

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 17 OF THE PENSION COMMITTEE

October 9, 2014

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Thursday, October 9, 2014 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Ms Claire Kennedy, In the Chair
Mr. Alex McKinnon, Vice-Chair
Mr. Harvey Botting
Mr. Jeff Collins
Professor Ettore Vincenzo Damiano
Professor Paul Downes
Professor Jennifer Jenkins
Ms Paulette Kennedy
Mr. Mark Krembil*
Mr. Brian D. Lawson
Professor George Luste
Ms Leanne MacMillan
Ms Kim McLean
Dr. Gary Mooney
Mr. John Switzer

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Angela Hildyard, Vice-President, Human
Resources and Equity **
Professor Scott Mabury, Vice-President, University
Operations

Mr. Louis R. Charpentier,
Secretary of the Governing Council***

Secretariat:

Mr. David Walders, Secretary

Regrets:

Professor Laurence D. Booth
Ms Janet Ecker
Ms Jane Pepino

In Attendance:

Mr. William Moriarty, President and CEO, UTAM
Dr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Allan Shapira, Plan Actuary, AON Hewitt
Mr. Daren Smith, Managing Director, Manager Selection & Portfolio Construction, University of
Toronto Asset Management Corporation (UTAM)

* participated by telephone

** in attendance for items 1-2

***in attendance for items 1-4

1. Welcome and remarks from the Chair

The Chair welcomed members to the first Committee meeting for the 2014-15 Governance year and invited members to introduce themselves. She informed the Committee that Professor Hildyard, who would be providing an Assessors Report, would be leaving the meeting early. As such, Professor Hildyard would be invited to provide her report following the review of the Calendar of Business, unless members objected.

There were no objections from members.

2. Calendar of Business, 2014-15

The Chair noted that the Calendar of Business, which was posted to the Committee's website, would be updated every Friday. Ms Brown provided a brief overview of the business that was scheduled to come before the Committee for the 2014-2015 governance year.

Professor Hildyard updated the Committee on a recent initiative within sectors of the University for a jointly sponsored pension plan (JSPP).

By way of background, Professor Hildyard noted that the Provincial Government had been encouraging the broader public sector to move toward JSPP's (with 50/50 cost sharing), and had indicated that those Universities interested in converting to JSPPs may be considered for additional solvency relief. The Provincial Government had passed legislation on July, 2014 to amend the *Pension Benefit Act* to enable Single Employer Pension Plans to convert to JSPPs, and it was expected that regulations would be passed enabling those conversions to occur. Consent among members, retirees, trade unions and associations would likely be a prerequisite to any such conversation.

At UofT, the United Steelworkers Union (USW) and the University of Toronto Faculty Association (UTFA) had agreed to establish a Joint Working Committee (JWC), which would include membership from USW and UTFA, as well as other union and non-unionized staff, to discuss the possibility of establishing a JSPP. The Committee membership would be determined shortly, as would the terms of reference, so that the JWC would be operational by December 12, 2014. It was expected that the JWC would complete its recommendations by June 30, 2017.

In response to a member's question, Professor Hildyard confirmed that all groups represented on the JWC would have to agree to the JSPP, not just the USW. Other members commented that the JWC represented an interesting challenge for all parties involved and that the participation of UTFA was a positive development.

3. Review of Investment Performance to June 30, 2014

Mr. Moriarty provided an overview of investment performance to June 30, 2014.

- Examined over both a one and five-year period, the actual pension portfolio return had significantly outperformed the both University Target and the Benchmark Portfolio. Over a one-year period, actual return was 17.43% versus 6.20% for the University Target, and 15.88% for the Benchmark Portfolio, while the five-year

figures were 10.13% versus 5.83% and 9.34%, respectively. These results were owing, in large part, to a favourable market environment. Active management strategies on the part of UTAM had also added value.

- I was possible that a significantly more challenging investment environment lay ahead. Using one simple valuation model to gauge future investment returns for stocks and bonds, the University's portfolio with a 60/40 weighting of equities and bonds, yielded a projected nominal return of 3.84% -- below the University's target return. As such, continued value-add from UTAM would be an increasingly important factor in allowing the portfolio to continue to outperform the target.

In response to questions from a member regarding the actual returns versus those of other Universities, Mr. Moriarty and Ms Brown reminded members that asset allocation, target returns, risk budgets, investment policy constraints and the type of pension plan must be considered when comparing pension plans, not just raw data for returns. In response to a question relating to UTAM costs, Mr. Moriarty replied that while overall costs had been reduced, it was important to note that costs would be higher during periods of higher investment returns owing to the fact that some managers were paid, as part of their fees, a percentage of returns for outperformance of their benchmark.

Following a discussion on investment performance, the Chair agreed that the Terms of Reference for the Committee would be reviewed with a view to assessing whether or not it was within the Committee's purview, and whether or not it would be useful, to conduct a more detailed examination the performance of the RPP against one or more other University pension plans. An update would be provided at the next Committee meeting.

4. Review of Estimated Fund Status at July 1, 2014.

Mr. Shapira presented the estimated fund status, noting that the projections to July 1, 2014 were based on the following: proposed actuarial assumptions for the July 1, 2014 actuarial valuation; estimated market value of assets as of June 30, 2014 provided by the University, and; no liability gains/losses from July 1, 2013 to June 30, 2014. His presentation addressed the following points:

- Proposed non-economic changes to actuarial assumptions included changed mortality tables to reflect increasing longevity, changed retirement rates of Academic Staff and Librarians to reflect later retirement ages, changed proportion of active members with spouse at retirement to reflect changing experience.
- Proposed a reduction of 0.25% to Increase in CPI, from 2.25% to 2.0%, to reflect lower expectation of inflation. In turn, this affected other economic assumptions for cost of living adjustments, Canada Pension Plan (CPP) maximum salary increases, *Income Tax Act* maximum pension increases, salary increases and nominal investment return. There was also a change in interest rate on participant contributions.
- Resetting the actuarial value of assets to equal market value at July 1, 2014 to reflect the full value of the assets, in conjunction with the assumption changes above, with actuarial smoothing resuming in 2015.
- The actuarial value of assets for the RPP was calculated using an estimated investment return of approximately 17.4% for the 2013-14 year, the proposed assumptions at July 1, 2014, and with the actuarial value of assets reset to be equal

to the market value of assets at July 1, 2014. On this basis, the unfunded accrued liability for the University of Toronto Pension Plan was estimated to be \$729.0 million (the difference between estimated accrued liability of \$4.241B and estimated assets of \$3.512B).

- Overall, the changes in actuarial assumptions to July 1, 2014 added \$248M to the accrued liability. That said, the estimated unfunded accrued liability at July 1, 2013 was \$955.5M and without changes in the actuarial assumptions for July 1, 2014, estimated unfunded accrued liability would have been \$481M, the result of favourable investment returns and substantial special payments to the RPP.

In reply to a member's question, Ms Brown confirmed that the Business Board had approved transfer of the assets of the Supplemental Retirement Arrangement (SRA) to the RPP as part of its approval of the Pension Contribution Strategy. Pension payments to both current and future pensioners with respect to their SRA liabilities were now budgeted in the University's operating budget. In response to a query from a member, Mr. Shapira noted that the new mortality tables had not yet been considered when assessing commuted values. Finally, he noted that new mortality tables would not affect annuity purchases, since the increases in longevity were already considered by insurance companies when pricing annuities.

5. University of Toronto Pension Plans: Actuarial Assumptions

a. Actuarial Assumptions – July 1, 2014

On motion duly made and seconded

YOUR IT WAS RESOLVED

THAT the proposed assumption changes to the UofT T Pension Plan, UofT OISE Pension Plan and the Supplementary Retirement Arrangement be approved, effective July 1, 2014, as outlined in the September 8, 2014 memo by Sheila Brown, Chief Financial Officer.

b. History of Pension Plan Actuarial Assumptions – 1983-2013

Ms Brown indicated that she had nothing to add to the historical report of actuarial assumptions.

There were no questions from members.

6. Going Concern Funded Ratios of Select Pension Plans

Ms Brown and Mr. Shapira offered an overview of going concern funded ratios of select pension plans, with the following caveats: the information provided for the plans was limited to that which was publicly available; the real discount rate for each plan should be carefully considered; it was critical to note whether the pension plans had taken into account new CIA Mortality Tables. Members agreed that, while comparing the going

concern funded ratios among various University pension plans, the limitations of such comparisons had to be acknowledged.

CONSENT AGENDA

On motion duly moved, seconded, and carried

IN WAS RESOLVED

THAT the consent agenda be adopted and the items approved.

7. Report of the Previous meeting: Report Number 16, June 2, 2014

The report of the previous meeting, June 2, 2014, was approved.

8. Business Arising from the Report of the previous meeting

There was no business arising from the report.

9. Report of the Senior Assessors

There were no further reports from the assessors.

10. Date of Next Meeting: December 9, 2014 at 4:00 p.m.

11. Other Business

A member enquired as to when a report of the working group on investment reporting would be forthcoming. Mr. Switzer, the Chair of the working group, indicated that rather than producing a stand-alone report, the suggestions of the working group would be incorporated into future investment reporting.

The meeting adjourned at 5:40 p.m.

Secretary

Chair

October 10, 2014