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Date: November 19, 2007  
To: Governing Council Business Board Members  
From: George Luste, President, University of Toronto Faculty association  
**Re: Agenda Item 3: Relationship with UTAM [and the UofT Pension Plan]**

My 5-minute time limit requires I be very brief.

Background. UTFA members are the major stakeholder group in the UofT Registered and SRA pension plans. About 65%, or about \$2 billion, of the liabilities and assets pertain to faculty and librarians.

Pension Governance issues are special interest to UTFA and its members. UTAM and its Board are of course part of the current pension investment structure but they do not represent a valid pension plan governance body. UofT Governors should be aware that there is at present a Joint Working Group, co-chaired jointly by UTFA and the Administration, that is discussing and negotiating possible changes to the status quo. Mediator/Arbitrator Martin Teplitsky remains seized on this matter should negotiations fail.

The following quotes bear on pension governance and related pension issues:

*“Pension plans must represent the beneficiaries and no one else. They have to be autonomous institutions. They must be accountable. They must be able to communicate with their constituencies – the people for whom they are trustees. ... [They] must be free from any suspicion of conflict of interest.”*  
- Peter Drucker<sup>1</sup>

*“Pension plan governance refers to the structure and process for overseeing, managing and administering a pension plan to ensure the fiduciary and other obligations of the plan are met”*  
- CAPSA<sup>2</sup>

*“The cornerstone of a pension governance process is that it must recognize, reflect and facilitate the discharge of fiduciary duty.”*  
- PIAC<sup>3</sup>

*“For a balanced perspective to be brought to bear on the key decision with respect to financing defined benefit pension plans, plan member interests have to brought to bear on the decision-making process.”*  
- -Bob Baldwin<sup>4</sup>

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<sup>1</sup> Peter Drucker, The Unseen Revolution: - How Pension Fund Socialism Came to America, 1976, page 86

<sup>2</sup> CAPSA - Canadian Association of Pension Supervisory Authorities, Guideline No 4, “Pension Plan Governance Guidelines and Self-Assessment Questionnaire” October 25, 2004

<sup>3</sup> PIAC – Pension Investment Association of Canada, Governance Committee, Robert G. Bertram, Chair, Feb 1997

<sup>4</sup> Bob Baldwin, “Financing Defined Benefit Pension Plans”, 2004 research paper #32 for the Canadian Labour Congress. Mr Baldwin is an advisor to the Harry Arthur’s ‘Ontario Expert Commission on Pensions’

*“I’m a sporting type, and I would love to make a large bet with the chief financial officer of any one of those four companies, or with their actuaries or auditors, that over the next 15 years they will not average the rates they’ve postulated. ... Heroic assumptions do wonders, however, for the bottom line. By embracing those expectation rates shown in the far right column, these companies report much higher earnings--much higher-- than if they were using lower rates. And that’s certainly not lost on the people who set the rates. **The actuaries who have roles in this game know nothing special about future investment returns. What they do know, however, is that their clients desire rates that are high. And a happy client is a continuing client.**”* (my emphasis) - Warren Buffett<sup>5</sup>

**Financial costs pre and post UTAM.** The total annual UofT pension plan costs were under \$3 million per year prior to 1998. Today they are in excess of \$14 million per year. This issue has been raised by UTFA at prior Business Board meetings.

For the benefit of new Business Board members I attach copies of three past UTFA presentations to BB:

- i. April 11, 2007
- ii. November 9, 2006
- iii. March 27, 2006

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<sup>5</sup> Warren Buffett article in December 10, 2001 issue of Fortune (Vol 144, issue 12)