UNIVERSITY OF TORONTO

OFFICE OF THE VICE PRESIDENT & PROVOST

Please distribute this memo widely within your unit.

To: PDAD&C

From: Cheryl Misak, Vice-President and Provost

Date: March 18, 2010

RE: UTFA Info Report #12 – 'SRA Pension Inequity'

The University wishes to correct the very significant errors in the recent UTFA newsletter regarding the Supplemental Retirement Arrangement (SRA) associated with the U of T pension plan. On almost every point – including the initial intent and coverage of the SRA, the actuarial foundations of the SRA, the funding of the SRA, and the reasons for the current cap on SRA coverage -- the allegations in the newsletter are fundamentally inaccurate.

<u>What is the SRA?</u>

The Income Tax Act (ITA) places a cap on the amount of benefits that can be provided under the preferential tax treatment of a "registered pension plan". For twenty years, between 1976 and 1996, the dollar amount of the ITA cap remained unchanged capping pension benefits at a salary of approximately $98,500.

By 1996, however, approximately 680 faculty members (close to one third of UTFA) already exceeded that salary level. And it was plain that many more would exceed the cap over the next 4 to 5 years. The SRA was accordingly negotiated in 1996, restoring pension benefits for faculty members and librarians whose salaries exceeded $98,500. The University and UTFA agreed that in 1996 salary up to $135,000 would be considered for pension purposes. They also agreed that by 2001 the salary cap would increase to $150,000.

<u>Initial Coverage</u>

The UTFA newsletter implies that the introduction of the SRA was ill-conceived and favoured only a small minority of highly-compensated faculty. This is not true. The low coverage figure used in the UTFA newsletter is derived by comparing the number of affected members, mostly Faculty, to the *entire* membership of the pension plan. In fact, by 2001, more than 1,200 members of the pension plan received salaries in excess of the ITA cap and a substantial percentage of faculty members benefited from the SRA.

The Surplus and the SRA

The ITA cap on pensionable earnings was frozen by Government from 1976 to 1996 and the scheduled increases in the maximum pension benefit deferred until 2004. This led to liabilities of the registered pension plan that were lower than expected. Year over year, with maximum pensions frozen, the surplus continued to build, and was explicitly identified in the actuarial reports.

On the other hand, the new SRA created an immediate liability for the University. Extra payments were required as colleagues with salaries above the ITA cap moved to retirement, because no past contributions had accrued to cover the additional costs of their pensions. Given this imbalance, UTFA and the University explicitly agreed to redirect University contributions that could not, by law, be placed into the registered plan due to the level of the surplus, into a reserve for the SRA. The agreement had the effect of reducing the surplus in the registered pension plan and creating a corresponding amount of reserve for the SRA. It was a positive and practical strategy and entirely reasonable given the circumstances. Spending the surplus on other benefit improvements or contribution holidays would have left the SRA under-funded, even as more and more plan members earned salaries above the cap set by the Income Tax Act.

In this respect, almost $100 million that is continually characterized in UTFA newsletters as a University contribution holiday was not a contribution holiday at all. These were amounts set aside in the SRA fund as agreed with UTFA in 1996. That same agreement, incidentally, made other enhancements to pensions positively affecting a wide range of plan members, including a boost aimed specifically at those in the lower end of the salary range. Not surprisingly, the negotiations were complex and involved the generation of significant amounts of data which were shared comprehensively with the UTFA negotiating team, their actuary and their legal counsel.

In short, the initial plan for the SRA as agreed with UTFA quickly benefited a large number of faculty members, and the same agreement improved benefits in the registered plan for an even wider range of faculty members. The reallocation of surplus funds from the registered plan to kick-start the SRA was also done with full disclosure to and the consent of UTFA.

Actuarial Foundations

The UTFA newsletter claims that the actuarial foundations of the SRA were unduly optimistic. UTFA has had independent actuarial advice with each set of negotiations, including, as noted above, those that established the SRA, and the University and its actuary have had numerous meetings with UTFA's actuary over the years. There has been no correspondence from UTFA's actuary questioning the actuarial assumptions concerning the SRA. In fact, shortly after the SRA was introduced in 1996, UTFA issued a newsletter with an analysis of a defined contribution plan that used actuarial assumptions much more optimistic than those used in designing the SRA. Conversely, when the University has advanced more conservative actuarial assumptions that would

increase contributions by both the University and employees, UTFA newsletters have criticized those assumptions for creating an "apparent deficit". These inconsistencies are frustrating, to put it gently.

Raising the Current Cap

The UTFA newsletter blames the administration for failing to raise the cap on the SRA, pointing out that many faculty and librarians now earn more than $150,000. However, the same newsletter criticizes the University because the SRA did not apply to sufficient faculty at the outset. It doesn't take a logician to see that there is an inconsistency here.

As to the $150,000 cap, nowhere does the UTFA newsletter acknowledge the dynamic of negotiations and discussions. The University has raised the issue of the SRA cap with UTFA repeatedly but, to date, with no success. The University and UTFA are both well aware that because the Income Tax Act cap has been gradually moving up, the salary at which the cap will be reached will exceed $150,000 by 2013-14. This has been identified each year in the Annual Financial Report of the Pension Plans prepared by the University.

The Wind-up Deficit

The UTFA newsletter repeats a past pattern of referring to the deficit that the pension plan would face if the University were to cease operations tomorrow. This is sheer fear-mongering. First, if one wanted to imagine this scenario, the University's real estate assets alone are worth billions of dollars. Second, the University has been a going concern for 180 years and there is every reason to expect it will continue indefinitely. A number of provinces other than Ontario have largely abandoned solvency tests for university pension plans given the long-term nature of our institutions.

What is to be done?

While we are deeply disappointed in the content and tone of the UTFA newsletter, the University remains keenly interested in talking with UTFA about potential solutions that are sustainable in view of the reality of limited resources. However, we cannot create new pension provisions for faculty and librarians represented by UTFA unilaterally; they must be negotiated with UTFA.

Finally, let me reiterate that the terms and conditions of the SRA as well as decisions on its implementation were all negotiated with UTFA. All pension benefit changes have been reported to and approved by Business Board. The University's administrators, its actuary, and its advisors have all acted with the highest degree of integrity and have exercised their duties responsibly.

We look forward to engaging in a productive dialogue with UTFA on these issues.