Pensions

Supporting Documents for UTFA Members

UNIVERSITY OF TORONTO *faculty* ASSOCIATION

Summary of U of T pension plan funding

Two sides of pension plan

Assets
Contributions and investment earnings

Liabilities
Cost of providing pensions

Two valuations required by law

Solvency
Assumes plan suddenly stops

Going Concern
Assumes plan continues

Valuation date

Going-concern valuation

- Measures plan's health assuming it continues to operate well into the future
- Compares value of fund on date of valuation to value of benefits earned as of valuation date
- Uses reasonable long-term assumptions based on information available at valuation date
  - When members will retire
  - Future investment returns
- Deficits paid off over 15 years

Solvency valuation

- Tests plan's health assuming U of T shuts down
- Compares market value of fund on date of valuation to current value of pensions earned by members
- Can exclude certain benefits (such as indexing)
- Tied to current interest rates and assumptions prescribed
- Additional deficits paid off over 5 years

Going-concern valuation results

July 1, 2016	July 1, 2015	July 1, 2014
$573.1 million shortfall	$445.9 million shortfall	$729.5 million shortfall

Improved life expectancy *(longer pension payouts)* = ↑ liabilities *(more money needed to fund pensions)*

Lower expectations for future returns *(less investment income)* = ↑ liabilities *(more money needed to fund pensions)*

Year-over-year investment returns = ↑↓

Going-concern valuation results

Impact of drop in expected future investment returns on going-concern results

Drop in expected returns from 5.75% to 4.75%

1%

$758 million increase
in going-concern funding obligation

Based on 2016 valuation

Solvency valuation results

July 1, 2016	July 1, 2015	July 1, 2014
$1.7 billion shortfall	$1.1 billion shortfall	$1.1 billion shortfall

Lower interest rates = liabilities
(more money needed to settle pensions)

Solvency valuation results

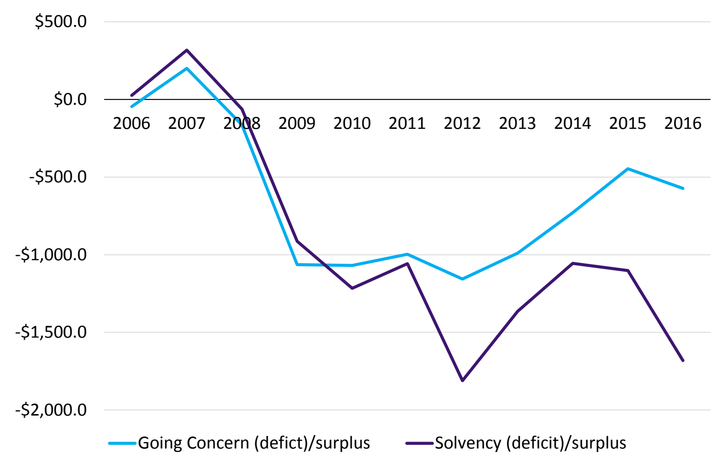
Impact of low interest rates on solvency results

1% drop in interest rates

1%

$973 million increase
in solvency funding obligation
Based on 2016 valuation

Deficit/surplus history ($millions)



Source: *University of Toronto Pension Plan Annual Financial Report for the year ended June 30, 2016*; assumes that the U of T and OISE plans were merged throughout the entire period