

THE UNIVERSITY OF WESTERN ONTARIO  
ACADEMIC STAFF AND ADMINISTRATIVE STAFF PENSION BOARDS

Report to Board of Governors  
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Presented by  
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## OVERVIEW

This report covers the events and activities of the Pension Board during the 2000 calendar year. The University sponsors two pension plans, one for academic staff and one for administrative staff. Both plans are "Defined Contribution" arrangements where the amount of funds set aside each year by both the employee and the University is defined by formula. The formulae differ among employee groups due to negotiations between the University and the respective groups. The pension benefit payable at retirement is dependent upon the accumulated contributions and investment income on these funds made throughout the career of the members.

Each pension plan is administered by a 7 member Pension Board - 4 elected representatives and 3 appointed by the University. By agreement, the two Boards pool their investments and share in the administration and communication efforts associated with the pension plans.

The combined Boards have established three sub-committees to deal with (i) Fiduciary & Administrative issues, (ii) Investment Policy and (iii) Communications and Counselling issues respectively. The sub-committees do most of the research and preparation work for recommendations proposed and voted on at the combined Pension Board meetings. A copy of the Pension Board governance document is provided in the enclosed booklet for your reference.

The contributions of members and the University are allocated to various investments offered under the plan, at the discretion of the member (with the exception of some contributions for "Special" staff members who were entitled to a minimum benefit under the previous pension plan). Currently there are fifteen distinct investment options available for members, and the distribution of funds among these investments can change monthly.

**Money Market Fund**  
**Target Date Funds (5)**  
**Long Term Bond Fund**  
**Diversified Bond Fund**  
**Canadian Bond Fund**  
**Global Bond Fund**  
**Diversified Equity Fund**  
**Canadian Equity Fund**  
**US Equity Funds (2)**  
**Non-North American Equity Fund**

# FINANCIAL STATUS OF THE PENSION PLANS

## Summary of Investments by Plan as at December 31, 2000 (\$ millions)

	Administrative <u>Staff Plan</u>	Academic <u>Staff Plan</u>	Retirement <u>Income Funds</u>	2000 <u>Total</u>	1999 <u>Total</u>
Member's accounts	\$293.0	\$500.2	\$29.7	\$822.9	\$791.0
General accounts	<u>\$4.6</u>	<u>\$15.6</u>	n/a	<u>\$20.2</u>	<u>\$23.3</u>
Total	\$297.6	\$515.8	\$29.7	\$843.1	\$814.3

General accounts referred to above are established and administered by the University for paying benefits promised to members who retired under the previous pension plan and under the Excess Earnings Annuity option of the current plan. As determined by an actuarial valuation, there are more funds in the general accounts than are estimated to be required to pay the promised benefits--the excess funds in the general accounts are referred to as "surplus". To assist the University's cash flow, "contribution holidays" have been taken where the amount of required University contributions is reduced and the appropriate amount of surplus funds, as determined by contribution levels for each plan, are allocated to members' accounts.

## Estimated Surplus Funds Investment and Usage for Calendar Year 2000 (\$ millions)

	Administrative <u>Staff Plan</u>	Academic <u>Staff Plan</u>	<u>Total</u>
Balance at beginning of year	\$1.7	\$8.3	\$10.0
Investment earnings different from expected	(0.3)	(1.5)	(1.8)
Contribution holidays	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.8)</u>
Total	\$1.0	\$6.4	\$7.4
% of all pension assets	.12%	.75%	.87%

Actuarial reports for the year ending December 31, 2000 confirm the surplus in each plan at that date. Contribution holidays have been taken by the University to fund the administrative costs to operate the pension plans and also to fund special early retirement arrangements.

The administrative staff plan surplus is expected to be eliminated within 1 1/2 years, at which time, the University's contributions will be increased by approximately \$500,000 per year. The Pension Boards will be meeting with the plan actuary on the funded status of the plans to discuss the level of a surplus "buffer" that should be established (the point at which contribution holidays should be discontinued), so not to jeopardize the funded status of the plans.

During the year 2000, the combined pension and retirement income fund assets grew from \$814 million to approximately \$843 million. Details of the investment performance of the pension funds are provided in the attached booklet.

### Operational Costs:

The Pension Boards administer the plans with the assistance of many professionals including investment consultants, actuarial consultants, legal advisors, financial statement auditors, pension administrators and retirement counsellors. All professional fees and staff expenses are funded by the University which has been reimbursed for the costs by applying part of the surplus in each plan against the required monthly contributions. During 2000, these fees amounted to approximately 0.15% of invested assets.

Investment management fees, transaction costs and trustee fees are funded by the member's and the University's investments. Unit values for the funds are determined after deducting these fees, which amount to about 0.2% per year of funds invested. With a total expense cost of about 0.35% of invested assets, the Pension Board believe the plans operate at an expense level far below that of comparable mutual funds, which tend to charge fees that average about 2.0% of invested assets.

Overall, members are developing a greater awareness and appreciation of the pension programs at Western. There has been an observed increase in requests for counselling, education and an increase in voluntary contributions. With the addition of new responsibilities relating to Retirement Income Funds and management of other pension plans, the department staff was expanded by four full-time positions in the year 2000: a Retirement Counsellor, a Pension Administrative Assistant, a Retired Records Administrator and a Communications Coordinator. As counselling costs are increasing, the manager and the Board are working with other industry representatives to develop best practices for defined contribution plans.

<b>FUND RATES OF RETURN</b>					
<b>as at December 31, 2000</b>					
	<b>*** Annualized***</b>			<b>Since</b>	<b>Inception</b>
<b>INVESTMENT FUND</b>	<b>1-year</b>	<b>5-years</b>	<b>10-years</b>	<b>Inception</b>	<b>Date</b>
<b>Short Term/Cash</b>					
Money Market Fund	5.16%	4.39%	5.59%	6.91%	Feb-88
TDF June/2001	6.02%	6.98%		7.57%	Oct-95
SCM 91-Day T Bills	5.49%	4.62%	5.81%		
<b>Bonds</b>					
Diversified Bond Fund	9.53%	7.85%	10.23%	10.55%	Feb-78
Canadian Bond Fund				8.04%	Mar-00
Global Bond Fund				6.24%	Mar-00
Long Term Bond Fund	11.53%			4.30%	Jun-98
TDF June/2002	7.05%			8.25%	Oct-95
TDF June/2003	8.56%	7.64%		9.14%	Jun-96
TDF June/2004	9.53%			7.64%	Jun-97
TDF June/2006				7.76%	Jun-00
SCM Universe Bond Index	10.25%	7.93%	10.36%		
<b>Equities</b>					
Diversified Equity Fund	-0.73%	15.90%	12.64%	13.03%	Feb-78
Canadian Equity	10.48%			15.34%	Apr-97
US Equity- Hedged	-10.25%			14.33%	Apr-97
US Equity- Unhedged	-5.86%			17.77%	Apr-97
Non-North American Equity	-4.21%			8.11%	Apr-97
TSE 300 Index	7.41%	15.49%	13.14%		
S&P 500 Index	-9.11%	18.33%	17.46%		
S&P 400 Index	15.72%				
Russell 2000 Index	-4.40%				
MSCI EAFE Index	-10.95%	9.52%	11.40%		

# SIGNIFICANT ACTIVITIES OF PENSION BOARDS DURING 2000

- In March 2000, new investment opportunities were offered to members. On the bond side, the Intermediate Term Bond Fund was renamed the Diversified Bond Fund and 20% of the assets allocated to a foreign bond mandate. Previously this fund only invested in Canadian issues. Each component of the Diversified Bond Fund is offered as a separate option to members: the Canadian Bond Fund for those wishing to have the same investment strategy as the former Intermediate Term Bond Fund and the Global Bond Fund for those wishing foreign bond exposure different from that established for the Diversified Bond Fund.
- In March 2000, the Equity Fund was renamed the Diversified Equity Fund and was further diversified in the US market. The mandate for the US component of this fund includes approximately 2900 stocks traded publicly (previously was only 500). In total, the fund has exposure to over 3500 stocks traded in 23 countries.
- The UWO Retirement Income Funds were initiated on November 1, 2000. Former and retiring pension plan members can invest during retirement in Registered Retirement Income Funds, Life Income Funds and Locked-in Retirement Income Funds using similar investment options invested in as active members of the pension plan. To-date, over \$34 million has been allocated to the Retirement Income Funds. Participants in this program pay their own administration costs and, therefore, a share of the fixed costs with the University.
- Effective January 1, 2001, Huron University College employees became members of the University pension plans. Huron University College members also pay their share of the administration costs.
- In November, the Board approved the design of two new investment options which will be implemented in the fall of 2001. The Balanced Income Fund and the Balanced Growth Fund will be preset combinations of the Diversified Bond Fund and Diversified Equity Fund, which will provide automatic rebalancing to the preset mixes over time.
- Effective January 1, 2001, administrative fees charged to terminated members were increased from \$100 annually to \$200 annually to cover costs of the program. This pertains to individuals who terminated prior to retirement and left their pension funds in the UWO pension plans.

## PROPOSED INDUSTRY REGULATORY CHANGES

A recent report by the Joint Forum of Financial Market Regulators, issued in April 2001, proposed a major review of the regulatory framework for Capital Accumulation Plans which would include the defined contribution pension plans for employees of the University of Western Ontario.

The Academic and Administrative Staff Pension Boards are concerned with the paper's proposal both in principal and with the potential implications it would have on our pension plan. If these regulations are passed, the additional cost both to the University in terms of increased administrative costs and to members in terms of their ultimate retirement income could be potentially significant and result in our plan being less attractive relative to our peers. The Joint Pension Board views this with deep concern and will be responding to the task force report.