

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 27 OF THE PENSION COMMITTEE

December 14, 2016

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, December 14, 2016 at 4:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Alex D. McKinnon (Chair)
Mr. Harvey Botting
Mr. David Bowden
Ms Colleen Burke
Professor Paul Downes
Professor Jennifer Jenkins
Ms Claire M.C. Kennedy
Mr. Brian D. Lawson*
Ms Leanne MacMillan*
Ms Kim McLean*
Mr. John Paul Morgan*
Dr. Andreas Motsch
Professor Emeritus Arthur G. Rubinoff
Mr. John Switzer
Mr. Andrew Szende
Mr. Bruce Winter

Non-Voting Assessors:

Professor Kelly Hannah-Moffat, Vice-President,
Human Resources and Equity
Professor Scott Mabury, Vice-President, University
Operations
Ms Sheila Brown, Chief Financial Officer

Secretariat:

Ms Sheree Drummond, Secretary of the Governing
Council
Mr. Patrick McNeill, Committee Secretary

** Joined the meeting via conference call*

Regrets:

Mr. Mark Krembil
Professor Ettore Vincenzo Damiano
Ms Janet L. Ecker
Mr. Brian K. Johnston

In Attendance:

Professor Angela Hildyard, Special Advisor to the President and Provost
Mr. Francis Low, External Auditor, Ernst & Young
Ms Cynthia Messenger, President, University of Toronto Faculty Association (UTFA)
Mr. Chuck O'Reilly, Director, Manager Selection and Portfolio Construction, University
of Toronto Asset Management Corporation (UTAM)
Mr. Allan Shapira, Aon Hewitt

The Committee met in Closed Session

1. Welcome and Chair's Remarks

The Chair welcomed members and guests to the meeting.

2. Revisions: *Pension Committee Terms of Reference*

The Committee received the proposed revisions to the *Terms of Reference* for information. Ms Brown stated that the revisions had reflected changes based on the merging of the two registered "Plans".

3. Registered Pension Plan: Audited Financial Statements for the Year Ended June 30, 2016

Ms Brown advised the Committee that the Audited Financial Statements for the Year Ended June 30, 2016, included the former University of Toronto (OISE) Pension Plan which had merged with the U of T Plan effective July 1, 2014. She confirmed that, at the Audit Committee meeting held on December 8, 2016, the Committee met with the external auditors, reviewed the audited financial statements and recommended them to the Pension Committee for approval.

Mr. Low informed the Committee that he and his audit team at Ernst & Young were comfortable with all of the disclosures in the Audited Financial Statements.

In response to members' questions and comments, Mr. Low stated that there were no significant issues reported; and no errors or adjustments had been made. He referred members to the detailed notes contained in the Statements.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2016, be approved.

4. Pension Plans: Actuarial Valuation Results at July 1, 2016

Ms Brown stated that the actuarial assumptions and methodologies effective July 1, 2016 were approved by the Pension Committee on September 16, 2016; and that there were no changes to the going concern actuarial assumptions.

Mr. Allan Shapira provided an overview of the Actuarial Valuation Results, highlighting the following points:

- The going concern market deficit of the RPP had increased from \$446.0 million to \$573.1 million, due mainly to investment returns of 0.7% that were below the target return of 5.4% (4.0% plus CPI), partially offset by employer going concern special payments totaling \$78.7 million;

- The solvency deficit of the RPP had increased from \$1,102.0 million to \$1,681.0 million, mainly due to the adoption of the new prescribed mortality table reflecting improved life expectancies, a drop in the prescribed discount rates, and investment returns over the year that were lower than target;
- Contributions to the pension plans for 2015-16 were made up of \$63.9 million in member contributions, \$101.6 million in University current service contributions, and \$78.7 million in University special payments; and,
- The actual investment return, net of investment fees and expenses, was 0.7% for 2015-16, compared to 11.9% for 2014-15.

In response to members' questions and comments, Mr. Shapira stated the following:

- The 10 year bond rate had increased by about 60 basis points since July 2016;
- The going concern discount rate would be reviewed for the actuarial valuation at July 1, 2017;
- The Actuarial Valuation as at July 1, 2017 would be filed with the Financial Services Commission of Ontario; and
- Active membership had grown in last 20 years – now just short of 10,000 members.

Ms Brown reported that the Ontario government had recently amended Regulation 178/11 under the Pension Benefits Act (Regulation 350/16: Solvency Funding Relief for Certain Public Sector Plans) which would reduce the University's anticipated required solvency payments on a temporary basis to amounts lower than the amounts previously projected. The Ministry of Finance was engaged with stakeholders on permanent changes to the solvency funding regime.

On motion duly moved, seconded and carried

IT WAS RESOLVED

- 1) THAT the actuarial valuation for the University of Toronto Pension Plan as at July 1, 2016, attached as Appendix A, be approved; and
- 2) THAT the actuarial valuation for the Supplemental Retirement Arrangement as at July 1, 2016, attached as Appendix B, be approved.

5. Pension Plan Annual Financial Report for Year Ended June 30, 2016

Ms Brown stated that the Report brought together in one place, and places in historical perspective, information on the funded status of the now combined registered pension plan, plan liabilities (including participants, benefit provisions and assumptions) and plan assets (including contributions, investment earnings, fees and expenses, and payments to pensioners). She noted that a section on "sensitivity" had been added to the Report – it would show the sensitivity of both the going concern and solvency liabilities and current service costs to changes in the discount rate. The Report had also include an updated

investment section regarding the SIP&P and wording with respect to environmental, social and governance factors (ESGs).

At June 30, 2016, the RPP had a market deficit of \$573.1 million, an increase of \$127.1 million in the market deficit from June 30, 2015.

In response to members' questions and comments, Ms Brown stated that the University would look at the discount rates and take the ESG factors into consideration. She added that there were also many other market factors that impacted the investment return over the long term to meet targets. Mr. Shapira added that a reduction in the rate was also a function of economic growth, dividend yields and other factors.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the Pension Annual Financial Report for the year ended June 30, 2016 be approved.

6. Pension Plan Fees and Expenses for the period 2002 to 2016

Ms Brown stated that the report on Pension Plan Fees and Expenses for the period from 2002 to 2016 provided a historical summary of fees and expenses specifically allocated to the University of Toronto Pension Plan (it excludes fees and expenses related to the SRA, which was managed together with the University endowments) since 2002. It was updated each year and looks back over the past 15 years.

The Report was received for information.

CONSENT AGENDA

On a motion duly moved, seconded and carried

YOUR COMMITTEE APPROVED

THAT the consent agenda be adopted and the items approved.

7. Reports of the Previous Meetings:

Special Meeting Report Number 25 (June 24, 2016) and Report Number 26 (September 16, 2016) were approved.

8. Business Arising from the Reports of the Previous Meetings

There was no business arising from the reports of the previous meetings.

9. Date of Next Meeting: March 15, 2017 at 4:00 p.m.

The Chair reported that the Pension Committee would meet on March 15, 2017.

The Committee moved *In Camera*

10. Reports of the Administrative Assessors

Ms Brown reported on issues related to temporary solvency and provided an update on the discussions of the Jointly Sponsored Pension Plan (JSPP) working group and other JSPP government initiatives.

The Committee moved back into Closed session.

11. Other Business

There were no items of other Business.

The Chair wished the Committee an enjoyable holiday season.

The meeting adjourned at 6:00 p.m.

Committee Secretary

Chair

February 6, 2017