

# UofT Pension Committee

**Agenda items – regarding:**  
**(i) actuarial return assumption and**  
**(ii) real return investment ‘target return’**  
**for the UofT RPP**

George Luste

(Professor of Physics, President of UTFA, member of the UTAM Board and vice-chair of the Pension Committee of Governing Council)

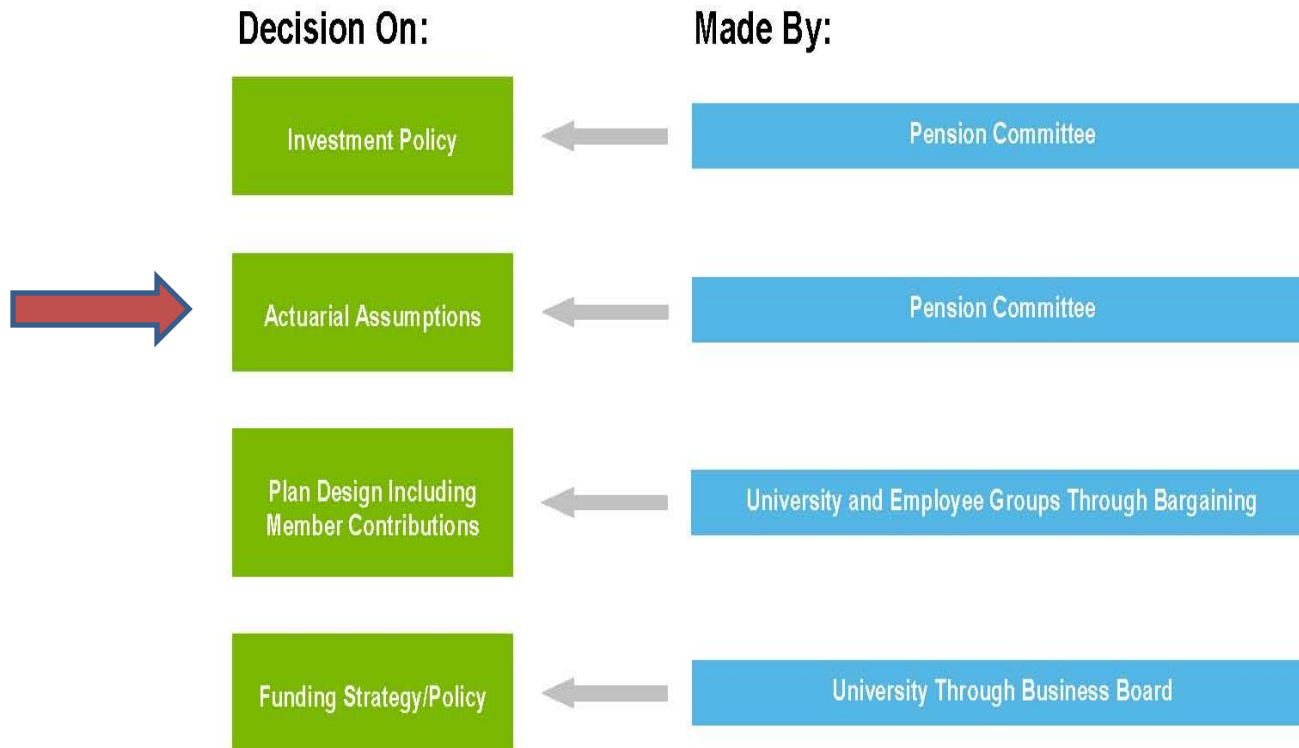
September 28, 2011 presentation to the UofT Pension Committee (PC)  
with accompanying UTFA report of July 14, 2011

# Pension Committee Decisions

[graphics courtesy of Aon-Hewitt report, page 2]

## Introduction

There are a number of important decisions to be made in the next few months in connection with the University of Toronto Pension Plans:



# “Maturing” of the UofT Pension Plan and the real return assumption problem

- **1986**

**3.9** - ratio of (active members / retired members)

**2.7** - ratio of (\$ input service cost / \$ output pensions)

**2.25%** - real return assumption

- **2010**

**1.8** - ratio of (active members / retired)

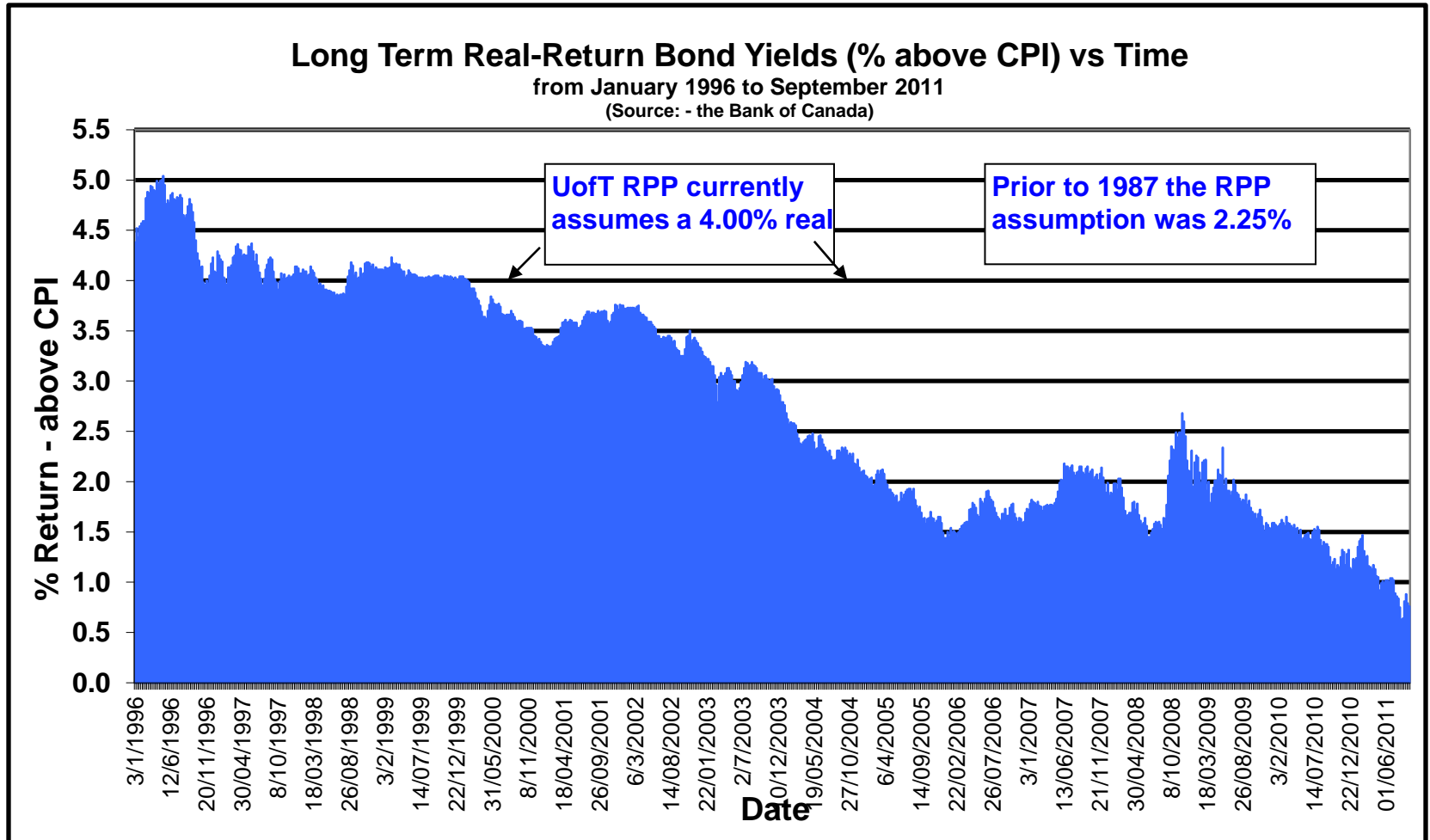
**0.9** - ratio of (\$ input service cost / \$ output pensions)

**4.00%** - real return assumption

# Real Return Assumptions & Missing Contributions

Academic Year to July 1	UofT RPP Real Return Assumption	Did the University contribute its share of the annual pension plan service cost?	Cumulative total value of missing \$ contributions (with plan rate of return).
1985	2.25%		
1986	2.25%		
1987	2.50%	Partial pension contribution	\$ 16 million
1988	2.50%	No pension contribution	\$ 42 million
1989	2.50%	No pension contribution	\$ 80 million
1990	2.50%	No pension contribution	\$ 113 million
1991	3.00%	No pension contribution	\$ 154 million
1992	3.00%	Partial pension contribution	\$ 182 million
1993	3.00%	Partial pension contribution	\$ 232 million
1994	3.00%	No pension contribution	\$ 279 million
1995	3.00%	No pension contribution	\$ 358 million
1996	3.00%	No pension contribution	\$ 438 million
1997	3.50%	No pension contribution	\$ 569 million
1998	3.50%	No pension contribution	\$ 687 million
1999	4.00%	No pension contribution	\$ 733 million
2000	4.00%	No pension contribution	\$ 895 million
2001	4.00%	No pension contribution	\$ 883 million
2002	4.00%	No pension contribution	\$ 898 million
2003	4.00%	No pension contribution	\$ 938 million
2004	4.00%	Partial pension contribution	\$ 1,089 million
2005	4.00%	Extra pension contribution	\$ 1,194 million
2006	4.00%	Extra pension contribution	\$ 1,258 million
2007	4.00%	Extra pension contribution	\$ 1,493 million
2008	4.00%		
2009	4.00%		
2010	4.00%		

# Real Return Bond Yields vs Time



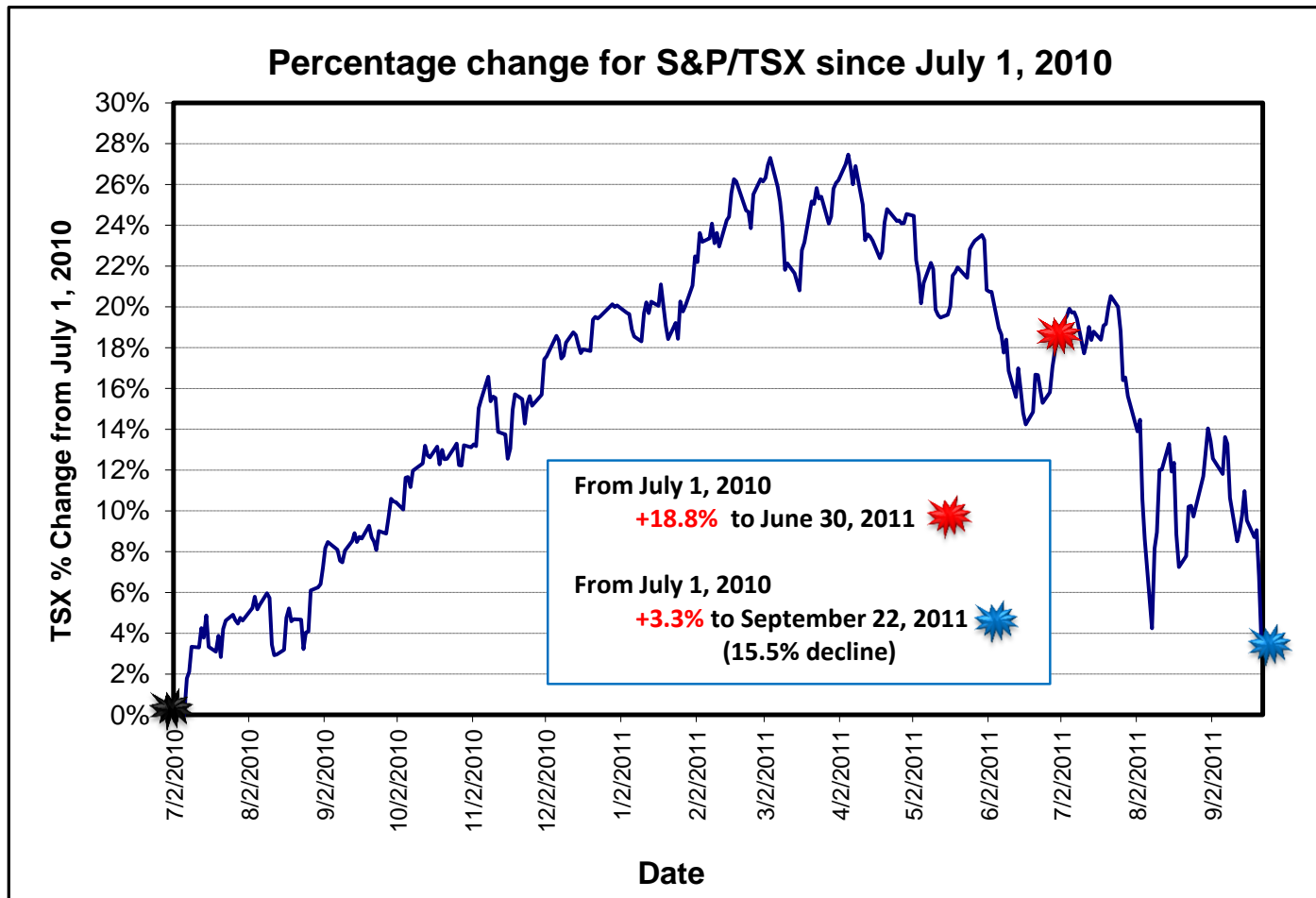
# Annualized UofT Pension Plan returns

<b>Annualized Investments Returns</b> from 1985 to 2010 for the UofT Pension Plan and Two Comparators		
1985-1999 15 years pre-UTAM	2000-2010 11 years for UTAM	
11.7%	2.7%	<b>UofT Pension Plan annualized returns</b>
11.8%	5.6%	<b>Comparators</b>  Median Return, DEXIA all pension universe
11.5%	7.2%	50% TSX Index + 50% All Can Bond Index
2.9%	2.1%	annualized CPI in Canada during same time

# What If?

- What if on July 1 2014, the next solvency valuation date, our annual 3-year return is closer to 2.7% per year (the UTAM annualized return for the past 11 years) rather than the assumed annual 6.25% return?
- **The difference is about \$300 million by July 1, 2014. Our already large RPP deficit would increase by an additional \$300 million.**

# Market Volatility – the S&P/TSX Index



# Amendment to motion #1

## Actuarial Assumption for Investment Return

Current motion (page 44 in our 156 page agenda document)

We recommend a 0.25% reduction in the predicted real investment return, thus reducing the investment return assumption from 6.5% to 6.25%

Proposed motion

Given that the current actuarial assumption for the going concern nominal investment return is 6.50%, with an accompanying current going concern pension plan deficit of approximately one billion dollars, in order to defer any additional drastic funding consequences, we recommend the assumption be reduced by only 0.25% to 6.25%. This means the real return actuarial assumption is reduced from 4.00% to 3.75%.

# Amendment to motion #2 'Target Return'

Current motion (page 44 in 156 page agenda document)

Therefore, it is recommended that the real investment return target for the University of Toronto Pension Master Trust be continued at its current rate of at least a 4.0% real investment return over 10-year periods, effective July 1, 2011, while taking an appropriate amount of risk to achieve this target, but without undue risk of loss.

Proposed motion

Given that the real investment *return target* should approximate the actuarial assumption used in the UofT Registered Pension Plan, it is recommended that the real investment return target for the University of Toronto Pension Master Trust be continued at its current rate of at least a 4.0%. The target return does not necessarily represent the *expected return* in the near term. The pension investments must have a strong emphasis on avoiding a permanent loss of capital.