

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 12 OF

THE PENSION COMMITTEE

June 5, 2013

To the Governing Council,
University of Toronto.

Your Committee reports that it held a meeting on Wednesday, June 5, 2013 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Professor George Luste, In the Chair
Mr. W. John Switzer, Vice-Chair
Mr. Jeff Collins
Professor Ettore Vincenzo Damiano
Ms Shirley Hoy
Professor Jennifer Jenkins
Ms Paulette Kennedy
Mr. Alex McKinnon
Mr. Philip Murton*
Mr. Keith Thomas
Mr. W. David Wilson

Non-Voting Assessors:

Ms Sheila Brown, Chief Financial Officer
Professor Scott Mabury, Vice-President,
University Operations
Mr. Louis R. Charpentier,
Secretary of the Governing Council

Secretariat:

Mr. David Walders, Acting Secretary

Regrets:

Professor Laurence Booth
Ms Nancy Edwards
Mr. Gary Mooney
Ms Jane Pepino
Ms Melinda Rogers
Ms Helen Rosenthal
Mr. Howard Shearer
Ms Rita Tsang
Mr. Andrew Ward

* Participated by telephone

In Attendance:

Mr. William Moriarty, President and Chief Executive Officer, University of Toronto Asset Management Corporation (UTAM)
Mr. Pierre Piché, Controller & Director Financial Services, University of Toronto
Mr. Allan Shapira, Plan Actuary, AON Hewitt
Mr. Daren Smith, UTAM

The Chair welcomed members and guests to the meeting.

The Chair suggested that the order of the agenda be altered to allow for ample time for both presentations and to ensure quorum for Agenda Item 1. It was suggested that the Chair's presentation be given as the first Agenda Item, then continue with the original agenda. Members agreed.

1. Other Business

Professor Luste stepped out of the Chair to make a presentation (attached hereto as Appendix A). There were no questions or comments on his presentation.

2. Pension Fund Master Trust Statement of Investment Policies and Procedures (SIP&P)

Ms Sheila Brown, Chief Financial Officer, explained that there were a number of changes to the SIP&P (including a change in the name from Statement of Investment Policies and Goals, or SIP&G) and that it was reviewed and confirmed annually by the Pension Committee in accordance with pension regulations. She presented the highlights of the Report:

- Update of pension descriptive figures from July 1, 2011 to July 1, 2012 and the addition of wording to clarify the applicability of the SIP&P to the OISE plan.
- Hedging policy of the Reference Portfolio was to hedge 65% (previously 75%) of developed markets' currency exposures and 0% (unchanged) of emerging markets' currency exposure.

In response to a question as to whether thought had been given to arranging a third party review of the policies of the pension plan as a whole, Ms Brown replied that third parties were involved in reviewing the pension plans in two ways. The first was the actuarial review of the SIP&P to ensure the policies and procedures of the plan were consistent with legislation and regulations. The second was the review by the Investment Advisory Committee (IAC), made up of a group of independent advisors, which examined the investment policies of the plan and suggested changes to these policies.

In response to a question as to why there were questions from Financial Services Commission of Ontario (FSCO) about the OISE Pension Plan, Ms Brown, with Mr. Allan Shapira and Mr. William Moriarty in agreement, suggested that there was a lack of understanding of the FSCO as to how the OISE Pension Plan related to the RPP, including how the Plans were managed together and how the Investment Management Fees were calculated.

A member asked for a brief explanation as to why there was a reduction from 75% to 65% hedging in developed markets. Mr. Moriarty explained that UTAM had approached the

IAC with the recommendation that hedging in developed market currency be reduced from 75% to 50% and that the IAC had supported that recommendation.

On motion duly made, seconded and carried

IT WAS RESOLVED

THAT the Pension Committee approve the Pension Fund Master Trust Statement of Investment Policies and Procedures, attached as Appendix A to the memorandum from the Chief Financial Officer dated May 15, 2013, replacing the Statement of Investment Policies and Goals, attached as Appendix B which had been approved by the Pension Committee on March 28, 2012.

3. Financial Services Commission of Ontario Letter and Response Re: OISE Pension Plan

There was no further discussion on this item.

**4. Responding to Questions from Members of the Pension Committee:
Understanding Liabilities and Cash Flow, and Explaining Why Current Service Contributions had Risen Over Time as a Percent of Pensionable Salary.**

The presentation given by Ms Brown and Mr. Shapira addressed the following points:

Understanding Liabilities and Cash Flow

a) Liabilities:

- Pension plan liabilities could be measured in a number of ways, based on whether it was assumed the pension plans would continue indefinitely (the going-concern measurement) or would be wound up (the solvency liability or hypothetical wind-up measurement)..
- The projection of the liabilities depended on numerous factors and assumptions that estimated the amount of benefits to be paid to each member in retirement. At July 1, 2012, the going concern pension liabilities totalled \$3.884 billion for the RPP, RPP (OISE) and Supplemental Retirement Agreement (SRA) combined. The current ratio of active versus retired members was about 1.9-1.

b) Cash Flow:

- Like liabilities, the in-flow (contribution) and the out-flow (payable benefits) of money depended on a variety of factors.

- Plan pre-funding was required to ensure there was enough money to fund benefit payments to pensioners without relying on cash flow from new members joining the plan.

Understanding Pre-Funding of the Pension Plans

- Pre-funding did not alter the ultimate cost of the plan (which is the sum of the benefits paid and the costs to administer the plan), but did impact the following: the allocation of contributions to different periods of time; the portion of the total cost that came from contributions versus investment earnings, and; decisions made at various points in time on levels of contributions and levels of benefits.
- The higher the funding level from contribution (and the lower the funding level from investment earnings), the lower the investment risk needed, the lower the expected returns. The inverse held true as well.
- Currently, expected real investment returns were 3.75% and the total current service cost of the plan was 18.6% of salary.

Understanding Increases in Current Service Cost as a Percentage of Pensionable Salary Over Time.

- Total Current Service Cost (which was an estimate of the cost of the pension benefits earned in a given year) had increased from 13.4% of participant salary base as of July 1, 1987 (based on a real discount rate of 2.50% per year) to 18.8% of participant salary base as of July 1, 2012 (based on a real discount rate of 3.75% per year).

A member inquired as to whether the elimination of mandatory retirement would affect the liabilities. Mr. Shapira replied that the cash flows and plan liabilities already reflected the end of mandatory retirement and an estimate of how many plan members would stay beyond normal retirement age. It was possible that refinements would need to be made to those assumptions over time.

CONSENT AGENDA

The consent agenda was approved.

5. Report of the Previous Meeting: Report Number 11, March 20 , 2013

6. Business Arising from the Report

7. Report of the Presidential Assessors

- The Report of Professor Angela Hildyard addressed the following matters, all concerning the Pension Communications Working Group:
- Annual Pension Statement (APS): The revised APS was issued and had received positive feedback. As the APS would be increasingly available online, there would soon be no further need for paper copies
- Retirement Information for Faculty and Librarians: The Human Resources and Equity webpage was recently updated to include more information.
- General Pension Information: The Pension Plan would be posted to the Human Resources and Equity website by the end of August, 2013. The working group recommended the appointment of a writer/consultant who could assist in the development of reader friendly pension reports as well as articles on pension and retirement, and that the cost of the appointment be charged to the Pension Committee.
- UTPS Website: The administration would work with AonHewitt to update this website and make it more user-friendly.

8. Date of Next Meeting: September 24, 2013 at 5:00 p.m.

9. Other Business

There was no other business.

MOTION to adjourn

- Seconder
- The meeting adjourned at 7:02 p.m.

Acting Secretary

Chair

June 10, 2013