

**UNIVERSITY OF WATERLOO
BOARD OF GOVERNORS
PENSION & BENEFITS COMMITTEE
2008 REPORT TO THE UW COMMUNITY**

Note: In recognition of the current market volatility, the Committee wishes to advise the community that the pension plan is prudently managed and investment returns continue to be monitored on a regular basis.

This report provides an overview of the many issues dealt with by the [Pension & Benefits Committee](#) since its last report in 2005, some of which you may already be familiar with through the Committee's periodic updates, information notices and public meetings.

For much of 2006, the Committee was occupied with the effect of the elimination of mandatory retirement on UW's pension and benefits programs; in 2007, it was immersed in Pension Plan funding and design; and the first half of 2008 was spent restructuring the Pension Fund's global investments.

For the remainder of 2008 and 2009, the Committee will continue or begin to discuss: options to enable retirees to purchase a dental plan; sick leave/LTD; vision care; health spending accounts; dental coverage; internal coordination of benefits; and benefit maxima. Further information on any of these topics or the topics identified below may be obtained by contacting the Committee Secretary, ext. 35924, or trenny@uwaterloo.ca.

Benefits are provided by the University from operating funds. The costs of extended health, dental and basic life insurance benefits are charged to the University in the form of premiums. These premiums are a direct result of claims paid and are borne by the University.

Extended Health Care Plan – Increase in Dispensing Fee Cap

Because it was becomingly increasingly difficult to find a pharmacy that charged less than \$7.00, the Committee increased the dispensing fee cap to \$7.00 (from \$6.60). Each pharmacy charges a cost for dispensing prescription drugs as well as for the ingredient cost of the drug itself; dispensing fees can vary substantially. Please remember that if you use a pharmacy which charges more than \$7.00, you are responsible for paying the difference. The [Preferred Provider Network](#) is often the best choice and the list is on the HR web site.

Dental Plan – Expanded Coverage to Include Implants

Implants were added to the major restorative category, based on the cost that would have been considered for a bridge (i.e., 50% of the fee guide for a bridge to a category maximum of \$2,904/year per eligible person).

Increase in the Maximum Salary Protected by the LTD Benefit

To ensure that the vast majority of faculty and staff have adequate LTD protection, the annual base salary on which the LTD benefit is based was increased to \$150K (from \$120K). Also, the maximum salary on which LTD premiums are paid and benefits are received will be indexed and reviewed annually.

One Insurance Carrier for Extended Health, Dental and Long Term Disability Plans

The University's three benefit plans are now managed by one carrier – Great West Life. Members now have the convenience of a new combination benefit card with one policy number, the option of having claim payments directly deposited into your bank account, and access to GWL's GroupNet (personal on-line service and wellness site).

Extended Health Care Out-of-province Coverage (for retirees who participate in the January 1, 1996 to June 5, 2000 Plan)

Increase in Maximum. Pensioners living in Canada but outside Ontario have a lifetime maximum (to limit potential liability to the Plan). Each year, the Committee monitors the maximum to ensure that no pensioner finds her/himself without extended health care coverage. The lifetime maximum for out of province coverage was increased to \$50K (from \$40K). The limit on out-of-country coverage remains at \$40K.

Annual Statement. Pensioners will now receive annual statements from Great West Life informing them where they stand in relation to the maximum.

Benefits Funding Model or Protocol for Handling Annual Cost Changes

In an attempt to establish a formal process for long-term planning with respect to benefits, the administration proposed a framework under which benefits could be managed. Having learned during the consultative phase that the framework was not supported by the three employee groups, the framework was not put in place. As such, the Committee will continue to manage benefit increases within the parameters of the University's ability to pay.

UW has a Defined Benefit Plan. This means that your pension is based on your final average earnings and the number of years you have contributed to the Plan; it is indexed to inflation. Your pension does not depend on investment results.

Launch of myPENSIONinfo

To keep pace with employees' desires to be more self-sufficient, [myPENSIONinfo](#), a self service pension projection and pension information tool designed for members of the UW Pension Plan was launched in June 2008. It allows you to project your pension at varied dates, to review your pension value as of the previous month end date and to review your last three years of annual pension statements. If you are over age 50, there is also the option of including salary increases and the 2% in lieu of vacation option in your pension projections.

Pension Plan Funding and Design

In May 2007, the Committee recommended in public meetings with employee groups several changes to the Registered and Payroll Pension Plans to: sustain the long-term financial viability of the plans, ensure that the defined benefit formula will apply to the final average earnings of the vast majority of current UW employees, and adjust the share of the Plan cost funded by the members and the University. Following this consultation, the following changes were approved by the Board in June 2007:

Decrease in Assumed Rate of Investment Return. The assumed rate of investment return was decreased from 6.5% to 6.35% for the purposes of actuarial projections of Plan funding requirements. This decrease reflects a more modest income return expectation in the future and is a more prudent assumption in the present and projected economy.

Removing Indexation During the Deferral Period. Employees who choose to leave their pension benefits in the Plan will no longer have their pensions indexed during the deferral period. The money saved will be reallocated to address the long-term funding of the Pension Plan. Indexing during the deferral period was maintained for: (i) existing deferred vested members; (ii) current active members who terminate employment after eligibility for early retirement or with 20 or more years of service; (iii) benefits for current active members earned in respect of service up to December 31, 2007 (for members who do not

qualify under (ii)). For all other active members, there is no indexation in deferral period for benefits earned in respect of service after January 1, 2008.

Increase in Member Contributions to the Plan. July 1, 2007 and July 1, 2008 saw members' contributions increase (phased in over two years). Members at higher rates of pay contribute proportionately more than those at lower salary levels. Member contribution rates to the Plan had not increased since 1977, while the University's contributions have continued to increase.

Income Tax Act (ITA) Limits Under the Registered Pension Plan and Pension Cap Under the Payroll Pension Plan. To address the issue of the growing number of individuals not receiving pension benefits based on their entire income, even though they continue to make full contributions, the ITA limits will now be indexed in accordance with ITA provisions, subject to a maximum cap of \$3,200, as follows: \$2,222.22 in 2007, \$2,333.33 in 2008, \$2,444.44 in 2009, indexed to increases in the Average Industrial Wage (AIW) thereafter. The pension cap under the Payroll Pension Plan was also indexed from \$2,650 to \$2,725 in 2008, \$2,800 in 2009, indexed to increases in the AIW thereafter, subject to a maximum cap of \$3,200.

Fairness – Return of Over-contributions to the Plan. The *Income Tax Act* limits the amount of pension one can earn. This was partially addressed by increasing the caps on the Registered and Payroll Pension Plans. However, there remain some individuals who continue to make full contributions to the Plan but who will not receive pension based on their pensionable income. The Committee believed that this was unfair and as such the Board approved a recommendation that over-contributions, with interest, be calculated and credit given to the member at retirement.

Restructuring the Fund's Global Equity Portfolio

To diversify the portfolio, the Committee terminated its relationship with INVESCO (an EAFE (Europe, Asia and the Far East) manager) and retained the services of two global managers – AllianceBernstein and Trilogy.

Income Trusts

Having heard that some Plan members are concerned with income trusts being used as an investment vehicle by the Pension Fund (given the uncertainty of tax regulations and the impact this uncertainty has had on the market), the Committee wishes to assure members that there is no cause for concern since UW has minimal exposure.

The Committee and its Members

The [Pension & Benefits Committee](#) is a standing committee of the Board of Governors responsible for overseeing UW's pension plans, extended health care and dental plans, self-insured sick leave and long term disability plans, and life insurance plans. It also considers other University-related benefits such as the tuition benefit. The Committee consists of representatives from senior administration, the Board of Governors, retirees, university support staff, faculty and CUPE Local 793. In addition to its semi-annual investment manager review meetings, the Committee meets on a monthly basis (except July and August); meetings are open to the UW community and [agendas and minutes](#) are available on the web. Recommendations for changes and improvements are developed, refined and approved by the Committee and forwarded to the Board of Governors for approval. Further detail on the Committee, including its members and upcoming meetings, is available at: <http://secretariat.uwaterloo.ca/Committees/board/pb.htm>

The Committee's approach to pension and benefit plans is based on the following principles:

1. There will be one pension and benefits plan for all members of the UW community regardless of the type of work performed or the employee group to which one belongs.
2. Benefits are provided for both the employee and his or her family where relevant.
3. Employees should be covered for catastrophic events.
4. The current level of benefits should be maintained.
5. Cost implications to both the University and its employees should be considered.

October 21/08