



UNIVERSITY OF  
**TORONTO**

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# **Town Hall Meetings on Pension Matters**

**May 2010**

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# Agenda For Presentation

- Answer the following questions:
  1. What is the pension promise under the UofT Pension Plan?
  2. How is the pension promise funded?
  4. Is there currently enough money in the pension fund?
  5. How did we get to the current situation?
  6. What was the impact of UTAM's investment performance?
  7. What is the solvency issue that we hear about?
  8. What is being done to ensure the Pension Plan is healthy?
  9. Answer any other questions you have

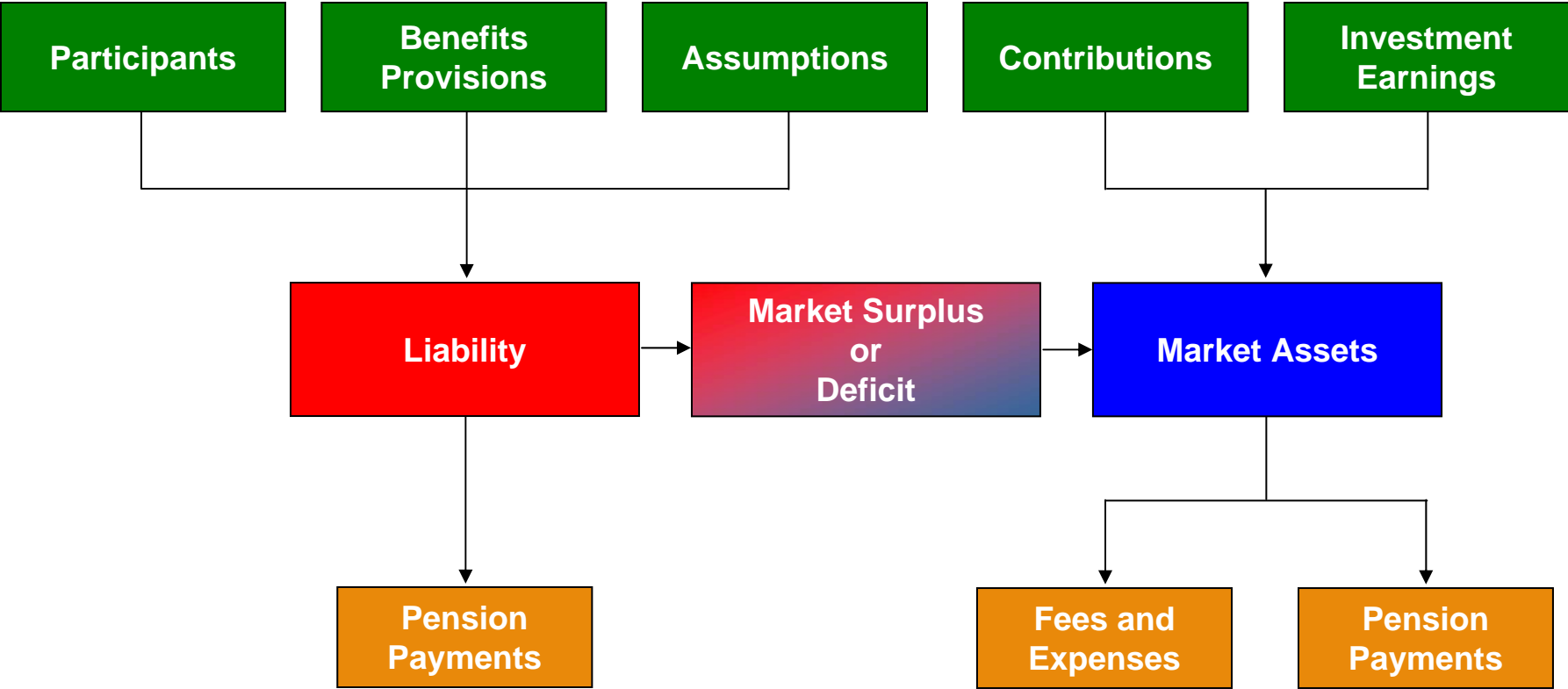
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# What is the Pension Promise Under the UofT Pension Plan?

## Plan Structure

- Defined benefit (DB) pension plan covering faculty and staff of the University of Toronto
- Funded by contributions from members and university
- Earned pension will be paid to you regardless of the Pension Plan's level of funding

# How a Defined Benefit Plan Works

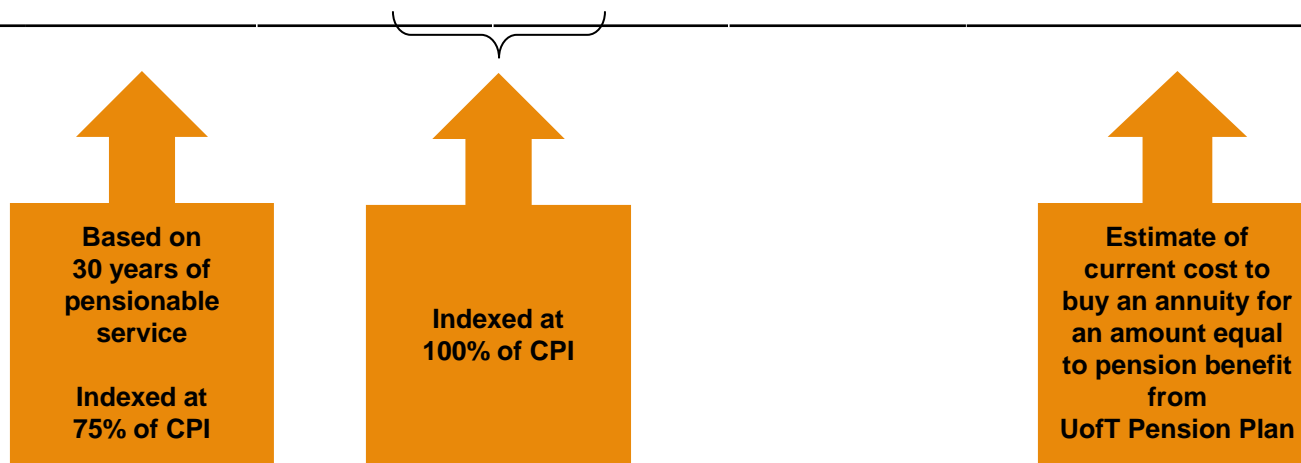


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# How Much Pension Will I Receive When I Retire?

# Estimated Retirement Income

Highest Average Earnings as of June 30, 2010	Annual Pension at Age 65			Total	Cost to Purchase UofT Pension
	UofT Pension Plan	Canada Pension Plan	Old Age Security*		
\$40,000	\$19,390	\$10,000	\$6,200	\$35,590	\$341,111
\$60,000	\$30,910	\$11,210	\$6,200	\$48,320	\$544,000
\$80,000	\$43,030	\$11,210	\$6,200	\$60,440	\$757,000
\$100,000	\$55,150	\$11,210	\$6,200	\$72,560	\$971,000



\* Excludes clawback that starts at net income over \$66,733 per year

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# How is The Pension Promise Funded?



# Funding the Pension Promise

## Funding Sources

Member Contributions



University Contributions



Investment Earnings



## Cost of Pension Plan

Benefits paid to members,  
as determined by plan provisions

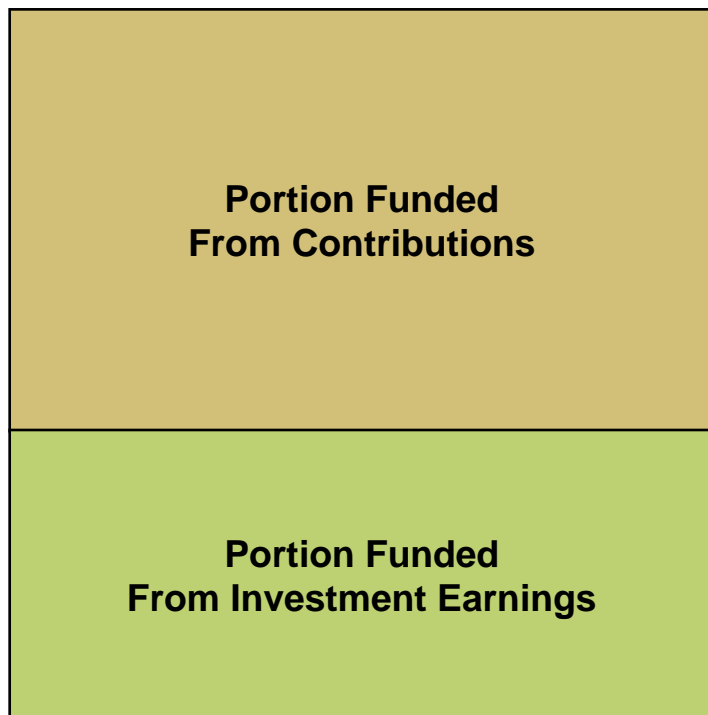
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Costs to administer pension plan

# Balancing Contributions and Investment Earnings

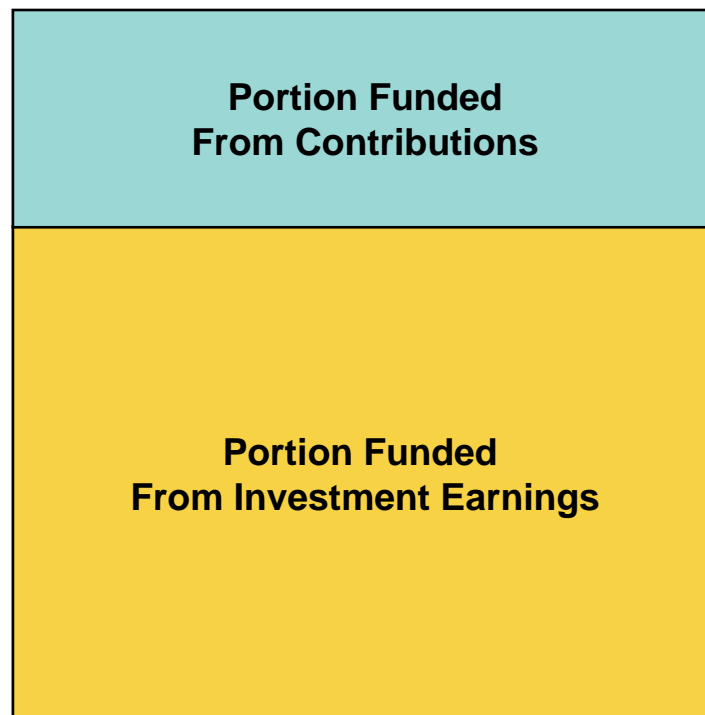
**Take Less Investment Risk  
Target Lower Expected Returns  
Target Higher Expected Contributions**

**Cost of Pension Plan**



**Take More Investment Risk  
Target Higher Expected Returns  
Target Lower Expected Contributions**

**Cost of Pension Plan**



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# Is There Currently Enough Money in the Pension Fund?

# Pension Plan Balance Sheet

<b>Liabilities</b>	<b>Assets</b>
The amount of money that should be in the pension fund to pay the projected pension benefits for service to date assuming that this money will earn the assumed investment return in the future	The amount of money actually held in the pension fund

**Assets Greater Than Liabilities = Funding Excess**

**Liabilities Greater Than Assets = Funding Shortfall**

## Pension Plan Balance Sheet—The Last 10 Years

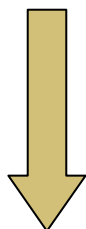
As of July 1	Liabilities (billions)	Assets (billions)	Excess/(Shortfall) (millions)
2000	\$1.68	\$2.26	\$580
2001	\$1.77	\$2.06	\$290
2002	\$1.90	\$1.94	\$40
2003	\$2.07	\$1.86	(\$210)
2004	\$2.23	\$2.11	(\$120)
2005	\$2.41	\$2.32	(\$90)
2006	\$2.54	\$2.49	(\$50)
2007	\$2.75	\$2.93	\$180
2008	\$2.89	\$2.72	(\$170)
2009	\$2.98	\$1.95	(\$1,030)

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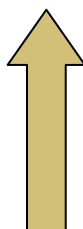
# How Did We Get to the Current Situation?

# A Confluence of Factors

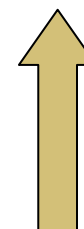
- The “perfect storm” that keeps returning



Market meltdown that created unprecedented negative rates of return



Lower interest rates driving up liabilities



Continually increasing longevity driving up liabilities

- Market cycles that have created long periods of favourable returns (the 1990's) leading to funding excesses and long periods of unfavourable returns (the 2000's) leading to funding shortfalls
- Funding excesses in “good times” spent on university contribution holidays, member contribution holidays, and plan improvements for active and retired members
- Has created significant pension funding issues for most pension plans, including those in the university sector

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# What Was the Impact of UTAM's Investment Performance?



# Impact of UTAM's Investment Performance

- Through end of 2007, UTAM's investment performance was in line with other major pension plans—in fact, in 2007, the UofT pension fund had one of the highest rates of return
- In 2008, and for first six months of 2009, UTAM's investment performance was well below that of other major pension plans
- Had pension fund not underperformed in 2008/2009, funding shortfall as of July 1, 2009 would have been approximately \$600 million instead of \$1 billion
- President's Committee on Investment Policies, Structures, Strategies and Execution was created to review UTAM and made recommendations that will retain UTAM but change its governance structure

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# What is Being Done to Ensure the Pension Plan is Healthy?

# Managing Long-Term Health of Pension Plan

**Contributions**

**Determining  
contribution levels  
required**

**Investment  
Earnings**

**Monitoring  
if investment return  
expectations are achievable**


**Benefits**

**Assessing  
the cost of the various  
benefit provisions**

# Funding Sources—Contributions

## Cost of Benefits Earned Each Year

Member Contributions  \$35 million per year (5.3% of salary)

University Contributions  \$73 million per year (10.9% of salary)

## Contributions (Special Payments) Toward Funding Shortfall

University Contributions  \$27 million per year



Since 2004 Under  
Pension Funding Strategy  
Approved By Business Board

# Funding Sources—Contributions

- Next actuarial valuation required to be filed with pension regulator is as of July 1, 2011
- 25% to 30% of funding shortfall already covered by existing University special payments of \$27 million
- Funding the balance of the shortfall will require a significant increase in University special payments:
  - Based on funding the shortfall over a 15-year period, additional special payments of approximately \$75 million per year will be required

## Funding Sources—Investment Earnings

- Allocation of cost of benefits provided from Pension Plan between contributions and investment earnings is currently based on the pension fund assets earning a return of 4% above inflation:
  - If inflation is 2% per year, the investment return expectation for the pension fund is 6% per year
  - Most major pension plans are funded based on expected investment return of 3.5% to 4.25% above inflation
- Analysis being prepared to assess if that level of investment return is achievable in the future at a reasonable level of risk

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# What is the Solvency Issue That We Hear About?

# Comparison of Going Concern and Solvency Valuations

	Going Concern Valuation	Solvency Valuation
<b>Basis for Valuation</b>	Plan continuing	Plan winding up
<b>Assumption for Investment Return</b>	Expected long-term rate of return on pension fund based on asset mix, with margin for adverse deviation	Annuity purchase rates and market interest rates for lump sums based on Government of Canada bonds
<b>Assumption for Future Salary Increases</b>	Included	Excluded
<b>Assumption for Future Indexation of Pension Benefits</b>	Included	Excluded
<b>Assumption for Retirement Ages</b>	Range of retirement ages based on plan experience which reflects plan provisions	Earliest possible retirement age which generates the highest value based on plan provisions and legislated "grow-in" provisions
<b>Amortization Periods for Deficits</b>	15 years	5 years (10 years with temporary solvency relief, which requires member consent)



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# How Does the UofT Pension Plan Compare to Other Public Sector Pension Plans?

## Comparison to Other Public Sector Pension Plans

	UofT	University of Waterloo	McMaster University	Ontario Teachers' Pension Plan	HOOPP
<b>Averaging Period For Earnings (yrs)</b>	<b>3</b>	<b>3</b>	4	5	5
<b>Benefit Rate</b>					
☒ <b>Below CPP Wage Base</b>	<b>1.60%</b>	1.40%	1.40%	1.55%	1.55%
☒ <b>Above CPP Wage Base</b>	2.00%	2.00%	2.00%	2.00%	2.00%
<b>Bridge Benefit to Age 65</b>	no	no	no	<b>yes</b>	<b>yes</b>
<b>Subsidized Payment Form</b>					
☒ <b>With Spouse</b>	<b>60% J&amp;S</b>	LG10	50% J&S	50% J&S	<b>60% J&amp;S</b>
☒ <b>Without Spouse</b>	LG5	LG10	LG7	LG10	<b>LG15</b>
<b>Earliest Age For Unreduced Early Retirement Pension</b>	age 60 + 80 points	age 62	age 60 + 80 points	<b>85 points</b>	age 60 or age 55 + 30 years
<b>Automatic Indexation of Pension Benefits</b>	75% of CPI (first payment indexed)	<b>100% of CPI</b>	excess investment earnings only (threshold at 4.5%)	100% of CPI for pre-2010 benefits; 50% of CPI for post-2009 benefits plus top-up to 100% based on plan's funded status	75% of CPI for pre-2006 benefits only; no guaranteed indexing for post-2005 benefits
<b>Member Contribution Rates (Ultimate Rate)</b>					
☒ <b>Below CPP Wage Base</b>	<b>5.00%</b>	5.80%	6.50%	10.40%	6.90%
☒ <b>Above CPP Wage Base</b>	<b>6.00%</b>	8.30%/9.65%	8.75%	12.00%	9.20%



# Other Questions?

