University of Toronto

(FINANCIAL SERVICES DEPARTMENT, BUSINESS AFFAIRS)

TO: Audit Committee

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AGENDA ITEM: **4**

ITEM IDENTIFICATION:

Pension Plans – Annual Financial Report for the Year Ended June 30, 2009

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, 2008. 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 2008.

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, 2009 are summarized by plan in the following table:

	RPP	RPP(OISE)	SRA (1)	Pension Reserve
Accrued liabilities	$2,983.8 million	$106.6 million	$136.1 million	-
Market value of assets (1)	$1,954.8 million	$71.5 million	$117.0 million	$12.4 million
Market surplus or (deficit)	($1,029.0 million)	($35.1 million)	($19.1 million)	$12.4 million
Actuarial deficit	($638.0 million)	($20.8 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. 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 $880.0 million at July 1, 2009 compared to a solvency deficit of $65.5 million at July 1, 2008.

The RPP(OISE) had a solvency deficit of $33.0 million at July 1, 2009 compared to a solvency surplus of $3.2 million at July 1, 2008.

The results for the RPP and the RPP(OISE) plans reflect a one-year return for the pension master trust of minus 27.6%, net of fees and expenses. Fees and expenses for the year totaled $29.7 million, and amounted to 1.47% 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, 2009 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 has moved from a small market deficit to a much larger market deficit position during 2009 reflecting the fall in global financial markets during the year. There are also a number of issues that continue to cause concern, including and the 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 we will meet the long-term return expectations given financial market trends.

In the absence of changes to pension benefits, the next required filing with FSCO is July 1, 2011. At this time, and based on current legislation and regulations, it is expected that significant additional special funding will be required into the registered plans. There are also potential legislative and regulatory changes under consideration that could significantly impact how defined benefit plans are required to be managed. Additionally, the University is reviewing its pension funding strategy and investment risk and return targets, all of which may impact future results.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The pension contribution strategy continues to require 100% current service cost employer contributions and additional special payments of $27.2 million. Of this amount, $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:

1) that the audited financial statements for the University of Toronto Pension Plan, June 30, 2009, a copy of which is included in Appendix "A" hereto, be approved, and
2) that the audited financial statements for the University of Toronto (OISE) Pension Plan, June 30, 2009, a copy of which is included in Appendix "B" hereto, be approved