 2014) for the RPP and RRP(OISE)) during which there would be a solvency funding exemption, subject to going concern special payments at least covering interest on the solvency deficit. At the end of stage one, each plan would be assessed, based on technical measures, to determine whether sufficient progress in meeting their sustainability requirements had been made. Those plans that demonstrate sufficient steps have been taken towards sustainability would be eligible to enter stage two of the process. Under stage two, the solvency deficit at the beginning of stage two can be amortized over 10 years, instead of the regular 5-year period. During the funding relief period, and for a period of time following the relief period, contribution holidays would be restricted and any benefit improvements would require accelerated funding.

The University is investigating various alternatives to funding the pension plans. After these various alternatives, which are outlined in this paper, have been fully vetted and analyzed, the end result will be our revised pension funding strategy going forward, which will replace the current pension contribution strategy. In addition to the pension funding options that are being considered, the University is reviewing the investment risk and return targets, and considering changes in certain assumptions, all of which may impact future results.

**FINANCIAL AND/OR PLANNING IMPLICATIONS:**

The current pension contribution strategy continues to require 100% current service cost employer contributions and additional special payments of $27.2 million. Of this amount of additional special payments, $14.8 million will be contributed to the RPP representing $9.8 million of required going concern funding and $5.0 million of special solvency funding, and the remainder will be contributed to the pension reserve. 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:

a) THAT the audited financial statements for the University of Toronto Pension Plan, June 30, 2010, a copy of which is included in Appendix "A" hereto, be approved; and

b) THAT the audited financial statements for the University of Toronto (OISE) Pension Plan, June 30, 2010, a copy of which is included in Appendix "B" hereto, be approved.