UNIVERSITY OF TORONTO

Presentation to Academic Board on Pension Matters

January 27, 2011

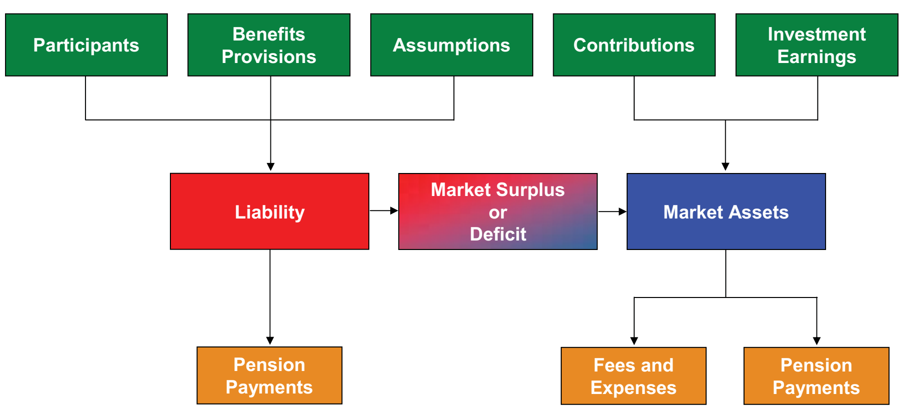
Agenda For Presentation

Answer the Following Questions:

1. What is the Pension Promise Under the UofT Pension Plan?
2. How Much Pension Will I Receive When I Retire?
3. 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. How Have Our Investment Performed?
7. How Do We Ensure the Long Term Sustainability of the Plan?
8. How does the UofT Pension Plan Compare to Other Public Sector Pension Plans?

What is the Pension Promise Under the UofT Pension Plan?

How a Defined Benefit Plan Works



How Much Pension Will I Receive When I Retire?

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Estimated Retirement Income

Highest Average Earnings as of June 30, 2011	Annual Pension at Age 65: UofT Pension Plan	Canada Pension Plan	Old Age Security*	Total	Cost to Purchase UofT Pension
$60,000	$29,080	$11,520	$6,290	$46,890	$512,200
$80,000	$41,080	$11,520	$6,290	$58,890	$723,000
$100,000	$53,080	$11,520	$6,290	$70,890	$934,000
$150,000	$83,080	$11,520	$6,290	$100,890	$1,462,000

Based on 30 years of pensionable service

Indexed at 75% of CPI

Indexed at 100% of CPI

Estimate of current cost to buy an annuity for an amount equal to pension benefit from UofT Pension Plan

* Excludes clawback that starts at net income over $67,688 per year

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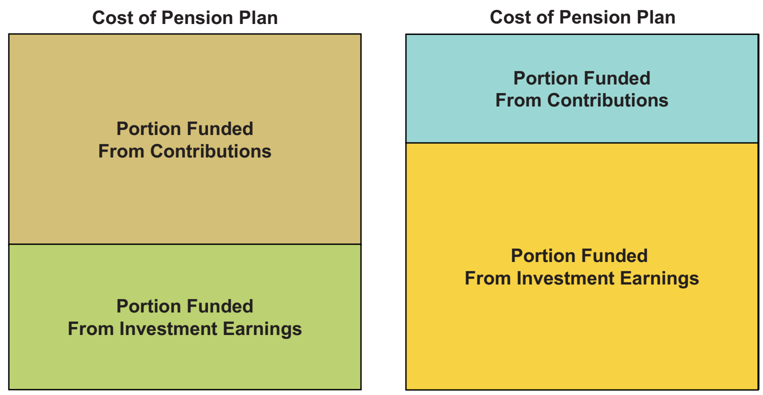
How is the Pension Promise Funded?

Funding the Pension Promise

Funding Sources	Cost of Pension Plan
Member Contributions →	Benefits paid to members, as determined by plan provisions + Costs to administer pension plan
University Contributions →	
Investment Earnings →	

Balancing Contributions and Investment Earnings

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



Is There Currently Enough Money in the Pension Fund?

UofT Pension Plan Balance Sheet—The Last 11 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)
2010	$3.13	$2.10	($1,030)

Is There Sufficient Funding in the Plan?

NO!!

- Going Concern Deficit: ($1,030 million)
  - Must be amortized over 15 years
  - Contributions determined based on asset smoothing which defers some of the asset losses; this will help extend the amortization period
- Solvency Deficit: ($1,170 million)
  - Must be amortized over 5 years unless Ontario Government approves an extension—no solvency payments for 3 years (subject to a minimum going concern payment) followed by an amortization over 10 years

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 benefit improvements for active and retired members, university contribution holidays, and member contribution holidays
- Most DB plans, including those in the university sector and the broader public sector, face significant funding problems

How Have Our Investments Performed?

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Investment Performance

- From July 1, 1989 to June 30, 2008, our investments earned well in excess of the assumed real rate of return and UTAM's investment performance was in line with other major pension plans
- In 2007, the UofT pension fund had one of the highest rates of return
- However, 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
- Investment Management & Governance have been restructured, including a new Investment Advisory Committee
- Investment returns have improved in 2010, but not nearly enough to solve the problem!

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How Do We Ensure the Long Term Sustainability of the Plan?

Funding Sources—Contributions

Cost of Benefits Earned Each Year (Current Service Cost)

Member Contributions → $37.2 million per year (5.3% of salary)

University Contributions → $78.3 million per year (11.1% 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—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 an expected investment return of 3.75% 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

Dealing With the Deficit

- Potential sources for additional contributions:
  - Transfer funds from the pension reserve
  - Transfer some or all of the SRA assets
  - Increase Special Payments from operating budget
  - Increase borrowing
  - Sell or lease assets
  - Issue Letters of Credit

Funding the Deficit

- Regular provision:
  - 5 years to fund solvency deficit
  - Would result in special payments of approximately $200 million per year for 5 years
- Special provisions for Ontario Universities—3-year relief period from solvency funding followed by 10 years to fund solvency deficit:
  - Special provisions will only be granted if University has a plan to make the pension plan more sustainable in the long term; Ontario Government has indicated that will include employee contributions being increased to be commensurate with the value of the pension benefit being provided

Employee Current Service Contributions

- Ontario Government expects the ratio of Employer to Employee current service contributions to be close to 1:1. UofT ratio is currently 2:1
- UofT employee contributions must be raised, over the next several years, from the current average of 5.3% of salary to closer to 8% of salary. Additional increases may be required in future years. Such increases will require negotiations with unions and with UTFA

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
Averaging Period For Earnings (yrs)	**3**	**3**	4	5	5
Benefit Rate					
Below CPP Wage Base	**1.50%**	1.40%	1.40%	1.55%	1.55%
Above CPP Wage Base	2.00%	2.00%	2.00%	2.00%	2.00%
Bridge Benefit to Age 65	no	no	no	**yes**	**yes**
Subsidized Payment Form					
With Spouse	**60% J&S**	LG10	50% J&S	50% J&S	**60% J&S**
Without Spouse	LG5	LG10	LG7	LG10	**LG15**
Earliest Age For Unreduced Early Retirement Pension	age 60 + 80 points	age 62	age 60 + 80 points	**85 points**	age 60 or age 55 + 30 years
Automatic Indexation of Pension Benefits	75% of CPI (first payment indexed)	**100% of CPI**	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
Member Contribution Rates (Ultimate Rate)					
Below CPP Wage Base	**4.50%**	5.80%	6.50%	10.40%	6.90%
Above CPP Wage Base	**6.00%**	8.30%/9.65%	8.75%	12.00%	9.20%