## Annual Report 2002/2003
## CUPE 2424 Representative on the University Committee

The University Pension Committee is comprised of five representatives from employee groups (CUPE 2424, 910, 2 for CUASA, Union Exempt) and two for the University ( BOG), and Betsy Springer, Chair of the Pension Committee and Director, Pension Fund Management. Our mandate is to determine all questions arising in the administration of the Plan and to review investment performance. Our role according to legislation is to ensure the integrity of the plan; i.e. we need to be sure that the plan will deliver on the existing benefit promise given the existing level of contributions. In doing so we must consider the welfare of all stakeholders of the Pension Plan.

***Pension Benefits Act R.S.O. 1990, c. P-8***
*Care, diligence and skill*
*22. (1) The administrator of a pension plan shall exercise the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another person.*
*Special knowledge and skill*
*(2) The administrator of a pension plan shall use in the administration of the pension plan and in the administration and investment of the pension fund all relevant knowledge and skill that the administrator possesses or, by reason of the administrator's profession, business or calling, ought to possess.*

This spring, it will be 4 years that I was elected as our representative to the University Pension Committee. During this time, the committee activities included the following.
Recommended changes to the plan
- 4 year averaging for pensioner increases
- due to legislative change increased the foreign content and revised the investment policy

Other activities:
- conducted a money manager search
- reviewed and evaluated two risk analyses

Over the last 6 months we have met regularly to resolve problems generated from the downturn of the financial markets and a new pension regulation which requires all institutional pension plans (corporate and public) to file a Solvency Report which includes strict rules. It has been very difficult for the following reasons:
- The Solvency Report requires that we file a report **as if** we were winding up the plan. This means we have to demonstrate our ability to meet current funding obligations for current and future retirees.
- The Committee, using data from our 2001 Asset & Liability Study, examined our plan's "solvency".
- The downturn of the money markets negatively impacts our financial position. The University is liable for the financial shortfall when we file the Solvency Report. The bottom line is they will have to pay **now even though winding down of the University is something that may never happen.**
- Two features of the plan were identified as causing the most risk.
  They are the early retirement bridge benefit and the non-reduction provision after you retire.
- The Committee's task was to balance the interest of all parties involved:
  retirees, current plan members with long and short service, younger members plus the financial integrity of the University.
- The Committee has received advice from our pension consultants throughout this process and consulted with the representatives of all stakeholders. The Pension Committee after much deliberation proposes the following recommendations as the only way that we can meet our obligations.

**Recommendation 1**
In recognition of the material negative impact this provision has on the solvency position of the Plan, it is proposed that the early retirement supplement be removed from the Plan, effective July 1, 2003, for all members who have not met full eligibility requirements at that date.

- Plan members who are 55 or older at the date of the change and have ten years of continuous service will continue to be eligible for the supplement.

- The University is willing to offer the supplement outside of the Plan for those members in the 45-55 age group.
- Financial effect is to reduce estimated solvency deficiency at July 1, 2002 by $11.7 million.
- Estimated solvency deficiency payments reduced by $2.7 million per year.

**Recommendation 2**
Because short-term circumstances may require the University to make extraordinary payments, above the long-term normal cost of the Plan, it is proposed that the Plan be amended to allow the University to take Minimum Guarantee and Money Purchase contribution holidays against future surpluses to recover contributions made towards Plan deficits.

- Method to deal with fluctuations in funding.
- Deals with case where the University has to contribute money in excess of the normal cost due to isolated short-term circumstances.
- Extent of future surpluses cannot be predicted.
- Will take into account amounts not contributed due to excess surplus rules.

**Recommendation 3**
In recognition of the fact that the non-reduction feature poses a significant funding risk for the University, it is proposed that this provision be removed for benefits earned in respect of future service. By law, the provision remains for all service accrued to the date of the change.

- The University will increase contributions (employer only) to members' Money Purchase accounts to offset loss of protection.
- Contribution will be 0.25% of pensionable earnings; higher than is currently contributed to fund the non-reduction feature (0.15%)
- The Plan will be amended to provide a new option for members at retirement – the purchase of an annuity from a preferred provider in an amount no less than the starting Minimum Guarantee pension that would otherwise be payable from the Plan.
- For current Plan members, this change means that a member's pension at retirement will be partially protected from decreases in those years when the 4-year average fund rate less 6% is negative.
- For example, a 50-year old with 25 years of service at the date of the change, who retires in 10 years with 35 years of service, would have 25/35ths of his or her pension protected. A 40 year old, with 10 years of service at the date of the change who retires in 20 years would have 10/30ths of his or her pension protected.
- The new option to receive an annuity from a preferred provider lets the Plan member choose between an unindexed, non-reducing pension and a pension with variable indexing that may reduce, depending on his or her needs.
- Note that market returns, which have an effect on the variable indexing, cannot be predicted

Note that over the next 4 years the employer has set up a reserve for additional contributions of $5 million per year into the pension plan. This is over and above preserving the early retirement option for those 45 years and older which will potentially cost another $5 million. The employer has agreed to protect non-reduction for future purchase of past year service.
My concerns were to protect the early retirement bridge benefit and that a low-income earner could have a form of guarantee for their starting pension.
It is my firm belief that these recommendations difficult as they are to accept are necessary to save the other positive features of the Plan and to preserve the present governance structure.

Sylvia Gruda
CUPE 2424 representative on the University Pension Plan Committee
April, 2003

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