University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS
FINANCE

TO: Business Board

SPONSOR: Catherine Riggall
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DATE: December 8, 2008 for December 15, 2008

AGENDA ITEM: **5**

ITEM IDENTIFICATION:

Pension Master Trust Investment Policy

JURISDICTIONAL INFORMATION:

The Business Board approves all policies with respect to financial programs and transactions.

PREVIOUS ACTION TAKEN:

The pension fund master trust investment policy was last approved by the Business Board on December 17, 2007.

HIGHLIGHTS:

The University of Toronto's pension plans are defined benefit plans. There are only two ways of funding a defined benefit pension plan – contributions and investment earnings. Contributions plus investment earnings, minus the fees and expenses incurred in administering the pension plans and earning the investment returns, and minus the payments to retired members results in the pension assets that are on hand and set aside to meet the pension liabilities. It is important to note that there is a strong relationship between contributions and investment earnings. Since the amount that must be set aside in assets is driven by the pension liabilities, the key question on the asset side is:

How much of the pension funding should come from contributions and how much should be targeted to come from investment earnings?

The answer currently is as follows:

- The pension funding strategy, which was adopted in January 2004 provides for formulaic employee contributions, 100% employer current service contributions, and an annual special payments budget of $27.2 million as a reserving strategy and to deal with pension deficits.

- The current investment risk and return targets for the pension master trust are an annual 10% standard deviation in nominal terms over 10 years and at least a 4% real return, net of investment fees and expenses, plus CPI, over 10 years, but with the target real return to be no greater than that which is achievable within the 10% allowable risk objective. This is a long-term investment strategy as befits the long-term nature of the defined benefit pension plans.

Any change to pension funding strategy or to the investment strategy requires a review and adjustment to the other mechanism for providing the assets necessary to pay pensions.

At this time, no change is proposed to the pension master trust investment strategy. The University will be reviewing both the investment strategy and the pension funding strategy (which addresses contributions) prior to the next required filing of the actuarial valuation in 2010, absent any pension plan changes in the meantime. That review will consider the interplay between contributions and investment earnings, the funded status of the plans at that time, and the returns that can be expected to be generated for given levels of risk at that time. It is important to note that the level of contributions from employees must be negotiated through the collective bargaining process in almost all cases.

Attached for approval is the pension master trust investment strategy, which is unchanged from last year, except that the plan statistics have been updated to July 1, 2008.

FINANCIAL AN
D/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

That the proposed University of Toronto Pension Fund Master Trust Investment Policy, a copy of which is attached to Ms. Riggall's memorandum of December 8, 2008, be approved.