UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO:	Business Board
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DATE:	January 24 for January 31, 2011 meeting.
AGENDA ITEM:	**7**

ITEM IDENTIFICATION:

Pension Plans – Ensuring a Sustainable Pension Plan for the University of Toronto

JURISDICTIONAL INFORMATION:

The Business Board approves policies with respect to financial programs and transactions and approves individual programs and transactions as required by those policies.

PREVIOUS ACTION TAKEN:

The pension contribution strategy was originally approved by the Business Board in January 2004.

HIGHLIGHTS:

The future of the University of Toronto depends, as always, on the caliber of the people it recruits to work and study here. However, over the next decade or more, our institution will be heavily influenced by the wisdom of the decisions we make about the current shortfalls in funding our Pension Plan. These decisions will be made through collegial discussion, administrative action, and, where appropriate, through Governance, and through negotiations with our Unions and Associations. Our shared goal must be to minimize any negative impact upon our academic programs, both in the short and longer run. This report sets out how we propose to accomplish that shared goal.

First, it should be understood that the University is not the only institution facing a pension problem. Almost without exception, Defined Benefit pension plans within the broad public sector in Canada and in the US have large deficits and employees and employers are being required to increase their contributions. In some plans benefits levels are also being reduced. Multiple factors led us to where we are today: some of those factors reflect decisions made 20 to 30 years ago; others are the result of the economic downturns that have occurred more recently and the continuing historically low interest rates; we are also living longer and collecting pensions longer.

This report outlines proposed strategies for dealing with two key issues: (i) addressing the deficit and (ii) enhancing the long-term sustainability of the plan. The Solvency Deficit is approximately $1B. The Ontario Government has recently agreed that universities should be given some flexibility regarding Solvency Deficits. Provided that the University meets certain metrics, key among which is a negotiated agreement from employees to increase their contributions, the payment of the Solvency Deficit can be amortized over a longer period than five years. It is critical for the long term future of this University that we meet the metrics required by the Government. Attempting to pay down the Solvency Deficit in a few years will put unacceptable fiscal pressures on the institution – with payments reaching as much as $200M per year. A longer-term horizon also means that we may benefit from improvements in the return rates and increases in interest rates. (A 2% increase in interest rates, tellingly, cuts the solvency deficit more or less in half).

Even amortizing $1B over a longer period than five years and even with an improvement in the financial markets or changes in interest rates, the University will be required to make very significant payments to address the accumulated deficit in the Plan. The funds cannot and must not come solely from the operating budget. This report outlines a number of strategies that will enable us to address the deficit while reducing the impact on the core operating budget. For example, we can transfer into the plan the pension reserve; we can consider transferring some or all of the Supplemental Retirement Arrangement (SRA) assets that are on hand; we can take advantage of our credit ratings to borrow funds; we can issue letters of credit; we can sell or lease some of our surplus assets.

Over the next several months we will be bringing forward proposals to the Business Board and to the Pension Committee. At the same time we will be engaging in negotiations with UTFA and with several of our larger Unions, including USW, where the above-noted case for contribution increases will be a key item for discussion.

The funding strategy that we ultimately adopt will depend upon the actual valuation results at July 1, 2011, the regulations that the Ontario Government issues, and our ability to meet any conditions set by the Government for acceptance into the temporary solvency relief program.

While we are not asking for approval of a comprehensive funding strategy at this point, we do want to make a $150 million lump sum payment into the pension plan prior to July 1, 2011 to mitigate the payments required beginning July 1, 2011.

The current borrowing strategy approved by the Business Board provides for maximum external borrowing capacity of 40% of net assets averaged over five years, plus maximum internal borrowing capacity of $200 million.

The *Borrowing Strategy Review January 2011* (Business Board January 31, 2011) has identified an additional $150 million in EFIP that could prudently be invested long-term without impairing cash flows and would therefore be available for borrowing. We believe that, as discussed in that paper, it makes sense to designate this additional $150 million as a pension borrowing capacity, separate and apart from the borrowing capacity otherwise defined under the current Borrowing Strategy.

We are requesting that a $150 million pension borrowing capacity be established that is reserved for pension purposes, that it be separate and apart from the maximum borrowing capacity established under the current borrowing strategy, and that actual borrowing up to $150 million, to be used for pension purposes, may be made internally or externally at the discretion of the senior officer responsible for financial matters. As with the existing $200 million internal borrowing capacity, if this additional $150 million invested by EFIP were needed for short-term expenditures, the borrowing would have to be re-financed externally.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

See report.

RECOMMENDATION:

It is recommended that the Business Board approve:

a) That a $150 million pension borrowing capacity be established, separate and apart from the maximum borrowing capacity established under the current borrowing strategy, and
b) That $150 million in internal borrowing be made available from EFIP for pension purposes.
c) That actual borrowing up to $150 million may be made internally or externally at the discretion of the senior officer responsible for financial matters.
d) That, as with the existing $200 million internal borrowing capacity, if this additional $150 million invested by EFIP were needed for short-term expenditures, the borrowing would have to be re-financed externally.