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Date: April 14, 2009  
To: UTFA Members at the AGM  
From: George Luste, UTFA President  
RE: Outline notes for my AGM presentation

#### Topics

- A. Some brief overview comments regarding UofT budget
- B Budget cross-transfers at UofT
- C History of BIU Income and Student/Faculty Ratio
- D The Endowment Fund (~ \$500M loss in 2008)  
No Disbursement in 2009-10 and \$45M planned deficit
- E The Pension Fund (~\$800M loss in 2008)  
Effect of Missing Contributions (see Nov 17, 2008 Newsletter)  
UTAM returns compared to passive investments  
Status of Mediation/Arbitration for Pension Governance changes
- F Past salary increases for senior administrators and for faculty in general
- G Conclusions

**A. Some brief overview comments regarding the UofT budget**

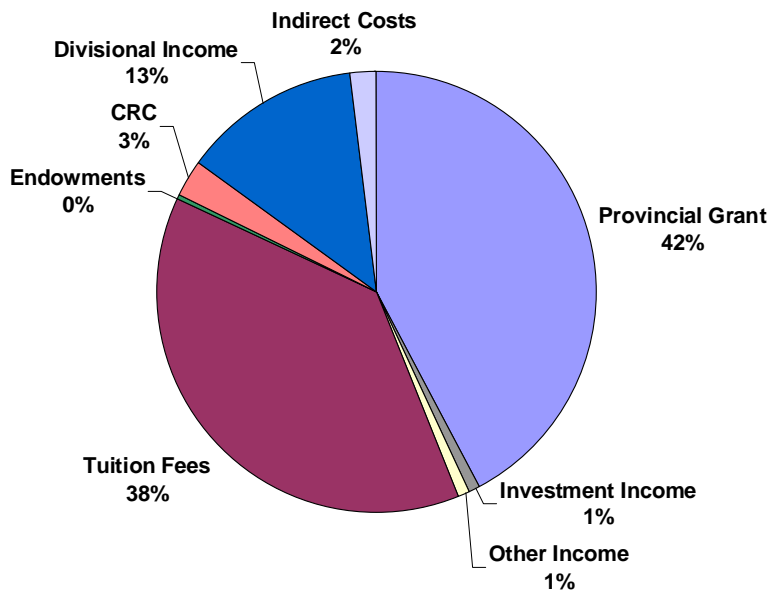
**Question:**

**What are the major expenditure funds and what are the main sources of income?**

**2007-08 Expenses – from financial statement numbers<sup>1</sup>**

<b>\$1,276 million</b>	<b>Operating fund expenses</b>
	<b>\$915 m Salaries &amp; Benefits – or 72%%</b>
	<b>\$125 m Scholarships etc – or 10%</b>
	<b>\$236 m Everything else - or 18 %</b>
\$137 million	Ancillary operations
\$91 million	Capital Fund
<u>\$395 million</u>	<u>Restricted fund (&gt;16,000 individual accounts/funds)</u>
<b>\$1,898 million</b>	<b>Total for 2007-08</b>

**2009-10 Sources of Operating Revenue**



<sup>1</sup> From UofT booklet Facts & Figures 2008  
see <http://www.utoronto.ca/about-uoft/quickfacts/factsandfigures.htm>

## B Budget cross-transfers at UofT

### Question:

How are the Operating Funds distributed by academic division and who contributes and who takes from the University Fund (in the new budget model)?

Summary of Projected Revenue and Expense Allocation for 2009-10					
Division	Attributed Operating Revenue (A)	10% Contribution to Univ Fund (B)	Receive from Univ Fund (H)	Final Divisional Budget [I=G+H]	University Fund Net [J=H-B]
UTM	\$ 141,686,913	\$ 13,878,789	\$ 186,501	\$ 97,217,882	\$ (13,692,288)
UTSC	\$ 135,046,789	\$ 13,228,364	\$ 259,420	\$ 93,002,980	\$ (12,968,944)
Arts & Science	\$ 397,988,706	\$ 37,291,126	\$ 26,229,427	\$ 212,506,810	\$ (11,061,699)
Applied Science & Engineering	\$ 128,731,433	\$ 11,460,270	\$ 5,376,867	\$ 58,890,337	\$ (6,083,403)
Pharmacy	\$ 26,349,199	\$ 2,503,064	\$ (161,576)	\$ 13,136,613	\$ (2,664,640)
Physical Education & Health	\$ 7,907,794	\$ 777,742	\$ 303,498	\$ 4,212,137	\$ (474,244)
Dentistry	\$ 24,438,250	\$ 2,224,997	\$ 11,445,350	\$ 22,011,472	\$ 9,220,353
OISE/UT	\$ 65,285,246	\$ 6,206,987	\$ 14,897,684	\$ 50,154,885	\$ 8,690,697
Medicine	\$ 168,035,895	\$ 14,155,959	\$ 22,360,024	\$ 78,732,043	\$ 8,204,065
Law	\$ 20,017,868	\$ 1,925,896	\$ 7,028,595	\$ 15,371,199	\$ 5,102,699
Music	\$ 12,125,519	\$ 1,184,503	\$ 4,795,639	\$ 9,850,248	\$ 3,611,136
Forestry	\$ 2,601,066	\$ 190,439	\$ 2,926,383	\$ 2,700,593	\$ 2,735,944
Architecture, Landscape & Design	\$ 7,067,714	\$ 678,703	\$ 2,912,652	\$ 6,093,579	\$ 2,233,949
Graduate Centres & Institutes	\$ 1,934,804	\$ 157,672	\$ 1,946,365	\$ 2,819,737	\$ 1,788,693
Management	\$ 54,526,079	\$ 5,277,423	\$ 6,926,565	\$ 41,640,282	\$ 1,649,142
Information	\$ 9,770,494	\$ 925,683	\$ 2,433,965	\$ 7,245,729	\$ 1,508,282
Transitional Year Programme	\$ 417,368	\$ 41,620	\$ 1,461,135	\$ 1,241,104	\$ 1,419,515
Nursing	\$ 15,737,775	\$ 1,494,186	\$ 2,000,428	\$ 9,772,135	\$ 506,242
Social Work	\$ 9,929,277	\$ 912,123	\$ 1,186,622	\$ 6,252,059	\$ 274,499
Subtotal (excl divisional inc)	\$ 1,229,598,189	\$ 114,515,545	\$ 114,515,545	\$ 732,851,824	\$ -

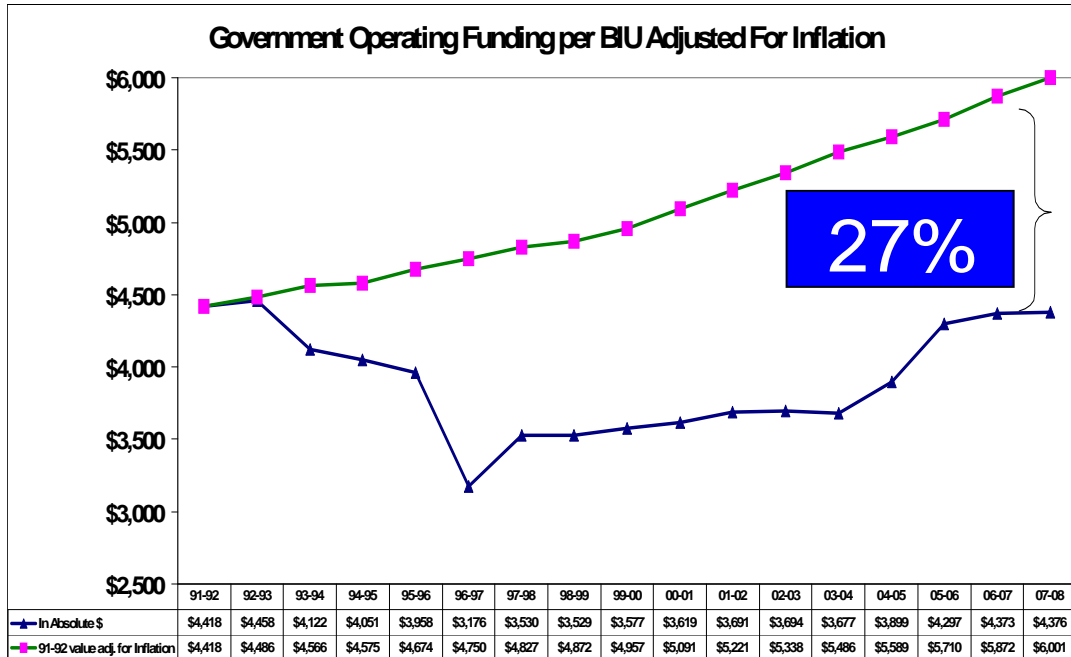
### Observation:

The dollar numbers in the far right hand column show that divisions with large undergraduate student numbers – like UTM, UTSC, A&S, Engineering – are in affect subsidising most of the professional faculties, who do not have the same volume of undergraduate students.

## C History of BIU Income and Student/Faculty Ratio

### Question:

How much has the student BIU decreased (in real terms) and what is the increase in student faculty ratios<sup>2</sup>?



<b>10-year changes in enrolment &amp; faculty counts</b>			
	<b>1997-Nov</b>	<b>2007-Nov</b>	<b>% Increase</b>
1 Undergraduate Students - FTE	33,994	50,159	<b>48%</b>
2 Graduate Students - FTE	8,105	12,142	<b>50%</b>
3 Tenure Stream Faculty (full-time)	1,570	1,903	<b>21%</b>
4 All Faculty & Librarians (full-time)	2,817	2,757	<b>-2%</b>
5 Ratio: All Students to Tenure Stream	26.8	32.7	<b>22%</b>
6 Ratio: All Students to All Faculty & Librarians	14.9	22.6	<b>51%</b>

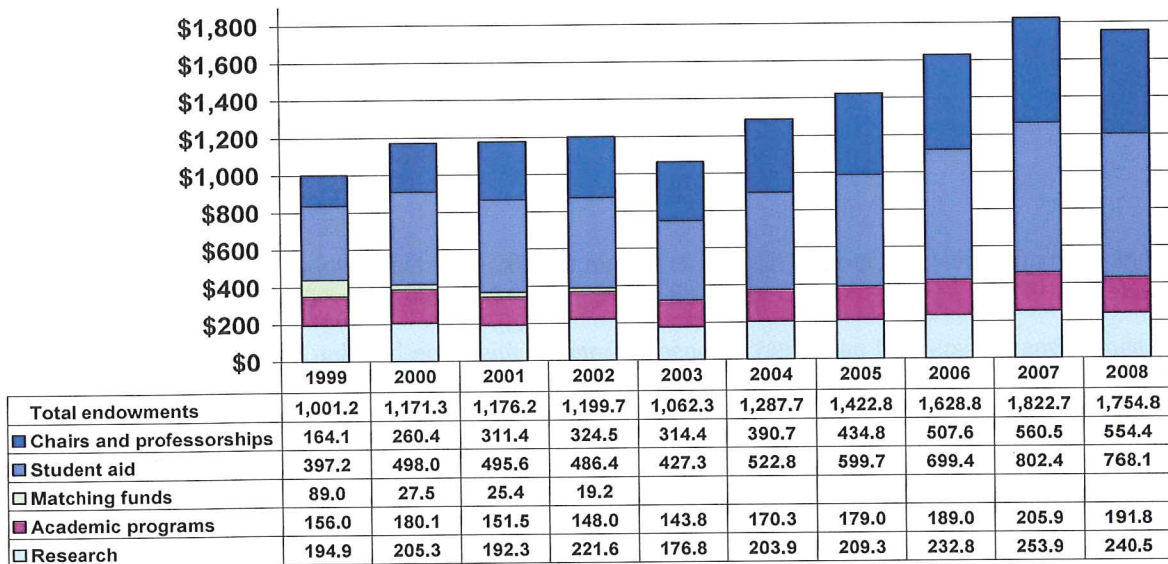
<sup>2</sup> From UofT booklet [Facts & Figures 2008](#)

## D The Endowment Fund

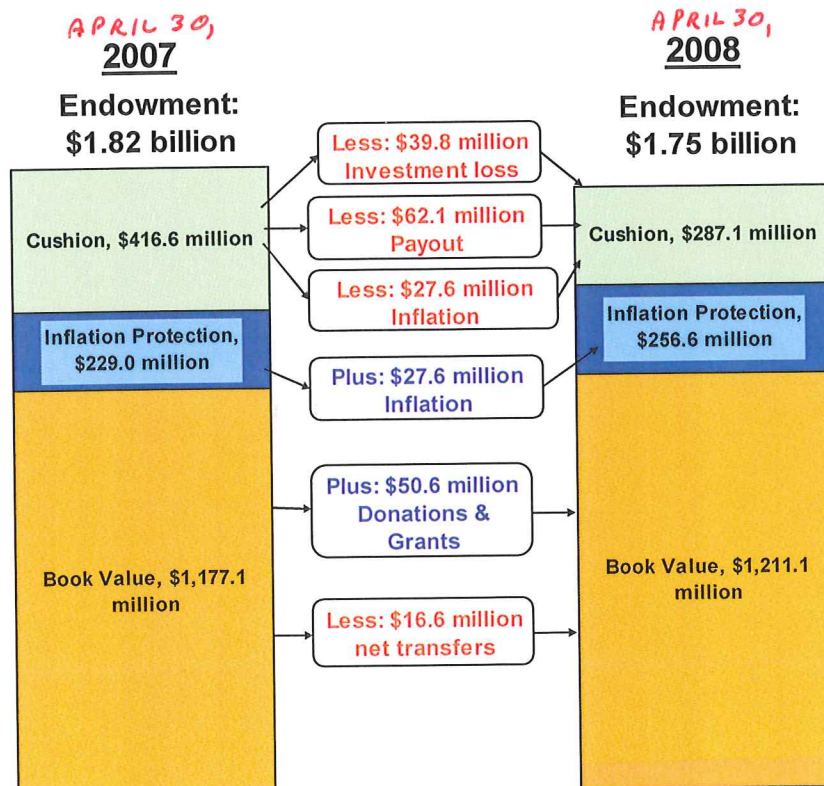
### Endowments

Endowments are RESTRICTED FUNDS which must be used in accordance with purposes agreed between the University and donors, or determined by Governing Council. Endowments are NOT available for use in support of general operating activities.

**Endowments at Fair Value  
at April 30  
(millions of dollars)**



For 2007-08, the endowment spending rate was \$7.65 per unit, which provided \$62.1 million for spending and represented 3.5% of the opening market value of endowments. The cushion declined by the amount of spending, by \$39.8 million in investment losses, and by \$27.6 million which was transferred from the cushion and added to inflation protection, as shown in the diagram below.



**NOTE**  
 30% MARKET LOSS IN 2008  
 ⇒ ≈ \$500 MILLION ENDOWMENT LOSS

## **D The Endowment Fund**

### **Estimated Endowment Distribution Loss 2009-10**

Total endowment payout was slated to be \$62M in 2009

\$46M flows through the operating budget to support chairs and student aid

\$12M impact for endowed chairs

\$34M impact on student aid

\$16M stays in restricted funds to support research and departmental expenses

### **The 2009-10 Deficit Plan Overview**

\$54.8M expense containment requires, less maximum deficit financing

\$45.0 M

\$ 9.8M remaining expense containment

Repayment of the \$45M 2009-10 deficit will be in equal instalments of \$9.0M in each of five years, starting in 2010-11.

In addition there is the \$43.9M historical accumulated deficit , which is already being recovered over the four years from 2009-10 to 2012-13

**E The Pension Fund (~\$800M loss in 2008) plus  
Effect of Missing Contributions (see Nov 17, 2008 Newsletter)**

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**Information Report #9 – part II**

**Inconvenient Truths**

about the

**U of T Pension Plan: the missing contributions**

Academic Year to July 1	Did the UofT Administration contribute its share of the annual pension plan service cost?	What is today's cumulative value of the missing UofT contributions?
1987	Partial contribution	\$ 16 million
1988	No pension contribution	\$ 42 million
1989	No pension contribution	\$ 80 million
1990	No pension contribution	\$ 113 million
1991	No pension contribution	\$ 154 million
1992	Partial contribution	\$ 182 million
1993	Partial contribution	\$ 232 million
1994	No pension contribution	\$ 279 million
1995	No pension contribution	\$ 358 million
1996	No pension contribution	\$ 438 million
1997	No pension contribution	\$ 569 million
1998	No pension contribution	\$ 687 million
1999	No pension contribution	\$ 733 million
2000	No pension contribution	\$ 895 million
2001	No pension contribution	\$ 883 million
2002	No pension contribution	\$ 898 million
2003	No pension contribution	\$ 938 million
2004	Partial contribution	\$ 1,089 million
2005	Extra contribution	\$ 1,194 million
2006	Extra contribution	\$ 1,258 million
2007	Extra contribution	\$ 1,493 million

For nearly two decades, from 1987 to 2004, the Administration of the University of Toronto made very few pension contributions towards the retirement benefits of its faculty and staff.

This astounding and salient fact could have dire consequences in the years ahead and merits a full understanding by all with a stake in the pension plan. The Administration has in effect deferred a substantial obligation. In doing so I believe they have borrowed from the future. This should be of particular concern to younger faculty.

How is this repeated failure to make pension contributions possible? Do the *Pension Benefits Act (Ontario)* and FSCO provide adequate oversight of pension funding? The short answer is: no, the oversight is inadequate.

## **E The Pension Fund (~\$800M loss in 2008)**

### **UTAM returns compared to passive investments**

The '2000 to 2008' comparison results are shown in detail on the next page.

#### **Question #1:**

**How does a passive index return compare to UTAM's over its existence?**

#### **Answer #1:**

**The passive portfolio is about \$665 million better than UTAM over the 9 UTAM years, from 2000 to 2008.** (Less about 0.10% or 10 basis points for passive investment costs.)

#### **Question #2:**

**Were performance bonus paid to UTM staff in the period 2000 to 2008? If so, why, when and how much?**

#### **Answer #2:**

**I don't know. I cannot find any such information in the UTAM reports. Are the UTAM compensation contracts and awards confidential? Again 'why'?**

This specific comparison on the next page is not cherry picking an after-the-fact favourable one. A year ago, at the April, 2008 Business Board meeting, UTFA's presentation<sup>3</sup> demonstrated that a simple passive investment approach would have achieved over \$200 million more in returns for the UofT pension plan than UTAM was able to achieve over the same prior eight years. The exact same passive index comparison from a year ago, but now including data for 2008, is shown on the next page.

Even earlier, three years ago, at the March 2006 presentation<sup>4</sup> to Business Board, the UTFA presentation stated:

*"Passive Index Returns vs UTAM Returns: Investment expenses are a performance drag and can reduce returns. Passive investing (as opposed to active investing) has minimal cost".*

A favourite quote from Sinclair Lewis comes to mind:

*"it's difficult to get a man to understand something when his salary depends on his not understanding it"*

<sup>3</sup> See posting of UTFA's presentation at <http://utfa.org/images/file/UofT%20Bus-Bd%20Apr-2008-final.pdf>

<sup>4</sup> See posting of UTFA's presentation at <http://utfa.org/images/file/UofT%20Bus-Bd%20Mar27-06-v9.pdf>



**Question:**  
**How does a passive index return compare to UTAM's?**

**Passive Index Performance**

Year	Pension Assets on Jun 30 \$ in Bil	Passive All Canadian Bonds	Passive TSX Composite	Passive Mix 50% All-C-Bonds 50% TSX	Passive Pension Gain or Loss in \$ Mil
2000	\$ 2.26	10.2%	7.4%	8.8%	\$ 198.9
2001	\$ 2.06	8.1%	-12.6%	-2.3%	-\$ 46.4
2002	\$ 1.94	8.7%	-12.4%	-1.9%	-\$ 35.9
2003	\$ 1.86	6.7%	26.7%	16.7%	\$ 310.6
2004	\$ 2.11	7.1%	14.5%	10.8%	\$ 227.9
2005	\$ 2.32	6.5%	24.1%	15.3%	\$ 355.0
2006	\$ 2.49	4.1%	17.3%	10.7%	\$ 266.4
2007	\$ 2.93	3.7%	9.8%	6.8%	\$ 197.8
2008	\$ 2.72	6.4%	-33.0%	-13.3%	-\$ 361.8
Compounded St Dev				5.3%	
Average				9.7%	
Sum				5.7%	\$ 1,112.5

**UTAM's Performance**

Year	Pension Assets on Jun 30 \$ in Bil	Active UTAM returns	UTAM Pension Gain or Loss in \$ Mil
2000	\$ 2.26	5.2%	\$ 117.3
2001	\$ 2.06	-1.5%	-\$ 30.5
2002	\$ 1.94	-7.0%	-\$ 135.0
2003	\$ 1.86	15.9%	\$ 295.7
2004	\$ 2.11	11.4%	\$ 240.5
2005	\$ 2.32	12.3%	\$ 285.4
2006	\$ 2.49	12.1%	\$ 301.3
2007	\$ 2.93	6.0%	\$ 175.2
2008	\$ 2.72	-29.5%	-\$ 802.4
Compounded St Dev		1.8%	
Average		14.1%	
Sum		2.8%	\$ 447.5

**Difference**

Year	Pension Assets on Jun 30 \$ in Bil	Passive \$ less UTAM in \$ Mil
2000	\$ 2.26	\$ 81.6
2001	\$ 2.06	-\$ 15.9
2002	\$ 1.94	\$ 99.1
2003	\$ 1.86	\$ 14.9
2004	\$ 2.11	-\$ 12.7
2005	\$ 2.32	\$ 69.6
2006	\$ 2.49	-\$ 34.9
2007	\$ 2.93	\$ 22.6
2008	\$ 2.72	\$ 440.6
Sum		\$ 665.0

**Answer:**  
**The passive portfolio is about \$665 Million better than UTAM, over the 9 UTAM years, from 2000 to 2008. Less about a 0.10% MER for the passive costs."**

**F Past salary increases for senior administrators and for faculty in general**

<b>Income Increases at the University of Toronto                      over 11 years, 1996 to 2007,                      (data from the Ontario Public Income Disclosure Listings)</b>			
	1996 Income	2007 Income	Total % increase over 11 years
<b>UofT President</b>	\$ 214,459	\$ 429,682	<b>100%</b>
<b>UofT Provost</b>	\$ 182,412	\$ 423,654	<b>132%</b>
<b>UofT Dean - Management</b>	\$ 177,911	\$ 371,533	<b>109%</b>
<b>UofT Dean - Arts &amp; Science</b>	\$ 130,832	\$ 304,039	<b>132%</b>
<b>Average of top 50 UofT Incomes</b>	\$ 164,856	\$ 305,882	<b>86%</b>
<b>Toronto Inflation</b> (total CPI change 1995-96 to 2006-07)			<b>26%</b>
<b>UofT Across-the-Board (ATB)</b> (total 1995-96 to 2006-07 (% ATB salary change for all continuing faculty and librarians)			<b>25%</b>

**Observations:**

**The across-the-board salary increases UTFA has negotiated over the past 11 or 12 years are almost exactly the same as Toronto inflation (CPI from Stats Canada).**

**The salary increases for senior administrative positions have increased much more – about 300% the CPI numbers - as have, we believe, the number of senior administrative positions and their support staff.**