UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 197 OF THE BUSINESS BOARD

May 3, 2012

To the Governing Council,
University of Toronto

Your Board reports that it met on Thursday, May 3, 2012 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. David Wilson (In the Chair)
Ms Shirley Hoy, (Vice-Chair)
Professor Scott Mabury, Vice-President, University Operations
Ms Sheila Brown, Chief Financial Officer
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Ms Celina Rayonne Caesar-Chavannes
Mr. P. C. Choo
Mr. Jeff Collins
Mr. J. Mark Gardhouse
Professor Michael R. Marrus
Mr. Gary P. Mooney
Ms N. Jane Pepino
Ms Catherine Riddell
Ms Penny Somerville
Mr. Chris Thatcher
Ms B. Elizabeth Vosburgh
Mr. David Palmer, Vice-President, Advancement
Professor Judith Wolfson, Vice-President University Relations
Mr. Andrew Arifuzzaman, Chief Strategy Officer and Interim Chief Administrative Officer, University of Toronto Scarborough
Mr. Paul Donoghue, Chief Administrative Officer, University of Toronto Mississauga
Ms Sally Garner, Executive Director, Planning and Budget
Ms Gail Milgrom, Acting Assistant Vice-President, Campus and Facilities Planning
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources

Mr. Neil Dobbs, Secretary

Regrets:

Ms Mary Anne Elliott
Mr. Steve (Suresh) Gupta
Professor Edward Iacobucci
Ms Paulette L. Kennedy
Mr. Jorge J. Prieto
Mr. Manveen Puri
Mr. Howard Shearer
Mr. W. John Switzer
Mr. W. Keith Thomas
Ms Rita Tsang
Dr. Sarita Verma

In Attendance:

Ms Alexis Archbold, member-elect, the Governing Council
Mr. Alexander Brat, Director, Labour Relations Operations
Mr. W. G. Tad Brown, Counsel, Business Affairs and Advancement
Ms Andrea Carter, Director, Employment Equity and *Accessibility for Ontarians with Disabilities Act*; Director, High-Risk Case Management

In Attendance (Cont'd)

Ms Susan Fern-MacDougall, Director, Office of Environmental Health and Safety
Ms Rosalyn Figov, Director, Operations and Finance, Office of the Vice-President, Human Resources and Equity
Ms Myra Lefkowitz, Manager, Health and Well-Being Programs and Services
Mr. Steve Moate, Senior Legal Counsel
Ms Rosie Parnass, Director, Organizational Development and Learning Centre
Mr. Allan Shapira, Aon Hewitt

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Reports of the Previous Meetings

Report Number 195 (March 5, 2012) was approved.

Report Number 196 (April 2, 2012) was amended on page 9, Section 3, University of Toronto Asset Management Corporation (UTAM) - Annual Report 2011. Discussion item (e) was entitled "matching of pension assets and liability." The fourth sentence of that paragraph originally read, "He went on to note that the duration of the liability of the pension plan was about fifteen years." The following words were added to the sentence: "and that of the fixed-income portion of the asset portfolio was slightly less than eight years." The final sentence of the paragraph originally read, "Given the asymmetric risk/return relationship of a long-duration bond portfolio, UTAM deemed it reasonable to have the mismatch in the duration of the liability and the bond investments." The following words were added to the sentence: "in the context of current market conditions." Report Number 196 (April 2, 2012) as amended was approved.

2. Business Arising from the Previous Meeting

Report #196, Item 7 – Borrowing Strategy: Annual Review

The Chair recalled his proposal to form a special committee of Business Board members to work with Ms Brown and her colleagues on the development of a revised borrowing strategy, to replace the current strategy permitting borrowing of up to 40% of the University's net assets, averaged over the previous five years. The Chair said that the special committee would consist of Mr. Collins, Ms Somerville and himself, who would work with Ms Brown and Professor Mabury on the matter. When the committee arrived at a draft position, it would invite advice from members of the Board.

3. Vice-President, Human Resources and Equity: Annual Report, 2011 and Employment Equity: Annual Report, 2011

Professor Hildyard introduced senior members of the Human Resources and Equity staff who were present for the meeting, and she invited Ms Sass-Kortsak to present the annual report with respect to Human Resources Matters*. A copy of the presentation slides are attached hereto as Appendix "A". Ms Sass-Kortsak listed the highest priorities for the work of the Human Resources group:

- retaining, engaging and attracting outstanding employees who would recognize that they could have great careers at the University and who would contribute to the achievement of its objectives;
- promoting the development of a community that was diverse and inclusive;
- promoting a safe and healthy teaching, learning and working environment;
- assisting employees to develop their abilities to their fullest potential; and
- improving client service.

Ms Sass-Kortsak said that the University had over 18,000 employees. In addition, over 4,500 clinical faculty had a relationship, although not an employment relationship, with the University. She outlined steps taken to promote employee recognition, a key to employee engagement, through formal central and divisional recognition of exceptional work as well as through informal recognition on a day-to-day basis. She described the University's work in recruiting employees for positions in the administrative (non-teaching) staff. Because the University was regarded as a very good place to work, there had been over 66,000 applications for 871 positions during the year. The University was making every effort to broaden its reach in order to attract applications from a diverse group of potential employees. Given its focus on career development, the University was pleased that over half of vacancies had been filled by internal candidates, who had already developed some knowledge of this complex University. Filling the remaining 45% of positions by external employees was also important in bringing in new ideas.

Ms Sass-Kortsak said that labour relations were highly complex at the University, which dealt with twenty-one bargaining units. The University also had employees who were not represented by a bargaining agent: professional and managerial staff, confidential staff and Research Associates. It made every effort to be pro-active in consulting with and anticipating the needs of members of those groups.

Ms Sass-Kortsak described the University's efforts to provide a safe and healthy working and educational environment, which included enhanced training, a focus on laboratory safety, and the use of a new health and safety database. The University focused not only on prevention of problems but also on assisting employees to return to work quickly after problems had occurred.

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* See http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=8522.

3. Vice-President, Human Resources and Equity: Annual Report, 2011 and Employment Equity: Annual Report, 2011 (Cont'd)

Ms Sass-Kortsak said that efforts to assist employees to develop their skills and competencies were intended to meet the University's needs both currently and in the future. One key element was a very active mentoring program – the Rose Patten Leadership Development Program. Efforts also included targeted succession planning. With the University's decentralized budget model, it was particularly important that there be trained individuals to step into roles as divisional business officers. A key area of improving client service in 2011 had been the revamping of the Human Resources website, which effort had included extensive consultation with staff members.

Professor Hildyard reported on the University's processes for dealing with crises and high-risk matters. Ms Andrea Carter had been appointed in January 2012 as the University's Director for High-Risk Matters, reporting both to Professor Hildyard and to Professor Jill Matus, the Vice-Provost, Students. She worked to determine, co-ordinate and appropriately address matters that needed to brought to the attention of the University's senior management. In most cases, incidents of high-risk behaviour were identified by faculty or staff members or by students, and University and external services were called in to assist, most often resolving the matter immediately. Those services included student crisis coordinators, the Community Safety Office, the University Police, the Human Resources Department or, if necessary, external emergency services. Where there was risk of harm to the individual or to others, or to the reputation of the University, and where the individual refused assistance, Ms Carter would be notified and would immediately alert the High-Risk Committee, including Professor Hildyard, Professor Matus,
Mr. Moate (the Senior Legal Counsel) and others as appropriate, including officers of the individual's academic unit and University experts. As the case unfolded, Ms Carter would ensure that decisions of the High-Risk Committee were implemented, and she would co-ordinate debriefing and learning from the incident.

Professor Hildyard presented the Employment Equity Report, 2011.* A copy of the presentation slides are attached hereto as Appendix "B". She noted that she had presented an annual report on all equity matters to the University Affairs Board. The detailed report on Employment Equity was prepared each year to meet the requirements of the Federal Contractors' Program. All employees had been asked to complete an employment-equity survey and to identify themselves by gender, any disability, any aboriginal status, and sexual orientation. The University then compared individuals who were members of designated groups and compared the proportion of those individuals in the University's workforce to the proportion available for hiring according to data from Statistics Canada. In University positions in general, aboriginal Canadians and persons with a disability were under-represented, and in senior administrative positions women as well as aboriginal Canadians and persons with a disability were under-represented. In 2011 for the first time, teaching assistants were included in the Employment Equity survey. Compared to their proportion among graduate students, women were somewhat under-represented among teaching assistants. Professor Hildyard and her colleagues were

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* See http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=8520.

3. Vice-President, Human Resources and Equity: Annual Report, 2011 and Employment Equity: Annual Report, 2011 (Cont'd)

working with the Canadian Union of Public Employees, which represented teaching assistants, to analyze the data and to address the issue. She noted that all doctoral-stream graduate students received funding packages for a given number of years, and the under-representation of women graduate students might well not represent a systemic issue. The University was working to deal with the long-standing problems of under-representation of certain groups, but more importantly it was working to establish an inclusive environment that would attract candidates from those under-represented groups. Among the steps being taken were: training to make divisions aware of the need for accessibility for members of designated groups; partnerships to encourage applications from members of designated groups (partnerships included the Toronto Region Immigrant Employment Council, First Nations' House, the Aboriginal Program Committee and the Joint Employment Equity committees with union groups); and various celebrations and networking events.

Professor Hildyard said that the University had received a number of recognitions as a top employer, including one as one of Canada's best diversity employers and another as one of Canada's greenest employers. It worked hard to continue to merit such recognitions.

In the course of discussion, the Chair and members congratulated Professor Hildyard and her colleagues on their work, on the recognitions the University had won, and on the presentations made at this meeting. Among the matters that arose in questions and discussion were the following.

(a) Labour relations: Wage re-openers. In response to a member's question, Professor Hildyard said that agreements had been reached in 2010 with some union groups that had agreed to no across-the-board wage increase. It had been agreed with those groups that if other groups were to receive an across-the-board wage increases in their next contract during the same period, the wage provision in the agreements for the original union groups would be re-opened, provided that the original groups agreed to increases in employee pension-plan contributions equivalent to those in the new agreements.

(b) Recruitment. A member observed that while 871 vacancies had been posted for administrative staff positions, only 692 were shown as having been filled. The average time to fill a vacancy had been 62 days. Ms Sass-Kortsak replied that some positions had not been filled. Perhaps the unit had changed direction and had decided not to continue the position, or perhaps an appropriate candidate had not been identified. In some cases, however, the position was filled but that fact was not recorded in the system. The average time of 62 days to fill a vacancy was in some cases too long. The processes required, for example by a collective agreement, were sometimes complex and time-consuming. In some cases, however, the process did move too slowly and there might be need to be more efficient. In other cases, it might well have taken less time to fill the vacancy, with the delay occurring in the recording of the appointment. Ms Sass-Kortsak said that the Human Resources group was initiating efforts to ensure that reporting was completed more quickly.

(c) Focus of employment-equity efforts. A member observed that many foci of employment-equity efforts had, very fortunately, been very successful over the past decades, but other areas had begun to emerge as being more problematic. For example, the University had made real progress with respect to the elimination of gender discrimination in employment, but there were now sometimes issues connected with other matters such as religious affiliation, certain national origins, and linguistic capacity. The member questioned whether, in the light of successes in dealing with many issues and problems arising in other areas, it would be appropriate for the University to shift its employment-equity efforts or at least to commence the gathering of data with respect to newer issues. Professor Hildyard replied that the focus of employment-equity efforts had in fact changed and continued to change, and the University had moved its resources in order to deal with newer areas. For example, rather than a Status-of-Women Officer, the University now had a faculty member who served as Special Advisor on Status-of-Women Issues. The focus of her efforts was particularly on issues confronting women with respect to colour, race, ethnicity, faith, and disabilities. This recognized that while women in general had done well in employment in the University, particular groups of women had not done as well, and those who had done well faced considerable pressure to serve as role models to large numbers of students. The University continued to gather data on the employment of members of designated groups in part because it was required by law but primarily because the data often proved to be interesting and helpful. For example, there were areas in which no people with disabilities had ever been employed. The member observed that the new issues were often very complex, and it was very helpful and important that they were being addressed.

(d) Greatest Human Resources and Equity challenge. In response to a question, Professor Hildyard said that the greatest challenge facing her portfolio was ensuring that the University's faculty and staff remained highly engaged, satisfied that they worked for a very good institution, and dedicated to providing their best work on behalf of the University's students and its mission. The challenge was particularly daunting in a situation of limited resources when, for example, it was not possible to promote people who deserved promotion and in a cases where legislation required that employees in various situations be treated differently.

(e) Comparative information. In response to a member's question, Professor Hildyard said that the University did have comparative data from other institutions with respect to employment equity, and the University compared exceptionally well. With respect to other aspects of human-resources management, the University had to rely more on less formal means of comparison, for example arising from participation in meetings. Professor Hildyard had concluded that the University of Toronto again compared very well, being very progressive in looking at employees as whole people and encouraging their best performance. The favourable comparison extended to faculty who completed research into matters affecting human-resources management; their work frequently reflected a deep understanding of employee needs.

4. Health and Safety: Quarterly Report on Compliance – 2012 First Report

The Board received for information the first quarterly report for 2012 on compliance in the area of health as safety.

5. Pension Plan Contribution Strategy – Revision

Ms Brown began by reviewing the recent history of the activity of the Pension Committee. She observed that the Pension Committee had now been in place for a year. It had worked its way through a number of regular annual items as well as certain special items. It had reviewed and approved (a) the actuarial assumptions for the valuation of the plan, and (b) the investment and risk targets. It had then reviewed and approved actuarial results for the plans, which had enabled the University to file an application to the Province of Ontario for Stage I of temporary relief from the solvency-funding requirements. The acceptance of that application in February 2012 had provided the University with a three-year period (four years because of the one-year deferral provisions in the regulations) during which the usually required net solvency-funding payments would not have to be made. If the University's application for Stage II relief was accepted, based on the July 1, 2014 actuarial valuation, then the University would be able to make the net solvency payments over a ten-year period rather than over five years. The Government's consideration of the application for Stage II solvency-funding relief would depend in part on its assessment of the University's progress in achieving certain metrics by July 1, 2014.

Ms Brown said that the acceptance of the Stage I application had enabled the University and the actuaries to proceed with substantial further work. The final actuarial reports as at July 1, 2011 for the three pension plans (the main University plan, the plan for employees of the Ontario Institute for Studies in Education at the time of its merger with the University, and the unregistered Supplemental Retirement Arrangement or S.R.A.) had been completed, and the annual financial report on the plans, now before the Board for information, had been prepared. The financial report, including the actuarial reports and the audited financial statements had been approved by the Pension Committee, and the financial statements and the actuarial reports for the two registered plans had been submitted to the Financial Services Commission of Ontario. The Pension Committee had also reviewed and approved the Statement of Investment Policy and Goals for the Pension Fund, which included the asset allocation for its investment. The University administration had then proceeded with its work on the Pension Contribution Strategy, which was now before the Board for approval. That strategy assumed that the University's application for Stage II solvency-funding relief would be granted.

Ms Brown said that a key element in the Government's judgement about institutions' progress in dealing with their solvency deficits, and a key element in winning approval of their Stage II solvency-funding relief, would be progress towards increasing pension-plan-member current-service contributions. At this time, most employee groups had agreed to increases that would, when fully implemented, bring member current-service contributions from a ratio of $1 contributed by each member for each $2 of current-service contributions by the University to a ratio of $1 contributed by each member for each $1.50 contributed by the University. In its most recent budget, brought down by the Province on March 27, 2012, the Government expressed the view that pension-plan members should make fully half of the current-service contributions to the defined benefit pension plans, which provided attractive retirement benefits. University plans should not rely on the taxpayers and students (through their tuition fees) to contribute any more than half.

5. Pension Plan Contribution Strategy – Revision (Cont'd)

Ms Brown stressed that it was important to bear in mind that the Pension Contribution Strategy would likely have to evolve over time. It was based on many assumptions, for example about investment earnings and about interest rates, and there was considerable uncertainty about how regulatory requirements would develop. It was, however, essential to have a strategy in place in order to demonstrate to the University community, to the credit-rating agencies, and to potential lenders that the University was committed to dealing with the pension-plan deficit in a responsible manner.

Ms Brown reviewed the highlights of the annual report on the University's pension plans. She described how the funding for a defined benefit plan worked, stressing that its funding could arise from only two sources: contributions, both by the University and by plan members, and investment earnings. She displayed a graph, showing the unrelenting growth of the pension plans' liabilities, from $384-million in 1983 to $3.4-billion in 2011. The liabilities had an exceptionally large increase in 1997, (a) with the addition of those of the OISE plan when that institution merged with the University and (b) with the inauguration of the Supplemental Retirement Arrangement, which provided additional pension benefits to those employees whose pensionable salaries exceeded the maximum pensionable salaries as specified in legislation, up to a maximum salary of $150,000. The market value of the plans' assets had also grown, but to a lesser degree and with less regularity. The assets, which had amounted to $414-million in 1983, had grown fairly steadily throughout the 1980s and 1990s. In the 2000s, however, the market value of the assets had become much more volatile. They had reached a high point of $2.9-billion in 2007, and in 2011 they were valued at $2.5-billion. Two special factors had to be taken into account. First, there had been a partial wind-up of the OISE plan in 2007, with money paid out to certain members of the plan from the surplus then in existence in that plan. Second, the funding arrangements for the Supplemental Retirement Arrangement had changed. When the plan had been established in 1997, it had been provided that the University would set aside the initial funding for it over five years. In 2004, that provision had been changed to extend the funding period for any unfunded liabilities to fifteen years, with the funding arrangements to match those for the registered plans.

Ms Brown described the outcome of all of those factors. The pension plans had been in a surplus position from 1983 (the first year included in the Financial Report before the Board) up until 2002, with the first deficit appearing in 2003. That had led to the introduction of the first Pension Contribution Strategy, which included the annual special University contribution to the pension plan, over and above each year's current-service contribution. The deficit was eventually eliminated in 2007, but the plans fell into deficit again as the result of the financial crisis of 2008. The deficit was about $1.1 -billion as at the July 1, 2010 valuation. It had then declined to $1,016-million as at July 1, 2011 as the result of (a) a rebound in the investment markets and (b) additional special contributions from the University. However, that improvement had been moderated by two changes in the actuarial assumptions made in July 2011. Absent those changes, the deficit would have been significantly less at $839-million. The first change was the use of a new mortality table, reflecting the fact that plan members were now

5. Pension Plan Contribution Strategy – Revision (Cont'd)

living longer. The second change was a reduction of the discount rate used to determine the present value of the plans' liability from 4.0% plus the increase in the Consumer Price Index to 3.75% plus C.P.I.

Ms Brown outlined the strategy being proposed to deal with the large deficit. The key element of the strategy was to make two large lump-sum payments, the first of which had been approved by the Board in January 2011 and made before June 30, 2011. The proposal for the second lump-sum payment, again in the amount of $150-million, was a part of the proposal now before the Board. Making those lump-sum payments would not only improve the financial health of the pension plan, but it would also reduce the amounts required for subsequent on-going payments to deal with the regular, going-concern deficit and also the solvency deficit. In the absence of a new lump-sum payment, the on-going payments required would be larger.

Ms Brown proceeded to outline the sources of funding and financing for the pension-plan deficit. The sources were the same as those described in January 2011, when the proposal had been put forward for the first lump-sum payment.

- **The pension reserve** had been funded by the annual budget for special payments when such payments were not required for pension-plan contributions. The amount of $37.4-million had been used as part of the first $150-million lump sum payment made in 2011.

- **Borrowing approved in 2011**. In January 2011, the Board had approved internal borrowing of $150-million for the first lump-sum payment. Because of the use of the $37.4-million pension reserve, it had been necessary to borrow only $112.6-million at the time. The remaining amount of approved borrowing could be used if required for the second lump-sum contribution.

- **Increased operating-budget allocation**. The current pension-plan funding strategy included an annual special contribution to the pension plan, over and above the annual current-service contribution, of $27.2-million per year. It was proposed to increase the amount of the annual contribution to reach $97.2-million per year by May 1, 2015. The first increase of $30-million per year had been approved for 2011-12. A second increase of $20-million per year had been approved as part of the 2012-13 budget, bringing the annual special contribution to $77.2-million. Further annual increases of $10-million, $5-million and $5-million were proposed for the following three years, increasing the budget allocation to $97.2-million per year.

- **Supplemental Retirement Arrangement (S.R.A.) assets**. The unregistered S.R.A. had been established in 1997 to provide benefits to plan members with salaries above the maximum pensionable salary for registered pension plans (under the Income Tax Act) up to a limit of $150,000 per year. The University had decided to set aside assets to match its liability under the S.R.A., and, with the aid of pension-plan contribution holidays at the time,

5. Pension Plan Contribution Strategy – Revision (Cont'd)

had the plan mostly funded by 2003. At the time of the establishment of the S.R.A., the maximum pensionable salary had been just under $100,000 per year, but after some years the Government of Canada had begun to increase that amount, and it was now anticipated that, in about two or three years, the maximum pensionable salary will have reached the $150,000 limit of the S.R.A. If that proves to be the case, all pension benefits provided by the University going forward would be provided by the registered plan. As the maximum pensionable salary increased, the liabilities had moved between the registered plan and the S.R.A. However, no assets had been moved from the S.R.A. assets into the registered plan. It was, therefore, now proposed to cease further contributions to the S.R.A. and to move the assets set aside to match the liability under the S.R.A into the registered plan. The remaining benefits under the S.R.A. would be paid from the operating fund on a pay-as-you-go basis. The amount required for such payments would be about $10-million per year, which would decline slowly over time. Ms Brown stressed that the assets set aside had never been attached to the S.R.A. except notionally. According to an Advanced Tax Ruling the University had received, those 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 monies were, however, intended for pension purposes, and they would enable the University to act, without disadvantage, to reduce the deficit in the registered plans.

In response to a question, Ms Brown and Mr. Shapira said that the projected liability under the S.R.A. was about $140-million, assuming that the maximum pensionable salary would continue to increase at the same rate as the average industrial wage, with the maximum pensionable salary reaching $150,000 per year in two or three years. At that point, all new liability will be incurred within the registered pension plan. The total liability under the S.R.A. from past service would then, according to projections, stay flat for about three to four years and then decline gradually, with the annual payments to pensioners from the operating fund initially amounting to about $10-million per year.

- **Letters of credit** would be used to the extent permitted by regulation to fund net solvency payments – that is the amount by which required special payments to meet the solvency test exceed the special payments required to meet the usual criterion – payment of the going-concern deficit over fifteen years. As going-concern special payments reduced the solvency deficit, the need for letters of credit would fade away. Ms Brown noted that there was some uncertainty with respect to this strategy. While the matter had been discussed with the Government, and while there was reason to anticipate that the use of letters of credit would be acceptable, there was at present no provision in the regulations for their use.

Ms Brown stressed that the proposal was based on a number of long-term assumptions that were required to project the deficits and the resulting special payments. First, it was assumed that the pension fund would earn the projected 4.0% real (after inflation) investment

5. Pension Plan Contribution Strategy – Revision (Cont'd)

return. Second, it was assumed that the next actuarial valuation required by Government authorities would be that as at July 1, 2014. That in turn assumed that there would be no benefit increases under the plan, which would require the submission of an earlier valuation. Third, it was assumed that there would be no change in market interest rates. That was a conservative assumption given the current low level of rates; any increase in rates would in fact help to reduce the solvency deficit. Fourth, it was assumed that there would be no change in the actuarial assumptions for the valuation. The actuarial assumptions had been reviewed thoroughly prior to the July 1, 2011 valuation, and they had been considered with great care and approved by the Pension Committee. Fifth, it was assumed that the valuation of the plans would include asset smoothing, like the current valuation which smoothed the value of the assets over a four-year period. Such smoothing was acceptable for calculations to determine the regulatory requirements for special payments. Finally, it was assumed that the University's application for Stage II temporary solvency-funding relief would be granted. Absent such approval, the University would have a shorter period of time to eliminate its solvency deficit and each annual special payment would be substantially larger. In response to a member's question, Mr. Shapira said that the achievement of Stage II relief would depend in part on the University demonstrating that it had achieved appropriately increased plan contributions, including contributions by plan members (or alternatively on the University's demonstrating that future benefit provisions had been reduced correspondingly). If all employee groups were to agree to increased member contributions such that the University's contributions were 1.5 times that of the active plan members, that would satisfy the current Government test. The Government had spoken more recently of a one to one ratio, but did not currently expect that ratio. It could conceivably be so required in connection with applications for any further solvency-funding relief.

Ms Brown outlined the projected amounts that would be required to address the solvency deficit. She noted that this projection was, with two exceptions, similar to that presented in January 2011 in connection with the proposal to approve $150-million of internal borrowing. The first exception was the use of the results of the 20ll actuarial valuation, which was in any event close to the current projection. The second exception was the one-year deferral of the requirement for both going-concern and net solvency payments. The projected special payments reflected the two $150-million lump-sum payments. The first had been made using (as reported) the pension reserve topped up by borrowing. The second was proposed to be made using the assets hitherto set aside for the Supplemental Retirement Arrangement, again topped up by borrowing. In addition to the funding provided by the special payments budget that had amounted to $27.2-million per year by 2011, there needed to be an additional special payment of $18-million in time for the 2011 valuation, $40-million for each of 2012 to 2014, and an additional $49-million thereafter. Letters of credit would be used to meet the net solvency payments (the difference between the payment required to deal with the going-concern deficit and that required to deal with the solvency deficit). They would amount to a further $34-million per year for ten years from July 1, 2015 to July 1, 2024. If the University were not permitted to by regulation to use letters of credit, or if it were unable to obtain them from a bank, it would be necessary to increase cash payments to the pension plans by $34-million per year for the ten years. Mr. Shapira added that he anticipated that the University would be permitted to build its

5. Pension Plan Contribution Strategy – Revision (Cont'd)

letters of credit over the ten-year period as each net solvency payment became due; it would not be forced to obtain a single letter of credit for $340-million. He stressed that using the letters of credit would permit the University to make the normal going-concern special payments and to avoid making accelerated cash payments under the solvency rules. In response to a question, Mr. Shapira said that other provinces that permitted the use of letters of credit limited their use to 15% of the assets of the plan or 15% of its liability. Ms Brown said that the projection for letters of credit was less than 15% of the liability.

Ms Brown outlined the related costs of the proposed strategy. First, the University would have to repay the principal and pay the interest on the internal borrowing required to make the lump-sum payments. Once all borrowing was completed, depending on the amount required to top up the S.R.A. assets to be used for the second lump-sum payment, it was anticipated that the cost of repayment would amount to about $12-million per year. Second, the operating budget cost of payments to beneficiaries of the S.R.A. would amount to about $10-million per year, declining slowly over time. Third, fees for the letters of credit would amount to between $1-million and $2-million per year. Finally, the University, as sponsor of a defined-benefit pension fund with a solvency deficit, would, under current regulations, be required to make special payments of $5-million per year into the Ontario Pension-Benefit Guarantee Fund. Ms Brown said that the universities were making every effort to obtain a waiver from that requirement.

Ms Brown displayed a graph displaying the budget impact of the additional payments plus the related costs in addition to the $27.2-million special-payments budget that was the starting point for the analysis. The additional need was $32-million for 2011, $54-million for the two years thereafter, $67-million for the following year and then $77 or $78-million for several years after that. The cost to the operating budget for the period from May 1, 2011 to April 30, 2016 would be $404.2-million. The ramp-up in the special payments budget from $27.2-million per year in 2011 to $97.2-million per year by 2015 would generate $411.0-million over the same period of time to deal with that cost requirement. That amount did not include costs for letters of credit, which costs would not be incurred before April 30, 2016.

Among the matters that arose in questions and discussion were the following.

(a) Government approval of solvency-funding relief. In response to a question, Ms Brown and Mr. Shapira said that all applications for Stage I solvency-funding had been granted by the Government of Ontario. Acceptance of Stage II applications would be harder to achieve because institutions would have to demonstrate real progress in in meeting the requirements laid out by the Government.

(b) Sensitivity to changes in interest rates. In response to a member's question, Ms Brown said that changes in interest rates, unless they were very substantial and very long-term, would affect only the solvency valuation and therefore, in this proposal, only the amount required for letters of credit. The key concern was funding the going-concern deficit. If there were a very large and sustained change in interest rates, there would be need to change the rate used to

5. Pension Plan Contribution Strategy – Revision (Cont'd)

discount the liabilities in the going-concern valuation. That rate had just been reduced from 4.0% plus C.P.I. to 3.75% plus C.P.I. An increase in the discount rate would reduce the liability and the going-concern deficit. Mr. Shapira added that an increase in long-term interest rates would, in addition to reducing the liability, also make it more likely that the pension fund would achieve its projected real rate of investment return of 4.0%. A reduction in the general level of interest rates would have the opposite effect. Ms Brown said that in such a case, with an increase in the going-concern deficit, the University would have to make a very difficult decision on the action to be taken. There was a limit to the amount the operating budget could bear for additional pension-plan contributions without reducing the funding necessary to maintain the quality of academic programs, and quality programs were necessary to generate revenue in the first place. The pension promise had to be met for benefits that had already been earned, but the University would presumably be forced to consider reducing plan benefits going forward. Mr. Shapira added that recent government statements concerning defined-benefit pension plans in the broader public sector implied that institutions should achieve 50/50 current-service cost sharing with plan members before increasing the funding supplied by the taxpayers. Then, any future deficits that remain should be dealt with by benefit reductions rather than by contribution increases, ultimately supplied by the taxpayers. With respect to the limit on letters of credit, Mr. Shapira noted that because they would be taken out year by year, lower interest rates and a higher requirement would not prevent the University from using the strategy for a number of years before reaching the limit.

(c) Impact of using letters of credit. A member asked whether the proposed use of letters of credit to deal with the pension-plan deficit would impinge on the University's ability to use such instruments for other purposes and could therefore have a negative impact on the University's on-going operations. Ms Brown replied that letters of credit were required from time to time for commercial purposes. The University's Banking and Borrowing Resolution gave the administration the authority to issue letters of credit when required. There clearly would be an impact on the University's debt capacity, and it would be important for the University to study the impact of the letters of credit as it became necessary to issue them over time. The Chair observed that while the use of letters of credit would no doubt limit the University's freedom of financial action, it would limit it less than the same amount of additional cash contributions to the pension plan.

(d) Use of the S.R.A. assets for contributions to the registered plan. In response to a member's question, Ms Brown said that the University had every legal right to use the S.R.A. assets for the purpose of a contribution to the registered pension plan. From the employee-relations point of view, the Faculty Association had not objected to the plan to do so.

Ms Brown summarized the proposed strategy. She stressed that as member current-service contributions increased, the University's current-service contributions would continue at a level that would be no less than the level, in percentage terms, that had been in place as at the July 1, 2008 actuarial valuation. Together with the special payments, these current-service contributions were intended to strengthen the financial health of the plans. When, in the long-run

future, the deficit was eliminated, the Pension Contribution Strategy provided that the University would

5. Pension Plan Contribution Strategy – Revision (Cont'd)

continue to allocate $27.2-million per year in support of pensions, above and beyond its current-service contribution, again with the objective of strengthening the financial base of the plan and protecting it against the future volatility of investment returns. If there were, in the future, some obstacle to placing such amounts into the plan because it was in surplus, the University would place the funds in the Pension Reserve to deal with any future pension-plan deficit, should one develop.

Ms Brown cautioned that it might well prove necessary to re-visit the proposed strategy in response to developments in future years: if there were to be regulatory changes, if there were to be some problem with acceptance of the University's application for Stage II solvency-funding relief, or if there were to be outcomes different from those projected in terms of, for example, future investment returns or future interest rates. Indeed, the need to re-visit the strategy in the future was highly likely.

The Chair observed that the matter was a very complicated one, and the strategy relied on a large number of assumptions. He therefore thought that it would be very important that the Board receive an annual report on the progress of the funding strategy. Ms Brown recalled that the Finance division prepared an annual financial report on the pension plans, which included:

- extensive information on the financial status of the pension plans;
- summaries of the actuarial valuations of the plans (completed annually although not required for submission to, or submitted to, the Financial Services Commission of Ontario except every three years or in the event of changes to benefits); and
- audited financial statements of the plans.

Those annual reports were now submitted to the Pension Committee for approval, but they could also be submitted to the Business Board for information. The report to the Board could include information on the progress of the funding strategy. The Finance division would also prepare and submit a formal review of the funding strategy and any recommendation to revise it: (a) in the event that changed circumstances required revisions to the plan, or in any event (b) prior to the 2014 submission of the actuarial valuation to the Pension Commission of Ontario. It was generally agreed that the proposed reporting plan was appropriate.

On motion duly moved, seconded and carried,

> Subject to the continuing submission to the Board of an annual financial report on the pension plans and subject to the Board's formal review of the Pension Contribution Strategy in 2014 or earlier if changed circumstances should make an earlier review appropriate,

5. Pension Plan Contribution Strategy – Revision (Cont'd)

YOUR BOARD APPROVED

The revised Pension Contribution Strategy, a copy of which is attached hereto as Appendix "C", specifically including the points contained in the summary section, replacing the Pension Funding Strategy approved by the Business Board on January 19, 2004.

The Chair noted that the Board had authority for "approval of policies governing the financial operations of the University." The Board's approval of the Pension Contribution Strategy was therefore final and did not require a resolution of the Governing Council.

6. Capital Projects Report as at April 30, 2012

The Board received for information the regular report on capital projects as at April 30, 2012. It reported on the progress of seven approved projects under construction for an estimated total construction cost of $331.05-million and a further twenty projects that were occupied but not formally closed, costing a total of $251.44-million.

7 Borrowing Status Report to April 30, 2012

The Board received the status report on borrowing to April 30, 2012. Maximum borrowing capacity was $973.1-million. Borrowing allocated by the Business Board was $970-million (net of $83.3-million of repayments that could be re-allocated). In addition to the actual external borrowing of $724.1-million, internal borrowing outstanding was $168.0-million. As at April 30, separate internal borrowing capacity had been approved for pension funding in the amount of $150-million, from which a loan in the amount of $112.6-million had been taken out on June 1, 2011.

8. Audit Committee Report Number 101 – March 21, 2012 (for information)*

The Board received, for information, Report Number 101 of the Audit Committee (March 21, 2012).

9. Reports of the Administrative Assessors

Credit Opinion

Ms Brown reported on the recent release of Moody's credit opinion on the University (which was available to members' on the Business Board Resources section of BoardBooks). Moody's had previously rated the credit of the Province of Ontario and three of its universities, including the University of Toronto, at Aa1 with a negative outlook. The agency had reduced all of those ratings to Aa2 with a stable outlook, as it had signaled in December 2011 it might do. Moody's had cited two main reasons for the reduction of the University of Toronto rating. The first was the University's strong financial linkage to the Province. The second was the pension

9. Reports of the Administrative Assessors (Cont'd)

Credit Opinion (Cont'd)

deficit. Moody's was aware of the University's proposed actions, just approved by the Board, to deal with the deficit, but it indicated that it would await a clear indication of the outcome of those actions before considering a rating increase. In response to a question, Ms Brown noted that the two other credit-rating agencies had reduced their ratings of the credit of the Province by one level, but they had not taken corresponding action with respect to the University of Toronto. It was possible that such action could follow.

10. Date of Next Meeting - Thursday, June 14, 2012

The Chair reminded members that the final regular meeting of the academic year was scheduled for **Thursday, June 14, 2012** at 5:00 p.m. That meeting would, among other things, consider the report of the Audit Committee on the audited financial statements for 2011-12.

THE BOARD MOVED *IN CAMERA*.

11. Collective Agreement: Canadian Auto Workers Union, Local 2003 (Operating Engineers and Building Management Systems Technicians) May 1, 2012 to April 30, 2015

Professor Hildyard noted that the agreement with the operating engineers and building-management systems technicians and that with the campus police officers included the pension-plan contribution increases accepted by other bargaining units and included the same across-the-board wage increase. Only the pension plan matters required Board approval.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED:

a) Increases in CAW Local 2003 Employee Pension Contributions as follows:

Below YMPE	5.0% to 5.45%	to 6.05%	to 6.80%
Above YMPE	6.0% to 6.60%	to 7.40%	to 8.40%
Effective Date	Oct. 1, 2012	Jul. 1, 2013	Jul. 1, 2014

b) Effective July 1, 2012, use only the CANSIM interest rate, as currently defined under the Pension Plan (i.e. five-year fixed term deposit rate), to credit interest on required member contributions.

12. Collective Agreement: Ontario Public Service Employees Union (OPSEU), Local 519 (University Campus Police) July 1, 2010 to June 30, 2013

On motion duly made, seconded and carried,

YOUR BOARD APPROVED:

a) Increases in OPSUE Local 519 Employee Pension Contributions as follows:

Below YMPE	5.0% to 5.45%	6.05%	6.80%
Above YMPE	6.0% to 6.60%	7.40%	8.40%
Effective Date	January 1, 2012	July 1, 2012	June 30, 2013

b) Effective July 1, 2012, use only the CANSIM interest rate, as currently defined under the Pension Plan (i.e. five-year fixed term deposit rate), to credit interest on required member contributions.

13. Collective Agreement: Carpenters and Allied Workers, Local 27, May 1, 2011 to April 30, 2014

The Chair stated that the administration had authority for "approval of changes to collective agreements under the *Labour Relations Act* that fall within existing policies and salary determination procedures," apart from changes that affect the pension plan. Professor Hildyard said that members of this union were not members of the University's pension plan. The information concerning the changes to the collective agreement was presented for information.

14. Collective Agreement: Unite Here, Local 75 (Hospitality Workers at the 89 Chestnut Residence) February 1, 2010 to January 31, 2013

Professor Hildyard said that members of this union were also not members of the University's pension plan. Again, information concerning changes to the collective agreement was presented for information.

15. Collective Agreement: International Union of Painters and Allied Trades, District Council 46, Local 557 , May 1, 2012 to April 30, 2014

Professor Hildyard said that the University currently employed no staff painters or other members of this union. She reported that the union agreement was being rolled over for a further two years in the event that the University did determine that there was need to hire painters or allied workers.

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16. Closed Session Reports

Professor Hildyard reported on the Provincial Government executive salary restraint program and its effect on implementing Board-approved salary adjustments for professional and managerial staff. She said that work was proceeding to determine which employees would be affected by the program. Where it was possible to implement the salary increases approved by the Board on March 5, 2012, those increases would have retroactive effect to April 1, 2012 – the end of the previous Provincial Government compensation-restraint program.

Professor Hildyard reported on the progress of negotiations with the Faculty Association.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:10 p.m.

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Secretary Chair

June 8, 2012

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