

# Report on the Actuarial Valuation For Funding Purposes as at May 15, 2021

## The University of Ottawa Retirement Pension Plan

December 2021

Financial Services Regulatory Authority and  
Canada Revenue Agency Registration Number: 0310839

### **Note to reader regarding actuarial valuations:**

This valuation report may not be relied upon for any purpose other than those explicitly noted in the Introduction, nor may it be relied upon by any party other than the parties noted in the Introduction. Mercer is not responsible for the consequences of any other use. A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a pension plan's future financial condition or its ability to pay benefits in the future. If maintained indefinitely, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, the amount of plan expenses, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date. The content of the report may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission. All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used, or relied upon without reference to the report as a whole.

To prepare the results in this report, actuarial assumptions are used to model a single scenario from a range of possibilities for each valuation basis. The results based on that single scenario are included in this report. However, the future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be significant or material. Different assumptions or scenarios within the range of possibilities may also be reasonable, and results based on those assumptions would be different. Furthermore, actuarial assumptions may be changed from one valuation to the next because of changes in regulatory and professional requirements, developments in case law, plan experience, changes in expectations about the future, and other factors.

The valuation results shown in this report also illustrate the sensitivity to one of the three key actuarial assumptions, including the discount rate, and the sensitivity to three adverse scenarios. We note that the results presented herein rely on many assumptions, all of which are subject to uncertainty, with a broad range of possible outcomes, and the results are sensitive to all the assumptions used in the valuation.

Should the Plan be wound up, the going concern funded status and solvency financial position, if different from the wind-up financial position, become irrelevant. The hypothetical wind-up financial position estimates the financial position of the Plan assuming it is wound up on the valuation date. Emerging experience will affect the wind-up financial position of the Plan assuming it is wound up in the future. In fact, even if the Plan were wound up on the valuation date, the financial position would continue to fluctuate until the benefits are fully settled.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security, and/or benefit-related issues should not be made solely on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic, and societal factors, including financial scenarios that assume future sustained investment losses.

Funding calculations reflect our understanding of the requirements of the Ontario Pension Benefits Act, the Income Tax Act, and related regulations that are effective as of the valuation date. Mercer is not a law firm, and the analysis presented in this report is not intended to be a legal opinion. You should consider securing the advice of legal counsel with respect to any legal matters related to this report.

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## Section 1

# Summary of Results

| (in \$000s)  | 2021-05-15          | 2020-01-01          |
|--|---------------------|---------------------|
| <b>Going Concern Financial Status</b>  |                     |                     |
| Market smoothed value of assets  | \$2,777,577         | \$2,525,396         |
| Going concern funding liabilities  | \$2,354,765         | \$2,180,664         |
| Provision for adverse deviations in respect of the going concern liabilities   | \$190,988           | \$301,823           |
| Funding excess (shortfall)   | \$231,824           | \$42,909            |
| <b>Hypothetical Wind-up Financial Position</b>   |                     |                     |
| Wind-up assets   | \$2,848,273         | \$2,596,406         |
| Wind-up liability  | \$4,275,012         | \$4,130,787         |
| Wind-up excess (shortfall)   | (\$1,426,739)       | (\$1,534,381)       |
| Wind-up ratio  | 67%                 | 63% <sup>1</sup>    |
| <b>Funding Requirements in the Year Following the Valuation <sup>2</sup></b>   |                     |                     |
| Total current service cost   | \$83,362            | \$77,896            |
| Estimated members' required contributions  | (\$38,053)          | (\$36,936)          |
| Estimated employer's current service cost  | \$45,309            | \$40,960            |
| Provision for adverse deviations in respect of current service cost  | \$6,898             | \$11,037            |
| Total  | \$52,207            | \$51,997            |
| Employer's current service cost and provision for adverse deviations in respect of the current service cost expressed as a percentage of members' pensionable earnings | 13.17% <sup>3</sup> | 13.56% <sup>4</sup> |
| Minimum special payments   | \$0                 | \$0                 |
| Estimated minimum employer contribution  | \$52,191            | \$51,997            |
| Estimated maximum eligible employer contribution   | \$1,478,930         | \$1,586,378         |
| Next required valuation date   | May 15, 2024        | January 1, 2023     |

<sup>1</sup> On April 29, 2020, a Request for Approval form with the Financial Services Regulatory Authority ("FSRA") as per FSRA Policy T800-402, along with a Report on the Updated Transfer Ratio of the Plan as of March 31, 2020, were filed with FSRA, showing a transfer ratio of 0.54 as of that date.

<sup>2</sup> Provided for reference purposes only. Contributions must be remitted to the Plan in accordance with the Minimum Funding Requirements and Maximum Eligible Contributions sections of this report.

<sup>3</sup> Alternatively expressed as 9.80% of pensionable earnings up to the YMPE threshold, and 15.05% of the balance of pensionable earnings up to 120% of the maximum salary paid to a professor

<sup>4</sup> Alternatively expressed as 10.05% of pensionable earnings up to the YMPE threshold, and 15.45% of the balance of pensionable earnings up to 120% of the maximum salary paid to a professor

## Section 2

# Introduction

## To the University of Ottawa

At the request of the University of Ottawa (the “University”), we have conducted an actuarial valuation of the University of Ottawa Retirement Pension Plan (the “Plan”), sponsored by the University, as at the valuation date, May 15, 2021. We are pleased to present the results of the valuation.

## Purpose

The purpose of this valuation is to determine:

- The funded status of the Plan as at May 15, 2021 on going concern, hypothetical wind-up, and solvency bases;
- The minimum required funding contributions from May 15, 2021, in accordance with the *Ontario Pension Benefits Act* (the “Act”); and
- The maximum permissible funding contributions from May 15, 2021, in accordance with the *Income Tax Act*.

The information contained in this report was prepared for the internal use of the University, and for filing with the Financial Services Regulatory Authority (“FSRA”) and with the Canada Revenue Agency, in connection with our actuarial valuation of the Plan. This report will be filed with the Financial Services Regulatory Authority and with the Canada Revenue Agency. This report is not intended or suitable for any other purpose.

In accordance with pension benefits legislation, the next actuarial valuation of the Plan will be required as at a date not later than May 15, 2024, or as at the date of an earlier amendment to the Plan depending on any funding implications.

## Terms of Engagement

In accordance with our terms of engagement with the University of Ottawa, our actuarial valuation of the Plan is based on the following material terms:

- It has been prepared in accordance with applicable pension legislation and actuarial standards of practice in Canada.
- As instructed by the University, we have not reflected a margin for adverse deviations in the going concern valuation in excess of the provision for adverse deviations prescribed by the Act.

We have reflected the University’s decisions for determining the solvency funding requirements, summarized as follows:

- The same plan wind-up scenario was hypothesized for both hypothetical wind-up and solvency valuations.

- Certain excludable benefits were excluded from the solvency liabilities.
- The solvency financial position was determined on a market value basis.

See sections Valuation Results of the report for more information.

## Events since the Last Valuation at January 1, 2020

### Pension Plan

Since the date of the last valuation, the Plan was amended effective October 1, 2020 to allow members having a period of membership without pay due to a strike or lockout to elect to have this period included as pensionable service and credited service under the plan, subject to making special contributions within a prescribed delay. This amendment was adopted in June 2021 and has no impact on the financial position of the Plan at May 15, 2021. The impact of this amendment is not material and will be reflected in future actuarial valuations.

There have been no other special events since the last valuation date.

This valuation reflects the provisions of the Plan as at May 15, 2021. We are not aware of any pending definitive or virtually definitive amendments coming into effect during the period covered by this report. The Plan provisions are summarized in Appendix F.

### Assumptions

We have used the same going concern valuation assumptions and methods as were used for the previous valuation, except for the following:

|  | Current valuation   | Previous valuation  |
|--|---|---|
| Discount rate:   | 6.15% per year  | 6.25% per year  |
| Actuarial basis for benefits assumed to be settled through a lump sum: | Discount rate: 1.80%<br>Mortality rates: CPM2014 with fully generational improvements using CPM-B | Discount rate: 1.70%<br>Mortality rates: CPM2014 with fully generational improvements using CPM-B |

A summary of the going concern methods and assumptions is provided in Appendix C.

The hypothetical wind-up and solvency assumptions have been updated to reflect market conditions at the valuation date. A summary of the hypothetical wind-up and solvency methods and assumptions is provided in Appendix D.

### Regulatory Environment and Actuarial Standards

There have been a number of changes to the Act and regulations that impact the funding of the Plan.

On July 23, 2020, the CIA published the final version of Section 3500 of the Standards of Practice on Pension Commuted Values and confirmed that the effective date of the new standards is December 1, 2020. From the effective date, the revised standards affect the assumptions used to value the solvency and wind-up liabilities for benefits assumed to be settled through a lump sum transfer. They also affect the assumptions used to determine the

commuted values payable upon termination for members assumed to elect a lump sum transfer under the going concern basis. The financial impact of those changes is reflected in this actuarial valuation.

## Subsequent Events

On September 8, 2021, the Actuarial Standards Board of the CIA approved changes to Section 3500 of the Standards of Practice on Pension Commuted Values to address pension commuted values in economic environments where bond yields are negative and confirmed that the effective date of the revised standards is February 1, 2022. From the effective date, the revised standards will affect the indexed rates used to value the wind-up liabilities for benefits assumed to be settled through a lump sum transfer. They will also affect the assumptions used to determine the commuted values payable upon termination for members assumed to elect a lump sum transfer under the going concern basis. The financial impact of those changes will be reflected in future valuations.

After checking with representatives of the University, to the best of our knowledge there have been no other events subsequent to the valuation date that, in our opinion, would have a material impact on the results of the valuation as at May 15, 2021. Our valuation reflects the financial position of the Plan as of the valuation date and does not take into account any experience after the valuation date.

## Impact of Case Law

This report has been prepared on the assumption that all claims on the Plan after the valuation date will be in respect of benefits payable to members of the Plan determined in accordance with the Plan terms and that all Plan assets are available to provide for these benefits. It is possible that court and regulatory decisions and changes in legislation could give rise to additional entitlements to benefits under the Plan and cause the results in this report to change. By way of example, we bring your attention to the following decisions:

- The Ontario Court of Appeal's 2003 decision in *Aegon Canada Inc. and Transamerica Life Canada versus ING Canada Inc.* restricted the use of original plan surplus where two or more pension plans were merged.
- The Supreme Court of Canada's 2004 decision in *Monsanto Canada Inc. versus Superintendent of Financial Services* upheld the requirement, with retroactive effect, to distribute surplus on partial plan wind-up under the *Pension Benefits Act (Ontario)*.

We are not in a position to assess the impact that such decisions or changes could have on the assumption that all plan assets on the valuation date are available to provide for benefits determined in accordance with the Plan terms. If such a claim arises subsequent to the date of this report, the consequences will be dealt with in a subsequent report. We are making no representation as to likelihood of such a claim.

## Section 3

# Valuation Results – Going Concern

## Financial Status

A going concern valuation compares the relationship between the value of Plan assets and the present value of expected future benefit cash flows in respect of accrued service, assuming the Plan will be maintained indefinitely.

The results of the current valuation, compared with those from the previous valuation, are summarized as follows:

| (in \$000s)   | 2021-05-15         | 2020-01-01         |
|---|--------------------|--------------------|
| <b>Assets</b>   |                    |                    |
| Market value of assets  | \$2,848,928        | \$2,596,969        |
| Present value of future buy-back contributions  | \$345              | \$437              |
| Asset smoothing adjustment  | (\$71,696)         | (\$72,010)         |
| Smoothed value of assets  | <b>\$2,777,577</b> | <b>\$2,525,396</b> |
| <b>Going concern funding target</b>   |                    |                    |
| Going concern liabilities:  |                    |                    |
| • Active members  | \$1,050,185        | \$969,438          |
| • Pensioners and survivors  | \$1,234,869        | \$1,144,878        |
| • Deferred pensioners   | \$69,359           | \$65,937           |
| • Additional voluntary contributions <sup>5</sup>   | \$352              | \$411              |
| • Subtotal  | \$2,354,765        | \$2,180,664        |
| Provision for adverse deviations in respect of going concern liabilities as prescribed by the Act | \$190,988          | \$301,823          |
| Total   | <b>\$2,545,753</b> | <b>\$2,482,487</b> |
| Funding excess (shortfall) <sup>6</sup>   | <b>\$231,824</b>   | <b>\$42,909</b>    |

The going concern liabilities at May 15, 2021 do not include an additional margin for adverse deviations beyond the provision for adverse deviations prescribed by the Act

<sup>5</sup> Additional voluntary contributions made by members as allowed under prior plan provisions.

<sup>6</sup> Funding excess (shortfall) may or may not be equal to the going concern excess (unfunded liability) as described in the Act. Details of the going concern excess (unfunded liability) are provided in Appendix A.



## Reconciliation of Financial Status (in \$000s)

|   |            |            |
|---|------------|------------|
| Funding excess (shortfall) as at previous valuation           |            | \$42,909   |
| Interest on funding excess (shortfall) at 6.25% per year      |            | \$3,689    |
| Expected funding excess (shortfall)                           |            | \$46,598   |
| Net experience gains (losses)                                 |            |            |
| • Investment return   | \$65,311   |            |
| • Increases in pensionable earnings, YMPE and maximum pension | \$4,601    |            |
| • Indexation  | \$7,850    |            |
| • Mortality   | (\$4,539)  |            |
| • Retirement  | (\$1,562)  |            |
| • Termination   | \$217      |            |
| • Interest on employee contributions                          | (\$3,209)  |            |
| Total experience gains (losses)                               |            | \$68,669   |
| Impact of changes in assumptions                              |            |            |
| • Discount rate   | (\$30,046) |            |
| • Discount rate for lump sum settlements                      | \$2,489    |            |
| Total assumption changes impact                               |            | (\$27,557) |
| Change in Provision for Adverse Deviations (PfAD)             |            | \$151,571  |
| Net impact of other elements of gains and losses              |            | (\$7,457)  |
| Funding excess (shortfall) as at current valuation            |            | \$231,824  |

## Current Service Cost

The current service cost is an estimate of the present value of the additional expected future benefit cash flows in respect of pensionable service that will accrue after the valuation date, assuming the Plan will be maintained indefinitely. A provision for adverse deviations in respect of the current service cost is determined in accordance with the Act.

The current service cost and the provision for adverse deviations in respect of the current service cost, during the year following the valuation date, compared with the corresponding values determined in the previous valuation, is as follows:

| (in \$000s)   | 2021-05-15 | 2020       |
|---|------------|------------|
| Total current service cost <sup>7</sup>   | \$83,362   | \$77,896   |
| Estimated members' required contributions   | (\$38,053) | (\$36,936) |
| Total estimated employer's current service cost   | \$45,309   | \$40,960   |
| Employer's current service cost expressed as a percentage of members' pensionable earnings <sup>8</sup>   | 11.43%     | 10.68%     |
| Provision for adverse deviations in respect of the current service cost (based on the percentage defined in Appendix A and on total current service cost net of estimated future costs for escalated adjustments) |            |            |
| • As a dollar amount per year   | \$6,898    | \$11,037   |
| • As a percentage of members' pensionable earnings <sup>8</sup>   | 1.74%      | 2.88%      |
| Employer's current service cost and provision for adverse deviations in respect of current service cost   |            |            |
| • As a dollar amount per year   | \$52,207   | \$51,997   |
| • As a percentage of members' pensionable earnings <sup>8</sup>   | 13.17%     | 13.56%     |

The key factors that have caused a change in the employer's current service cost, excluding the provision for adverse deviations, since the previous valuation are summarized in the following table:

|  |        |
|--|--------|
| Employer's current service cost as at previous valuation | 10.68% |
| Demographic changes                                      | 0.44%  |
| Changes in assumptions                                   | 0.31%  |
| Employer's current service cost as at current valuation  | 11.43% |

<sup>7</sup> Total current service cost includes estimated future costs for escalated adjustments as defined in the Act (\$11,092,000 and \$10,348,000 as of May 15, 2021 and January 1, 2020, respectively).

<sup>8</sup> Based on projected payroll of \$396,393,000 for the year following May 15, 2021, and \$383,322,000 for the year 2020, which includes individual earnings up to 120% of the maximum professor salary, excludes earnings for members on disability, and reflects earnings for part-timers.

## Discount Rate Sensitivity

The following table summarizes the effect on the going concern liabilities and current service cost shown in this report of using a discount rate that is 1% lower than that used in the valuation. For the purposes of the illustration, we have not changed the interest rate used to determine commuted values upon termination of employment. The effect of a change in the discount rate on the provision for adverse deviations is not reflected.

| Scenario (in \$000s)                        | Valuation Basis | Reduce Discount Rate by 1% |
|---|-----------------|----------------------------|
| <b>Going concern funding liabilities</b>    | \$2,354,765     | \$2,703,224                |
| <b>Current service cost</b>                 |                 |                            |
| • Total current service cost                | \$83,362        | \$100,749                  |
| • Estimated members' required contributions | (\$38,053)      | (\$38,002)                 |
| Estimated employer's current service cost   | \$45,309        | \$62,747                   |

## Plausible Adverse Scenarios

The financial impact on the going concern results of plausible adverse scenarios that would pose threats to the Plan's future financial condition is presented in Appendix G.

## Vested Unfunded Reserves

As part of the Plan's pension reform in 1999/2000, five notional accounts referred to as reserves were established and were to be used to provide for potential reduction in the University and members' contributions. In addition, there was a portion of the going concern surplus allocated to Plan members for refund of prior contributions. Certain amounts were allocated to each reserve and were to vest on specific dates, based on some conditions. Some amounts vested on January 1, 1999 and January 1, 2002. No additional amounts vested after January 1, 2002 and no amounts are scheduled to vest in the future.

The use of these reserves was however suspended on January 1, 2004, given that the plan had a going concern deficit on that date.

The vested reserves are accumulated each year with interest calculated at the net return on the smoothed value of assets, and they are reduced by the amount of contribution reduction, as applicable. The net return for 2020 and for the period January 1, 2021 to May 15, 2021 are 8.1% and 2.9% respectively, based on the asset smoothing method used in the last filed actuarial valuation report, as per the plan text. Vested reserves as of May 15, 2021 are presented in the following table for disclosure purposes, and are based on the vested balances of the reserves as at January 1, 2007. The unfunded reserves do not reflect the contribution holidays taken in 2007 and 2008.

| <b>Reserves (in \$000s)</b>                  | <b>May 15, 2021</b>    |
|--|------------------------|
| • Surplus allocation (for unlocated members) | \$277                  |
| • Employee contribution reduction reserve    | \$36,578               |
| • Unallocated reserve                        | \$71,775               |
| • Excess reserve                             | \$12,668               |
| • Future Supplemental reserve                | \$7,688                |
| • Total                                      | <hr/> <u>\$128,986</u> |

## Section 4

# Valuation Results – Hypothetical Wind-Up

## Financial Position

When conducting a hypothetical wind-up valuation, we determine the relationship between the respective values of the Plan's assets and its liabilities assuming the Plan is wound up and settled on the valuation date, assuming benefits are settled in accordance with the Act and under circumstances consistent with the hypothesized scenario on the valuation date. More details on such scenario are provided in Appendix D.

The hypothetical wind-up financial position as of the valuation date, compared with that at the previous valuation, is as follows:

| (in \$000s)                                    | 2021-05-15           | 2020-01-01              |
|--|----------------------|-------------------------|
| <b>Assets</b>                                  |                      |                         |
| Market value of assets                         | \$2,848,928          | \$2,596,969             |
| Present value of future buy-back contributions | \$345                | \$437                   |
| Termination expense provision                  | (\$1,000)            | (\$1,000)               |
| <b>Wind-up assets</b>                          | <b>\$2,848,273</b>   | <b>\$2,596,406</b>      |
| <b>Present value of accrued benefits for:</b>  |                      |                         |
| • Active members                               | \$2,170,095          | \$2,107,368             |
| • Pensioners and survivors                     | \$1,929,711          | \$1,852,267             |
| • Deferred pensioners                          | \$174,854            | \$170,741               |
| • Additional voluntary contributions           | \$352                | \$411                   |
| <b>Total wind-up liability</b>                 | <b>\$4,275,012</b>   | <b>\$4,130,787</b>      |
| <b>Wind-up excess (shortfall)</b>              | <b>(\$1,426,739)</b> | <b>(\$1,534,381)</b>    |
| <b>Transfer Ratio</b>                          | <b>0.67</b>          | <b>0.63<sup>9</sup></b> |

<sup>9</sup> On April 29, 2020, a Request for Approval form with the Financial Services Regulatory Authority ("FSRA") as per FSRA Policy T800-402, along with a Report on the Updated Transfer Ratio of the Plan as of March 31, 2020, were filed with FSRA, showing a transfer ratio of 0.54 as of that date.

## Wind-up Incremental Cost

The wind-up incremental cost is an estimate of the present value of the projected change in the hypothetical wind-up liabilities from the valuation date until the next scheduled valuation date, adjusted for the benefit payments expected to be made in that period.

The hypothetical wind-up incremental cost determined in this valuation, compared with the corresponding value determined in the previous valuation, is as follows:

| (in \$000s)   | 2021-05-15  | 2020-01-01  |
|---|-------------|-------------|
| Number of years covered by report   | 3 years     | 3 years     |
| Total hypothetical wind-up liabilities at the valuation date (A)  | \$4,275,012 | \$4,130,787 |
| Present value at the valuation date of projected hypothetical wind-up liability at the next required valuation (including expected new entrants) plus expected benefit payments until the next required valuation (B) | \$4,800,703 | \$4,651,515 |
| Hypothetical wind-up incremental cost (B – A)   | \$525,691   | \$520,728   |

The incremental cost is not an appropriate measure of the contributions that would be required to maintain the windup position of the Plan even if actual experience is exactly in accordance with the going concern valuation assumptions. For example, the expected return on plan assets (based on the going concern assumptions) is greater than the discount rate used to determine the hypothetical wind-up liabilities.

## Discount Rate Sensitivity

The following table summarizes the effect on the hypothetical wind-up liabilities shown in this report of using a discount rate that is 1% lower than that used in the valuation:

| Scenario (in \$000s)                 | Valuation Basis | Reduce Discount Rate by 1% |
|--------------------------------------|-----------------|----------------------------|
| Total hypothetical wind-up liability | \$4,275,012     | \$5,155,059                |

## Section 5

# Valuation Results – Solvency

## Overview

The Act also requires the financial position of the Plan to be determined on a solvency basis. The financial position on a solvency basis is determined in a similar manner to the Hypothetical Wind-up Basis, except for the following:

| Exceptions   | Reflected in valuation based on the terms of engagement   |
|--|---|
| <p>The circumstance under which the Plan is assumed to be wound up could differ for the solvency and hypothetical wind-up valuations.</p> <p>Certain benefits can be excluded from the solvency financial position. These include:</p> <ul style="list-style-type: none"> <li>(a) any escalated adjustment (e.g. indexing),</li> <li>(b) certain plant closure benefits,</li> <li>(c) certain permanent layoff benefits,</li> <li>(d) special allowances other than funded special allowances,</li> <li>(e) consent benefits other than funded consent benefits,</li> <li>(f) prospective benefit increases,</li> <li>(g) potential early retirement window benefit values, and</li> <li>(h) pension benefits and ancillary benefits payable under a qualifying annuity contract.</li> </ul> | <p>The same circumstances were assumed for the solvency valuation as were assumed for the hypothetical wind-up valuation.</p> <p>The following benefits were excluded from the solvency liabilities shown in this valuation:</p> <ul style="list-style-type: none"> <li>- Future indexation of benefit</li> </ul> |
| <p>The financial position on the solvency basis needs to be adjusted for any Prior Year Credit Balance.</p>  | <p>Not applicable.</p>  |
| <p>The solvency financial position can be determined by smoothing assets and the solvency discount rate over a period of up to 5 years.</p>  | <p>Smoothing was not used.</p>  |
| <p>The benefit rate increases coming into effect after the valuation date can be reflected in the solvency valuation.</p>  | <p>Not applicable.</p>  |

## Financial Position

The financial position on a solvency basis, compared with the corresponding figures from the previous valuation, is as follows:

| (in \$000s)                                    | 2021-05-15         | 2020-01-01         |
|--|--------------------|--------------------|
| <b>Assets</b>                                  |                    |                    |
| Market value of assets                         | \$2,848,928        | \$2,596,969        |
| Present value of future buy-back contributions | \$345              | \$437              |
| Termination expense provision                  | (\$1,000)          | (\$1,000)          |
| Net assets                                     | <b>\$2,848,273</b> | <b>\$2,596,406</b> |
| <b>Liabilities</b>                             |                    |                    |
| Total hypothetical wind-up liabilities         | \$4,275,012        | \$4,130,787        |
| Difference in circumstances of assumed wind-up | \$0                | \$0                |
| Value of excluded benefits                     | (\$1,510,204)      | (\$1,423,674)      |
| Liabilities on a solvency basis                | <b>\$2,764,808</b> | <b>\$2,707,113</b> |
| Surplus (shortfall) on a market value basis    | <b>\$83,465</b>    | <b>(\$110,707)</b> |
| Solvency Ratio                                 | 1.03               | 0.96               |



## Section 6

# Minimum Funding Requirements

The Act prescribes the minimum contributions that the University must make to the Plan. The minimum contributions in respect of a defined benefit component of a pension plan are comprised of going concern current service cost, the provision for adverse deviations in respect of the current service cost, and special payments to fund any funding shortfall or solvency shortfall that exceeds the level as set out under the Act.

On the basis of the assumptions and methods described in this report, no special payments are required. However, since the available actuarial surplus is zero, the Act requires the employer to contribute the current service cost including the provision for adverse deviations. The determination of the provision for adverse deviations is shown in Appendix A. On the basis of the assumptions and methods described in this report, the rule for determining the minimum required employer monthly contributions, as well as an estimate of the employee and employer contributions, from the valuation date until the next required valuation are as follows:

| Period beginning | Employer's contribution rule <sup>10</sup> |                                  |        |  |
|------------------|--|----------------------------------|--------|--|
|                  | Monthly current service cost               | Provision for adverse deviations | Total  | Total – Below / above YMPE threshold <sup>11</sup> |
| May 15, 2021     | 11.43% <sup>12</sup>                       | 1.74% <sup>13</sup>              | 13.17% | 9.80% / 15.05%                                     |
| May 15, 2022     | 11.43%                                     | 1.74%                            | 13.17% | 9.80% / 15.05%                                     |
| May 15, 2023     | 11.43%                                     | 1.74%                            | 13.17% | 9.80% / 15.05%                                     |

| Period beginning | Monthly employee contributions | Estimated employer's contributions       |  |   |   |
|------------------|--------------------------------|--|--|---|---|
|                  |                                | Monthly provision for adverse deviations | Monthly current service cost and provision for adverse deviation | Available actuarial surplus applied <sup>14</sup> | Minimum monthly contributions <sup>14</sup> |
| May 15, 2021     | \$3,171,100                    | \$574,800                                | \$4,350,400  | \$0   | \$4,350,400                                 |
| May 15, 2022     | \$3,223,900                    | \$584,300                                | \$4,422,800  | \$0   | \$4,422,800                                 |
| May 15, 2023     | \$3,299,400                    | \$598,000                                | \$4,526,400  | \$0   | \$4,526,400                                 |

<sup>10</sup> Expressed as a percentage of members' pensionable earnings.

<sup>11</sup> 1999 YMPE indexed at 55% of the percentage increase in the YMPE since 2003

<sup>12</sup> Alternatively expressed as 8.50% of pensionable earnings up to the YMPE threshold, and 13.05% of the balance of pensionable earnings up to 120% of the maximum salary paid to a professor

<sup>13</sup> Alternatively expressed as 1.30% of pensionable earnings up to the YMPE threshold, and 2.00% of the balance of pensionable earnings up to 120% of the maximum salary paid to a professor

<sup>14</sup> Notwithstanding the available actuarial surplus in the Plan, if any, the terms of the Plan may require the University to make current service cost contributions.

The estimated contribution amounts above are based on projected members' pensionable earnings. Therefore, the actual employer's current service cost and provision for adverse deviations in respect of the current service cost may be different from the above estimates and, as such, the contribution requirements should be monitored closely to ensure contributions resume in accordance with the Act.

## Other Considerations

### Differences between Valuation Bases

There is no provision in the minimum funding requirements to fund the difference between the hypothetical wind-up and reduced solvency shortfalls, if any.

In addition, although minimum funding requirements do include a requirement to fund the going concern current service cost and a provision for adverse deviations in respect of the current service cost, there is no requirement to fund the expected growth in the hypothetical wind-up or solvency liability after the valuation date, which could be greater.

### Timing of Contributions

Funding contributions are due on a monthly basis. Contributions for current service cost and the provision for adverse deviations must be made within 30 days following the month to which they apply. Special payment contributions must be made in the month to which they apply.

### Retroactive Contributions

The University must contribute the excess, if any, of the minimum contribution recommended in this report over contributions actually made in respect of the period following the valuation date. This contribution, along with an allowance for interest, is due no later than 60 days following the date this report is filed.

### Payment of Benefits

The Act imposes certain restrictions on the payment of lump sums from the Plan when the transfer ratio revealed in an actuarial valuation is less than one. If the transfer ratio shown in this report is less than one, the plan administrator should ensure that the monthly special payments are sufficient to meet the requirements of the Act to allow for the full payment of benefits, and otherwise should take the prescribed actions.

Additional restrictions are imposed when:

- The transfer ratio revealed in the most recently filed actuarial valuation is less than one and the administrator knows or 'ought to know' that the transfer ratio of the Plan has declined by 10% or more since the date the last valuation was filed.
- The transfer ratio revealed in the most recently filed actuarial valuation is greater than or equal to one and the administrator knows or 'ought to know' that the transfer ratio of the Plan has declined to less than 0.9 since the date the last valuation was filed.

As such, the administrator should monitor the transfer ratio of the Plan and, if necessary, take the prescribed actions.

## Letters of Credit

Minimum funding requirements in respect of required solvency special payments that otherwise require monthly contributions to the pension fund may be met, in the alternative, by establishing an irrevocable letter of credit subject to the conditions established by the Act. Required solvency special payments in excess of those met by a letter of credit must be met by monthly contributions to the pension fund.

## Section 7

# Maximum Eligible Contributions

The *Income Tax Act* (the “ITA”) limits the amount of employer contributions that can be remitted to the defined benefit component of a registered pension plan. For purposes of this section on maximum eligible contributions only, any reference to the current service cost includes the provision for adverse deviations in respect of the current service cost.

In accordance with Section 147.2 of the ITA and *Income Tax Regulation* 8516, for a plan that is underfunded on either a going concern or on a hypothetical wind-up basis, the maximum permitted contributions are equal to the employer’s current service cost, including the explicit expense allowance if applicable, plus the greater of the going concern funding shortfall and hypothetical wind-up shortfall.

For a plan that is fully funded on both going concern and hypothetical wind-up bases, the employer can remit a contribution equal to the employer’s current service cost, including the explicit expense allowance if applicable, as long as the surplus in the plan does not exceed a prescribed threshold. Specifically, in accordance with Section 147.2 of the ITA, for a plan that is fully funded on both going concern and hypothetical wind-up bases, the plan may not retain its registered status if the employer makes a contribution while the going concern funding excess exceeds 25% of the going concern funding target.

Notwithstanding the above, any contributions that are required to be made in accordance with pension benefits legislation are eligible contributions in accordance with Section 147.2 of the ITA and can be remitted.

## Schedule of Maximum Contributions

The University is permitted to fully fund the greater of the going concern and hypothetical wind-up shortfalls (\$1,426,739,000), as well as make current service cost contributions including the provision for adverse deviations in respect of the current service cost. The portion of this contribution representing the payment of the hypothetical wind-up shortfall can be increased with interest at 3.04% per year from the valuation date to the date the payment is made, and must be reduced by the amount of any deficit funding made from the valuation date to the date the payment is made.

Assuming the University contributes the greater of the going concern and the hypothetical wind-up shortfall of \$1,426,739,000 as of the valuation date, the rule for determining the estimated maximum eligible annual contributions, as well as an estimate of the maximum eligible contributions until the next valuation, are as indicated in the table on the following page.

| Year beginning | Employer's contribution rule  |                 | Estimated employer's contributions                                      |
|----------------|---|-----------------|---|
|                | Monthly current service cost including provision for adverse deviation - below / above YMPE threshold <sup>15</sup> | Deficit Funding | Monthly current service cost including provision for adverse deviations |
| May 15, 2021   | 9.80% / 15.05%  | n/a             | \$4,350,400   |
| May 15, 2022   | 9.80% / 15.05%  | n/a             | \$4,422,800   |
| May 15, 2023   | 9.80% / 15.05%  | n/a             | \$4,526,400   |

The employer's current service cost and provision for adverse deviations in respect of the current service cost shown in the above table was estimated based on projected members' pensionable earnings. The actual employer's current service cost will be different from these estimates and, as such, the contribution requirements should be monitored closely to ensure compliance with the ITA.

<sup>15</sup> Expressed as a percentage of members' pensionable earnings. The YMPE threshold in a year is equal to the 1999 YMPE indexed at 55% of the percentage increase in the YMPE since 2003.

## Section 8

# Actuarial Opinion

In our opinion, for the purposes of the valuations,

- The membership data on which the valuation is based are sufficient and reliable.
- The assumptions are appropriate.
- The methods employed in the valuation are appropriate.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada. It has also been prepared in accordance with the funding and solvency standards set by the Ontario Pension Benefits Act.

*Original version of the report signed by:*

Marc Bouchard

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Marc Bouchard

Fellow of the Society of Actuaries

Fellow of the Canadian Institute of Actuaries

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December 10, 2021

Date

Frédéric Gendron

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Frédéric Gendron

Fellow of the Society of Actuaries

Fellow of the Canadian Institute of Actuaries

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December 10, 2021

Date

## Appendix A

# Prescribed Disclosure

## Definitions

The Act defines a number of terms as follows:

| Defined Term                                | Description  | Result          |
|---|--|-----------------|
| Going concern assets                        | Total value of assets plus the sum of the following:   | \$2,777,577,000 |
|   | (a) the present value of special payments in respect of any past service unfunded liability identified in a previously filed report  |                 |
|   | (b) the present value of special payments in respect of any plan amendment that increases going concern liabilities  |                 |
|   | (c) present value of special payments in respect of going concern unfunded liabilities identified in a previously filed report that are scheduled for payment within one year of the date of this report |                 |
| Going concern excess / (unfunded liability) | The Going Concern Assets minus the sum of the following:   | \$231,824,000   |
|   | a. the going concern liabilities   |                 |
|   | (i) liabilities excluding the value of escalated adjustments   | \$2,001,971,000 |
|   | (ii) liabilities in respect of escalated adjustments   | \$352,794,000   |
|   | b. the provision for adverse deviations in respect of the going concern liabilities excluding the value of escalated adjustments   | \$190,988,000   |
|   | c. Prior Year Credit Balance   | \$0             |

| Defined Term               | Description  | Result                                 |
|----------------------------|--|--|
| Going concern funded ratio | The ratio of:<br>(a) Total value of assets (excluding letters of credit) less the Prior Year Credit Balance; to<br>(b) going concern liabilities   | 1.18                                   |
| Transfer Ratio             | The ratio of:<br>(a) Solvency Assets minus the lesser of the Prior Year Credit Balance and the minimum required employer contributions including the provision for adverse deviations until the next required valuation; to<br>(b) the sum of the Solvency Liabilities and liabilities for benefits, other than benefits payable under qualifying annuity contracts that were excluded in calculating the Solvency Liabilities.  | 0.67                                   |
| Solvency Ratio             | The ratio of:<br>(a) Solvency Assets related to defined benefits and ancillary benefits plus the total amount of any letters of credit minus the Prior Year Credit Balance<br>(b) the sum of the Solvency Liabilities related to defined benefits and ancillary benefits   | 1.03                                   |
| Prior Year Credit Balance  | Accumulated sum of contributions made to the pension plan in excess of the minimum required contributions (note: only applies if the University chooses to treat the excess contributions as a Prior Year Credit Balance).   | \$0                                    |
| Solvency Assets            | Market value of assets including accrued or receivable income and excluding the value of any qualifying annuity contracts.   | \$2,849,273,000                        |
| Solvency Asset Adjustment  | The sum of:<br>(a) the difference between smoothed value of assets and the market value of assets<br>(b) the present value of going concern special payments required to liquidate any past service unfunded liability<br>(c) the present value of going concern special payments identified in January 1, 2020 valuation and scheduled for the year following May 15, 2021<br>(d) the present value of going concern special payments (identified in this report) that are scheduled for payment within 6 years following the valuation date<br>(e) the present value of any previously scheduled solvency special payments (excluding those identified in this report)<br>(f) the total value of all letters of credit in respect of the special payments due before the valuation date, subject to the limit of 15% of solvency liabilities | \$0<br>\$0<br>\$0<br>\$0<br>\$0<br>\$0 |
|                            |  | \$0                                    |



| Defined Term                  | Description  | Result          |
|-------------------------------|--|-----------------|
| Solvency Liabilities          | Liabilities determined as if the plan had been wound up on the valuation date, including liabilities for plant closure benefits or permanent layoff benefits that would be immediately payable if the employer's business were discontinued on the valuation date of the report, but, if elected by the plan sponsor, excluding liabilities for, | \$2,764,808,000 |
|                               | (a) any escalated adjustment,  |                 |
|                               | (b) excluded plant closure benefits,   |                 |
|                               | (c) excluded permanent layoff benefits,  |                 |
|                               | (d) special allowances other than funded special allowances,   |                 |
|                               | (e) consent benefits other than funded consent benefits,   |                 |
|                               | (f) prospective benefit increases,   |                 |
|                               | (g) potential early retirement window benefit values, and  |                 |
|                               | (h) pension benefits and ancillary benefits payable under a qualifying annuity contract.   |                 |
| Solvency Liability Adjustment | The amount by which Solvency Liabilities are adjusted as a result of using a solvency valuation interest rate that is the average of market interest rates calculated over the period of time used in the determination of the smoothed value of assets.   | \$0             |
| Solvency Deficiency           | The amount, if any, by which the sum of:   |                 |
|                               | (a) the Solvency Liabilities   | \$2,764,808,000 |
|                               | (b) the Solvency Liability Adjustment  | \$0             |
|                               | (c) the Prior Year Credit Balance  | \$0             |
|                               |  | \$2,764,808,000 |
|                               | Exceeds the sum of   |                 |
|                               | (d) the Solvency Assets net of estimated termination expenses <sup>16</sup>  | \$2,848,273,000 |
|                               | (e) the Solvency Asset Adjustment  | \$0             |
|                               |  | \$2,848,273,000 |
|                               |  | \$0             |

<sup>16</sup> In accordance with accepted actuarial practice, for purposes of determining the financial position, the market value of plan assets was reduced by a provision for estimated termination expenses payable from the Plan's assets that may reasonably be expected to be incurred in terminating the Plan and to be charged to the Plan.

| Defined Term  | Description                                  | Result          |
|---|--|-----------------|
| Reduced Solvency Deficiency / (Solvency Excess)                             | The sum of:                                  |                 |
|   | (a) 85% of the Solvency Liabilities          | \$2,350,087,000 |
|   | (b) 85% of the Solvency Liability Adjustment | \$0             |
|   | (c) the Prior Year Credit Balance            | \$0             |
|   |  | \$2,350,087,000 |
|   | minus the sum of:                            |                 |
| (d) the Solvency Assets net of estimated termination expenses <sup>16</sup> | \$2,848,273,000                              |                 |
| (e) the Solvency Asset Adjustment   | \$0  |                 |
|   | \$2,848,273,000                              |                 |
|   |  | (\$498,186,000) |

## Provision for Adverse Deviations

The provision for adverse deviations has been established in accordance with regulations taking into account the following parameters:

| Defined Amount   | Results   |            |        |                               |                      |                                   |      |
|--|---|------------|--------|-------------------------------|----------------------|-----------------------------------|------|
| Fixed Income Component (L)   | 21.25%  |            |        |                               |                      |                                   |      |
| The sum of the Plan's target allocation of assets (excluding those allocated to annuity contracts and meeting the minimum rating requirement) as described in the regulations according to the investment policy applicable at the valuation date: |   |            |        |                               |                      |                                   |      |
|  | <table border="1"> <thead> <tr> <th>Investment</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>Canadian Bonds and debentures</td> <td>21.25%<sup>17</sup></td> </tr> <tr> <td>Non-Canadian bonds and debentures</td> <td>0.0%</td> </tr> </tbody> </table> | Investment | Target | Canadian Bonds and debentures | 21.25% <sup>17</sup> | Non-Canadian bonds and debentures | 0.0% |
| Investment   | Target  |            |        |                               |                      |                                   |      |
| Canadian Bonds and debentures  | 21.25% <sup>17</sup>  |            |        |                               |                      |                                   |      |
| Non-Canadian bonds and debentures  | 0.0%  |            |        |                               |                      |                                   |      |

<sup>17</sup> Based on 22% target allocation to fixed income as per the Investment Policy, and reflecting that 30% of a 5% allocation of the plan assets to corporate bonds is non-investment grade, which is considered to be 50% fixed income for PfAD purposes.

|   |  |               |               |
|---|--|---------------|---------------|
| Alternative Investment Component (M)                                | The sum of the Plan's target allocation of assets (excluding those allocated to annuity contracts) meeting requirements as described in the regulations according to the investment policy applicable at the valuation date: |               | 45.0%         |
|   | <b>Investment</b>  | <b>Target</b> |               |
|   | Real estate  | 15.0%         |               |
|   | Infrastructure   | 15.0%         |               |
|   | Hedge Funds  | 10.0%         |               |
|   | Private Debt   | 5.0%          |               |
| Investment Component (N)  | Plan's target asset allocation for mutual, pooled or segregated funds  |               | 0.0%          |
| Investment Component Fixed Income % (P)                             | Portion of Investment Component (N) that is allocated to investment categories accounted for in Fixed Income Component (L)   |               | n/a           |
| Investment Component Alternative Investment % (Q)                   | Portion of Investment Component (N) that is allocated to investment categories accounted for in Alternative Income Component (M)   |               | n/a           |
| Annuity Contract Allocation (R)                                     | Annuity contracts that have been purchased from an insurance company and excluded from the Fixed Income Component (L) and Alternative Investment Component (M)   |               | 0.0%          |
| <b>Combined Target Asset Allocation for Fixed Income Assets (J)</b> |  |               |               |
| Sum of  |  |               |               |
|   | • Fixed Income Component (L)   | 21.25%        |               |
|   | • $0.5 \times$ Alternative Investment Component ( $0.5 \times M$ )   | 22.50%        |               |
|   | • Investment Component $\times$ Investment Component Fixed Income % ( $N \times P$ )   | 0.00%         |               |
|   | • $0.5 \times$ Investment Component $\times$ Investment Component Alternative Investment % ( $0.5 \times N \times Q$ )   | 0.00%         |               |
|   |  |               | 43.75%        |
| Divided by  |  |               |               |
|   | • 100% - Annuity Contract Allocation (100% - R)  |               | 0.00%         |
| <b>Combined Target Asset Allocation for Fixed Income Assets</b>     |  |               | <b>43.75%</b> |

|  |               |               |
|--|---------------|---------------|
| <b>Combined Target Asset Allocation for Non-Fixed Income Assets (K)</b>  |               |               |
| 100% – Combined <b>Target</b> Asset Allocation for Fixed Income Assets (100% - J)  |               | <b>56.25%</b> |
| <b>Duration of going concern liabilities at valuation date</b>   |               |               |
| = (F - G) / (G × 0.01)   |               | <b>12.7</b>   |
| where,   |               |               |
| G = going concern liabilities at valuation date established using the discount rate determined for this valuation, excluding liabilities in respect of escalated adjustments | 2,001,971,000 |               |
| F = going concern liabilities excluding liabilities in respect of escalated adjustments, established using the discount rate minus 1%  | 2,257,021,000 |               |
| <b>Benchmark Discount Rate (E)</b>   |               |               |
| Base rate  |               | 0.50%         |
| Effective yield from CANSIM Series V39056 (H)  |               | 2.18%         |
| 1.5% x Combined <b>Target</b> Asset Allocation for Fixed Income Assets (1.5% × J)  |               | 0.66%         |
| 5.0% x Combined <b>Target</b> Asset Allocation for Non-Fixed Income Assets (5.0% × K)  |               | 2.81%         |
| <b>Benchmark Discount Rate</b>   |               | <b>6.15%</b>  |
| <b>Provision for Adverse Deviations</b>  |               |               |
| i. 5.0% for a closed plan and 4.0% for a Plan that is not a closed plan  |               | 4.00%         |
| ii. Provision based on Combined Target Asset Allocation for Non-Fixed Income Assets  |               | 3.63%         |
| iii. Greater of zero and the   |               |               |
| • Duration of going concern liabilities at valuation date  | 12.7          |               |
| Multiplied by:   |               |               |
| – Going concern valuation gross discount rate net of active investment management fees (D), less   | 6.30%         |               |
| – Benchmark Discount Rate (E)  | 6.15%         | 1.91%         |
| <b>Provision for Adverse Deviations (A + B + C)</b>  |               | <b>9.54%</b>  |

The available actuarial surplus that may be used according to the Act is established as follows:

| <b>Available actuarial surplus</b>  |                 |                        |         |
|---|-----------------|------------------------|---------|
| Excess of   |                 |                        |         |
| • Assets determined on basis of going concern valuation including accrued and receivable income but excluding the value of any letters of credit  |                 | \$2,777,577,000        |         |
| Over  |                 |                        |         |
| • Going concern liabilities   | \$2,354,765,000 |                        |         |
| • Provision for adverse deviations in respect of the going concern liabilities  | \$190,988,000   |                        |         |
| • Prior Year Credit Balance   | \$0             |                        |         |
|   |                 | <u>\$2,545,753,000</u> |         |
|   |                 | \$231,824,000          | (a)     |
| Excess of   |                 |                        |         |
| • Solvency assets excluding the value of any letters of credits and lesser of Prior Year Credit Balance and minimum required employer contributions, including the provision for adverse deviations until the next required valuation |                 | \$2,848,273,000        |         |
| Over  |                 |                        |         |
| • Solvency liabilities <sup>18</sup> × 105%   |                 | \$2,903,048,000        |         |
|   |                 |                        | \$0 (b) |
| The available actuarial surplus = the lesser of a) and b) above   |                 | \$0                    |         |

## Timing of Next Required Valuation

In accordance with the Act the next valuation of the Plan would be required at an effective date within one year of the current valuation date if:

- The ratio of solvency assets to solvency liabilities is less than 85%.
- The employer elected to exclude plant closure or permanent lay-off benefits under Section 5(18) of the regulations, and has not rescinded that election.

Otherwise, the next valuation of the Plan would be required at an effective date no later than three years after the current valuation date.

Accordingly, the next valuation of the Plan will be required as of May 15, 2024.

<sup>18</sup> Solvency liabilities are used for broader public sector organisations in accordance with the Act.

## Special Payments

As the Plan does not have a funding shortfall and there is a solvency excess, no special payments are required.

## Pension Benefits Guarantee Fund (PBGF) Assessment

A PBGF assessment is required to be paid under Section 37 of the Act. The PBGF assessment base is derived as follows:

|  |                 |                            |
|--|-----------------|----------------------------|
| Solvency assets <sup>19</sup>  | \$2,848,921,000 | (a)                        |
| PBGF liabilities <sup>19</sup>   | \$2,764,456,000 | (b)                        |
| Solvency liabilities <sup>19</sup>   | \$2,764,456,000 | (c)                        |
| Ontario asset ratio  | 100%            | (d) = (b) ÷ (c)            |
| Ontario portion of the fund  | \$2,848,921,000 | (e) = (a) × (d)            |
| PBGF assessment base   | \$0             | (f) = max(0,<br>(b) – (e)) |
| Amount of additional liability for plant closure and/or permanent layoff benefits which is not funded and subject to the 2% (3% for years after 2018) assessment pursuant to s.37(4) | \$0             | (g)                        |

<sup>19</sup> For purposes of the PBGF assessment, additional voluntary contributions are excluded from solvency assets and liabilities  
Mercer

## Appendix B

# Plan Assets

The pension fund is held by the trustee/custodian RBC Investor & Treasury Services (“RBCIS”). In preparing this report, we have relied upon audited financial statements prepared by KPMG LLP for the period from January 1, 2020 to December 31, 2020, except that we have reflected interest on the outstanding surplus allocation payments to unlocated members and we have reflected in-transit benefit payments payable to terminated members. The differences in assets are additional outstanding payments of \$138,000 as of January 1, 2020 and \$144,000 as of January 1, 2021, reducing the respective asset values by the same amounts.

We have also relied on the monthly trust statements prepared by RBCIS for the period from January 1, 2021 to May 31, 2021, and on information provided by the University of Ottawa, to estimate the market value of Plan assets at May 15, 2021, and the pension fund transactions over the period January 1, 2021 to May 15, 2021. The market value of plan assets at May 15, 2021 was determined as follows:

- We have used the market value of plan assets at April 30, 2021 as reported in the trust statements prepared by RBCIS as of that date, adjusted to reflect receivable University and employee contributions for the month of April 2021, as provided by the University;
- University and employee contributions for the period May 1 to May 15, 2021 were estimated at 50% of the contributions remitted with respect to the month of May 2021, as provided by the University;
- Based on the RBCIS trust statements for the month of May 2021, no benefit payments were paid during the period May 1 to May 15, 2021 (in particular, monthly pension payments to pensioners for a particular month are payable at the end of that month, so the May 2021 pension payments are included in assets and liabilities for purposes of the valuation at May 15, 2021);
- Administration and investment fees paid during the period May 1 to May 15, 2021 were determined based on the RBCIS trust statements for the month of May 2021; and
- We reflected an estimated investment rate of return of 0.13%, before fees, for the period May 1 to May 15, 2021, as provided by the University.

## Reconciliation of Market Value of Plan Assets

The pension fund transactions since the last valuation are summarized in the following table:

| (in \$000s)                                  | 2020-01-01 to<br>2020-12-31 | 2021-01-01 to<br>2021-05-15 |
|--|-----------------------------|-----------------------------|
| Beginning of period                          | \$2,596,969                 | \$2,816,986                 |
| PLUS   |                             |                             |
| Members' contributions                       | \$38,432                    | \$13,569                    |
| University contributions                     | \$50,527                    | \$16,220                    |
| Investment earnings                          | \$81,077                    | \$23,248                    |
| Net capital gains (losses)                   | \$167,303                   | \$20,921                    |
|  | \$337,339                   | \$73,958                    |
| LESS   |                             |                             |
| Pensions paid                                | \$95,048                    | \$33,024                    |
| Lump-sums paid                               | \$14,402                    | \$6,409                     |
| Administration and investment fees           | \$7,872                     | \$2,583                     |
|  | \$117,322                   | \$42,016                    |
| End of period                                | \$2,816,986                 | \$2,848,928                 |
| Gross rate of return <sup>20</sup>           | 9.6%                        | 1.6%                        |
| Rate of return net of expenses <sup>20</sup> | 9.3%                        | 1.5%                        |

We have tested the pensions paid, the lump-sums paid, and the contributions for consistency with the membership data for the Plan members who have received benefits or made contributions. The results of these tests were satisfactory.

## Investment Policy

The plan administrator has adopted a statement of investment policy and procedures (SIP&P). This policy is intended to provide guidelines for the manager(s) as to the level of risk that is consistent with the Plan's investment objectives. A significant component of this investment policy is the asset mix.

The plan administrator is solely responsible for selecting the Plan's investment policies, asset allocations, and individual investments.

The constraints on the asset mix and the actual asset mix at the valuation date are provided for information purposes on the following page.

<sup>20</sup> Assuming mid-period cash flows.



|                                      | Investment policy |        |         | Actual asset mix as at<br>April 30, 2021 <sup>21</sup> |
|--------------------------------------|-------------------|--------|---------|--|
|                                      | Minimum           | Target | Maximum |  |
| Canadian Equities                    | 0%                | 5%     | 10%     | 6.1%   |
| Foreign Equities                     | 15%               | 28%    | 40%     | 37.9%  |
| Nominal Fixed Income                 | 15%               | 22%    | 35%     | 20.5%  |
| Absolute Return Assets <sup>22</sup> | 5%                | 15%    | 30%     | 14.3%  |
| Real Return Assets <sup>23</sup>     | 18%               | 30%    | 40%     | 19.2%  |
| Cash and cash equivalents            | 0%                | 0%     | 10%     | 2.0%   |
|                                      |                   | 100%   |         | 100%   |

Because the Plan's assets (which are invested in accordance with the above investment policy) are not matched to the Plan's liabilities (which tend to behave like long bonds), the Plan's financial position will fluctuate over time. These fluctuations could be significant and could cause the Plan to become underfunded or overfunded even if the University contributes to the Plan based on the funding requirements presented in this report.

<sup>21</sup> Actual asset mix at May 15, 2021 is not available

<sup>22</sup> Hedge funds and private debt

<sup>23</sup> Real estate and infrastructure

## Appendix C

# Methods and Assumptions – Going Concern

## Valuation of Assets

For this valuation, we have used an adjusted market-value method to determine the smoothed value of assets. Under this method, total fund returns (net of expenses paid by the plan) in excess or below the expected return will be smoothed over three years, with the smoothed value of assets to be between 90% and 105% of the market value of assets. As a result, the smoothed value produced as at May 15, 2021 recognizes the following portions of excess returns that arose during the past three years:

| Year         | Percentage of Gains (Losses) Recognized |
|--------------|---|
| 2021:        | 33 1/3%                                 |
| 2020:        | 45.83% <sup>24</sup>                    |
| 2019         | 79.17% <sup>25</sup>                    |
| before 2019: | 100%                                    |

The asset values produced by this method are related to the market value of the assets, with the advantage that, over time, the market-related asset values will tend to be more stable than market values. To the extent that more capital gains than losses will arise over the long term, the smoothed value will tend to be lower than the market value.

The smoothed value of the assets at May 15, 2021 was derived as follows:

|  |                                |                        |
|--|--------------------------------|------------------------|
| Market value of assets                         |                                | \$2,848,928,000        |
| LESS   |                                |                        |
| Unrecognized investment gains (losses)         | 2021: (\$9,119,000) × 66.67% = | (\$6,079,000)          |
|  | 2020: \$78,838,000 × 54.17% =  | \$42,704,000           |
|  | 2019: \$168,342,000 × 20.83% = | \$35,071,000           |
|  |                                | <u>\$71,696,000</u>    |
| PLUS   |                                |                        |
| Present value of future buy-back contributions |                                | \$345,000              |
| Smoothed value of assets                       |                                | <u>\$2,777,577,000</u> |

<sup>24</sup> 16.5 months over 36 of gains are recognized

<sup>25</sup> 28.5 months over 36 of gains are recognized

## Going Concern Funding Target

Over time, the real cost to the employer of a pension plan is the excess of benefits and expenses over member contributions and investment earnings. The actuarial cost method allocates this cost to annual time periods.

For purposes of the going concern valuation, we have continued to use the projected unit credit actuarial cost method. Under this method, we determine the present value of benefit cash flows expected to be paid in respect of service accrued prior to the valuation date, based on projected final average earnings. This is referred to as the funding target. For each individual plan member, accumulated contributions with interest are established as a minimum actuarial liability.

The valuation of the Plan as at May 15, 2021 is based on membership data as at January 1, 2021. The valuation results as at May 15, 2021 were determined by extrapolating actuarial liabilities calculated as of January 1, 2021 (using assumptions applicable as at May 15, 2021) to May 15, 2021 allowing for interest on the liabilities, the accrual of further benefits by active members, and the actual benefits paid out. We have assumed that all experience during the projection period, apart from investment returns, contributions, benefit payments and administration expenses, has been in line with the assumptions used to determine the actuarial liabilities as of January 1, 2021.

The funding excess or funding shortfall, as the case may be, is the difference between the market or smoothed value of assets and the funding target. A funding excess on a market value basis indicates that the current market value of assets and expected investment earnings are expected to be sufficient to meet the cash flows in respect of benefits accrued to the valuation date as well as expected expenses – assuming the plan is maintained indefinitely. A funding shortfall on a market value basis indicates the opposite – that the current market value of the assets is not expected to be sufficient to meet the plan's cash flow requirements in respect of accrued benefits, absent additional contributions.

As required under the Act, a funding shortfall and the provision for adverse deviations must be amortized over no more than 10 years through special payments beginning one year after the valuation date. A funding excess may, from an actuarial standpoint, be applied immediately to reduce required employer current service contributions unless precluded by the terms of the plan or by legislation.

The actuarial cost method used for the purposes of this valuation produces a reasonable matching of contributions with accruing benefits. Because benefits are recognized as they accrue, the actuarial cost method provides an effective funding target for a plan that is maintained indefinitely.

## Current Service Cost

The current service cost is the present value of projected benefits to be paid under the plan with respect to service expected to accrue during the period until the next valuation.

The employer's contribution in respect of current service cost is the difference between the total current service cost, including the provision for adverse deviations, and the members' required contributions.

The employer's contribution in respect of current service cost has been expressed as a percentage of the members' pensionable earnings to provide an automatic adjustment in the event of fluctuations in membership and/or pensionable earnings.

Under the projected unit credit actuarial cost method, the current service cost for an individual member will increase each year as the member approaches retirement. However, the current service cost of the entire group, expressed as a percentage of the members' pensionable earnings, can be expected to remain stable as long as the average age distribution of the group remains constant.

## Actuarial Assumptions – Going Concern Basis

The present value of future benefit payment cash flows is based on economic and demographic assumptions. At each valuation we determine whether, in our opinion, the actuarial assumptions are still appropriate for the purposes of the valuation, and we revise them, if necessary. Emerging experience will result in gains or losses that will be revealed and considered in future actuarial valuations.

The table below shows the various assumptions used in the current valuation in comparison with those used in the previous valuation.

| Assumption                                     | Current valuation  | Previous valuation   |
|--|--|--|
| Discount rate:                                 | 6.15%  | 6.25%  |
| Inflation:                                     | 2.00%  | 2.00%  |
| ITA limit / YMPE increases:                    | 3.00%  | 3.00%  |
| Pensionable earnings increases <sup>26</sup> : | 3.00% + PTR scale  | 3.00% + PTR scale  |
| Post-retirement pension increases:             | 1.70%  | 1.70%  |
| Interest on employee contributions:            | 6.15%  | 6.25%  |
| Termination rates:                             | Age-related table  | Age-related table  |
| Retirement rates:                              | Age-related table  | Age-related table  |
| Mortality rates:                               | 95% of the rates of the 2014 Public Sector Canadian Pensioners Mortality Table (CPM2014Publ)   | 95% of the rates of the 2014 Public Sector Canadian Pensioners Mortality Table (CPM2014Publ)   |
| Mortality improvements:                        | Fully generational using CPM Improvement Scale B (CPM-B)   | Fully generational using CPM Improvement Scale B (CPM-B)   |
| Disability rates:                              | None   | None   |
| Form of benefit elected:                       | Retirement: 100% of eligible members receive a pension from the plan<br>Termination: 55% of eligible members receive a pension from the plan and 45% elect a lump sum transfer | Retirement: 100% of eligible members receive a pension from the plan<br>Termination: 55% of eligible members receive a pension from the plan and 45% elect a lump sum transfer |

<sup>26</sup> See section *Pensionable Earnings* below for details of short-term economic increases adjustments, and progress through the ranks (PTR) and promotional increases scale.

| Assumption   | Current valuation   | Previous valuation  |
|--|---|---|
| Actuarial basis for benefits assumed to be settled through a lump sum: | Discount rate: 1.80%<br>Mortality rates: CPM2014 with fully generational improvements using CPM-B | Discount rate: 1.70%<br>Mortality rates: CPM2014 with fully generational improvements using CPM-B |
| Eligible spouse at retirement:   | 80%   | 80%   |
| Spousal age difference:  | Male 3 years older  | Male 3 years older  |

The assumptions are best estimates and do not include a margin for adverse deviations.

## Age-Related Tables

Based on the plan experience over the years 2014 to 2018, we have assumed that members will terminate or retire based on the following annual rates. The rates represent the probability of terminating or retiring in the following year.

| Age (samples) | Termination |
|---------------|-------------|
| 25            | 9.7%        |
| 30            | 6.5%        |
| 35            | 5.4%        |
| 40            | 4.7%        |
| 45            | 4.2%        |
| 50            | 3.9%        |

| Age      | Retirement <sup>27</sup> | Age      | Retirement <sup>27</sup> |
|----------|--------------------------|----------|--------------------------|
| 55 to 59 | 25%                      | 66 to 67 | 15%                      |
| 60       | 15%                      | 68       | 20%                      |
| 61 to 63 | 10%                      | 69       | 25%                      |
| 64       | 20%                      | 70       | 50%                      |
| 65       | 25%                      | 71       | 100%                     |

<sup>27</sup> Rates are only applied from unreduced retirement age. Experience shows that retirement rates at reduced retirement ages are small. Because pension amounts are reduced by actuarial equivalence, the impact of early retirement prior to eligibility to an unreduced pension is minimal.

## Pensionable Earnings

The benefits ultimately paid will depend on each member's final average earnings. To calculate the pension benefits payable upon retirement, death, or termination of employment, we have taken salary rates as of January 1, 2021 and assumed that such pensionable earnings will increase at the assumed rate.

We have considered that salary increases consist of two elements. The first represents that part of the increase which corresponds to the increase in the general level of salaries. This is usually called "economic salary increase". The second represents increases resulting from progress through the ranks (PTR) and promotion, which would presumably occur regardless of the economic trend.

## Economic Salary Increases

Long-term economic salary increases are assumed equal to 3.0% per year from 2021, based on assumed inflation of 2.0% plus an expected 1.0% for productivity gains. Short-term economic increases are adjusted to reflect known negotiated or scheduled salary increases for the different groups of employees, including the effect of Ontario Bill 124 – An Act to implement moderation measures in respect of compensation in Ontario's public sector, which limits annual increases in wages and salaries to 1% per year (excluding increases related to PTR and promotions) during a three-year "moderation period".

The resulting economic salary increases are as follows:

- APUO: 1.0% per year from 2021 through 2023, and 3.0% per year from 2024
- SSUO: 1.0% per year in 2021, and 3.0% per year from 2022
- 772A and 772B: 1.0% per year in 2021, 2.0% in 2022, and 3.0% per year from 2023
- Non-Union and PIPSC: 1.0% per year in 2021 and 2022, and 3.0% per year from 2023

## Progress through the ranks (PTR) and Promotional Increases

The PTR and promotional salary increases assumption is based on the Plan experience during the years 2014 to 2018.

The following table shows examples of the rates of PTR or promotional increases for the following year for specimen years of service. As is common, these rates are relatively high as a percentage of salary at the lower years of service and reduce as the service increases.

| Service at Valuation Date | Assumed Rate of increase for the following year | Service at Valuation Date | Assumed Rate of increase for the following year |
|---------------------------|---|---------------------------|---|
| 1 year                    | 3.3%  | 20 years                  | 2.0%  |
| 3 years                   | 3.2%  | 25 years                  | 1.6%  |
| 5 years                   | 3.0%  | 30 years                  | 1.3%  |
| 10 years                  | 2.7%  | 35 years                  | 0.9%  |
| 15 years                  | 2.3%  |                           |   |

## Rationale for Assumptions

A rationale for each of the assumptions used in the current valuation is provided below.

### Discount Rate

We have discounted the expected benefit payment cash flows using the expected investment return on the market value of the fund net of fees. Other bases for discounting the expected benefit payment cash flows may be appropriate, particularly for purposes other than those specifically identified in this valuation report.

The discount rate is comprised of the following:

- An **assumed investment return** based on estimated returns for each major asset class that are consistent with market conditions on the valuation date, modified to include a provision for increases in market interest rates to a level higher than current historically low levels, on the expected time horizon over which benefits are expected to be paid, and on the target asset mix specified in the Plan's investment policy. Consistent with market-observable and available data, the assumed investment return is a gross return for all asset classes, except for alternative investments, for which it is net of any investment management expense. The assumed investment return includes the diversification and rebalancing effect.
- An **assumed passive investment management expense provision** which represents the hypothetical fees for passive investment management of assets based on estimated fees charged by index managers for balanced mandates (additional return due to active management, net of related fees, is assumed to be nil). The assumed passive investment management expense provision excludes any fees for alternative investments, since the assumed investment returns for those types of investments are already net of investment expenses.
- An **implicit non-investment management expense provision** determined as the average rate of non-investment expenses paid from the fund over the recent years. These would include all fees payable from the fund (administration, custodial, audit, consulting, etc.) except those payable to investment managers, to the extent that these fees are not covered in an explicit provision for expenses added to the current service cost.

The discount rate was developed as follows:

|   |         |
|---|---------|
| Assumed investment return                               | 6.30%   |
| Assumed passive investment management expense provision | (0.02%) |
| Implicit non-investment management expense provision    | (0.13%) |
| Margin for adverse deviations                           | n/a     |
| Net discount rate                                       | 6.15%   |

### Inflation

The inflation assumption is based on with the mid-point of the Bank of Canada's inflation target range of 1% to 3%.

### Income Tax Act Pension Limit and Year's Maximum Pensionable Earnings

The assumption is based on historical real economic growth and the underlying inflation assumption.

### Pensionable Earnings

The long term economic increases are equal to the inflation assumption plus an expected 1% for productivity gains. The PTR and promotional increases scale is based on experience over the years 2014 to 2018.

### Post-Retirement Pension Increases

The assumption is based on the Plan formula and inflation assumption above. The assumed rate of indexation was determined after analyzing the average level of indexation expected in the future based on a stochastic model that reflects volatility of inflation rates, with a target inflation of 2% per year.

### Termination Rates

The assumption is based on experience over the years 2014 to 2018.

### Retirement Rates

The assumption is based on experience from 2014 to 2018.

### Mortality Rates

The assumption for the mortality rates is based on the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014.

Due to the size of the Plan, specific data on plan mortality experience is insufficient to determine the mortality rates. The CPM mortality rates from the public sector have been adjusted after considering plan-specific characteristics, such as the type of employment, the industry experience, the pension and employment income for the plan members, and data in the CPM study. Specifically, we have applied the adjustment for Educational institutions proposed in the Canadian Institute of Actuaries Final Report on Canadian Pensioners' Mortality published in February 2014.

There is broad consensus among actuaries and other longevity experts that mortality improvement will continue in the future, but the degree of future mortality improvement is uncertain. Two mortality improvement scales were published by the Canadian Institute of Actuaries (CIA) and may apply to Canadian pension valuations:

- The Canadian Pensioners Mortality (CPM) study published in February 2014 included CPM Improvement Scale B (CPM-B) which is also used for commuted value calculations.
- A report released by the Task Force on Mortality Improvement in 2017 includes an analysis of the rate of mortality improvement for the Canadian population and provides for mortality improvement scale MI-2017 promulgated for use in the valuation of insurance contracts, and that may also be considered for the purpose of reflecting future mortality improvement in Canadian actuarial work, while acknowledging that it might be appropriate to use alternative mortality improvement assumptions to reflect the nature of the work.

The CIA Committee on Pension Plan Financial Reporting has published an Educational Note on the Selection of Mortality Assumptions for Pension Plan Valuations, which indicates that, given the publication of the CPM-B and MI-2017 improvement scales and the similar data sets used in their development, it may be appropriate to use either scale in the absence of credible information to the contrary, such as the publication of a successor scale by the CIA.

COVID-19 has impacted mortality rates globally. Statistics Canada reported excess mortality in 2020 for the general Canadian population and other peer countries globally have also seen excess mortality over the course of the pandemic. Mortality experience for the plan has been reflected up to January 1, 2021. We have not adjusted the expected mortality rates for Plan members after the valuation date. The long-term implications of the pandemic on mortality rates is unclear as at the date of this report. Any credible plan-specific experience and relevant broader observed mortality trends after the report date will be reflected in future valuations.

For the present valuation, we have continued to use the CPM-B scale, which is a reasonable outlook for future mortality improvement.

Based on the assumption used, the life expectancy of a member age 60 at the valuation date is 28.0 years for males and 30.0 years for females.

### Interest on Employee Contributions

The assumption is based on Plan terms and the underlying investment return assumption.

### Disability Rates

Use of a different assumption would not have a material impact on the valuation.



### **Form of benefit elected and cost of future lump sums**

The assumption for the percentage of eligible plan participants that will elect to receive their benefit as a lump sum transfer from the plan is based on experience from 2014 to 2018.

The cost of future lump sums will depend on the level of market interest rates at the time the lump sum is paid and any changes in the applicable actuarial standards for the determination of pension plan commuted values. The assumed cost of future lump sums is based on the average expected level of market interest rates over the period during which lump sums are expected to be paid, taking into account market conditions on the valuation date, modified to include a provision for increases in market interest rates to a level higher than current historically low levels. We have also assumed that future lump sums elected by eligible plan participants will be calculated using the mortality basis applicable under the actuarial standards as of the valuation date. We have reflected no change in the applicable actuarial standards.

### **Eligible Spouse**

The assumption for non-retired members is based on experience from 2014 to 2018 (actual spousal information is used for retirees).

### **Spousal Age Difference**

The assumption for non-retired members is based on experience from 2014 to 2018 (actual spouse age is used for retirees).

## Appendix D

# Methods and Assumptions – Hypothetical Wind-Up and Solvency

## Hypothetical Wind-up Basis

The Canadian Institute of Actuaries requires actuaries to report the financial position of a pension plan on the assumption that the plan is wound up on the effective date of the valuation, with benefits determined on the assumption that the pension plan has neither a surplus nor a deficit.

To determine the actuarial liability on the hypothetical wind-up basis, we have valued those benefits that would have been paid had the Plan been wound up on the valuation date, with all members fully vested in their accrued benefits.

The valuation of the Plan as at May 15, 2021 is based on membership data as at January 1, 2021. The valuation results as at May 15, 2021 were determined by extrapolating actuarial liabilities calculated as of January 1, 2021 (using assumptions applicable as at May 15, 2021) to May 15, 2021 allowing for interest on the liabilities, the accrual of further benefits by active members, and the actual benefits paid out. We have assumed that all experience during the projection period, apart from investment returns, contributions, benefit payments and administration expenses has been in line with the assumptions used to determine the actuarial liabilities as of January 1, 2021.

The Standards of Practice of the Canadian Institute of Actuaries require that the scenario upon which the hypothetical wind-up valuation is based be postulated. However, there are no benefits under the Plan contingent upon the circumstances of the plan wind-up or contingent upon other factors. Therefore, it was not necessary to postulate a scenario upon which the hypothetical wind-up valuation is made. No benefits payable on plan wind-up were excluded from our calculations. The plan wind-up is assumed to occur in circumstances that maximize the actuarial liability.

Upon plan wind-up, members are given options for the method of settling their benefit entitlements. The options vary by eligibility and by province of employment, but in general, involve either a lump sum transfer or an immediate or deferred pension.

The value of benefits assumed to be settled through a lump sum transfer is based on the assumptions described in Section 3500 – *Pension Commuted Values* of the Canadian Institute of Actuaries' Standards of Practice applicable for May 15, 2021.

Benefits provided as an immediate or deferred pension are assumed to be settled through the purchase of annuities based on an estimate of the cost of purchasing annuities.

We have estimated the cost of settlement through purchase of annuities in accordance with the *Canadian Institute of Actuaries Educational Note: Assumptions for Hypothetical Wind-up and Solvency Valuations with Effective Dates Between December 31, 2020 and December 30, 2021* (the “Educational Note”).

For solvency purposes, indexation after the valuation date was excluded. It may not be possible to settle the liabilities through the purchase of annuities due to the size of the Plan and the limited annuity market in Canada. In accordance with the Educational Note, we have assumed that the settlement of such liabilities would be priced on the same basis as the smaller group annuities that are available in the market.

For wind-up purposes, no benefits were excluded. There is limited data available to provide credible guidance on the cost of a purchase of indexed annuities in Canada. In accordance with the Educational Note, we have assumed that an appropriate proxy for estimating the cost of such purchase is to use an assumed interest rate net of inflation based on the indexed rates derived from yields on the real return bonds of the Government of Canada, reduced by 0.50%. In practice, it may be difficult to purchase indexed annuity liabilities exceeding \$300 million. The assumed indexation rate was determined after analyzing the average level of indexation expected in the future based on the implicit inflation rate<sup>28</sup>, historical distribution of inflation rates, and the indexation rate formula under the Plan.

The Educational Note provides guidance on estimating the cost of annuity purchases assuming a typical group of annuitants. That is, no adjustments for sub- or super-standard mortality are considered. However, it is expected that insurers will consider plan experience and certain plan-specific characteristics when determining the mortality basis for a particular group. The Educational Note states that the actuary would be expected to make an adjustment to the regular annuity purchase assumptions where there is demonstrated substandard or super-standard mortality or where an insurer might be expected to assume so. In such cases, the actuary would be expected to make an adjustment to the mortality assumption in a manner consistent with the underlying annuity purchase basis. Given the uncertainty surrounding the actual mortality basis that would be typical of a group annuity purchase, it is reasonable to assume that there is a range of bases that can be expected not to be materially different from the actual mortality basis. Therefore, an adjustment to the regular annuity purchase assumptions would be warranted when the plan’s assumed basis falls outside that range.

In this context, we have determined that an adjustment to the mortality rates used in the regular annuity purchase assumptions is required, and we have applied the adjustment for Educational institutions proposed in the Canadian Institute of Actuaries Final Report on Canadian Pensioners’ Mortality published in February 2014.

We have not included a margin for adverse deviations in the solvency and hypothetical wind-up valuations.

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<sup>28</sup> Derived from the difference in long-term Government of Canada nominal bond and real return bond yields.

The assumptions are as follows:

| <b>Form of Benefit Settlement Elected by Member</b>                                |   |
|--|---|
| Lump sum:  | 45% of active members elect to receive their benefit entitlement in a lump sum  |
| Annuity purchase:  | All remaining members are assumed to elect to receive their benefit entitlement in the form of a deferred or immediate pension. These benefits are assumed to be settled through the purchase of deferred or immediate annuities from a life insurance company.   |
| <b>Basis for Benefits Assumed to be Settled through a Lump Sum</b>                 |   |
| Mortality rates:   | 100% of the rates of the 2014 Canadian Pensioners Mortality Table (CPM2014) with fully generational improvements using CPM Scale B  |
| Interest rate:   | 1.80% per year for 10 years, 3.60% per year   |
| Pre-and post-retirement indexation rate:   | 0.99% per year for 10 years, 1.77% per year thereafter  |
| <b>Basis for Benefits Assumed to be Settled through the Purchase of an Annuity</b> |   |
| Mortality rates:   | 100% of the rates of the 2014 Canadian Pensioners Mortality Table (CPM2014) with fully generational improvements using CPM Scale B  |
| Adjustment to mortality rates:   | Above mortality rates reduced by 5% to reflect super-standard mortality   |
| Interest rate:   | 3.33% per year  |
| Pre-and post-retirement indexation rate:   | 3.27% per year (for wind-up valuation) <sup>29</sup>  |
| <b>Retirement Age</b>  |   |
| Benefits assumed to be settled through a lump sum:                                 | Members are assumed to retire with a 50% probability at the age that maximizes the value of their entitlement from the Plan and a 50% probability at the member's earliest unreduced age in accordance with plan rules and applicable legislation, and based on the eligibility requirements that have been met at the valuation date |
| Benefits assumed to be settled through an annuity purchase:                        | Members are assumed to retire at the age that maximizes the value of their entitlement from the Plan, based on the eligibility requirements that have been met at the valuation date  |
| Grow-in:   | The benefit entitlement and assumed retirement age of members whose age plus service equals at least 55 at the valuation date reflect their entitlement to grow into early retirement subsidies   |
| <b>Other Assumptions</b>   |   |
| Weighted-average interest rate:  | 3.04%   |
| Final average earnings:  | Based on actual pensionable earnings over the averaging period  |
| Family composition:  | Same as for going concern valuation   |
| Maximum pension limit:   | \$3,245.56 increasing at 3.00% per year from 2022 (determined on the member's assumed pension commencement date)  |
| Termination expenses:  | \$1,000,000   |

<sup>29</sup> Reflects inflation and additional premium related to investments charged by insurers to guarantee inflation protection.

To determine the hypothetical wind-up position of the Plan, a provision has been made for estimated termination expenses payable from the Plan's assets in respect of actuarial and administration expenses that may reasonably be expected to be incurred in terminating the Plan and to be charged to the Plan.

Because the settlement of all benefits on wind-up is assumed to occur on the valuation date and is assumed to be uncontested, the provision for termination expenses does not include custodial, investment management, auditing, consulting, and legal expenses that would be incurred between the wind-up date and the settlement date or due to the terms of a wind-up being contested.

Expenses associated with the distribution of any surplus assets that might arise on an actual wind-up are also not included in the estimated termination expense provisions.

In determining the provision for termination expenses payable from the Plan's assets, we have assumed that the plan sponsor would be solvent on the wind-up date. We have also assumed, without analysis, that the Plan's terms as well as applicable legislation and court decisions would permit the relevant expenses to be paid from the Plan.

Although the termination expense assumption is a best estimate, actual fees incurred on an actual plan wind-up may differ materially from the estimates disclosed in this report.

## **Incremental Cost**

In order to determine the incremental cost, we estimate the hypothetical wind-up liabilities at the next valuation date. We have assumed that the cost of settling benefits by way of a lump sum or purchasing annuities remains consistent with the assumptions described above. Since the projected hypothetical wind-up liabilities will depend on the membership in the Plan at the next valuation date, we must make assumptions about how the Plan membership will evolve over the period until the next valuation.

We have assumed that the Plan membership will evolve in a manner consistent with the going concern assumptions as follows:

- Members terminate, retire, and die consistent with the termination, retirement, and mortality rates used for the going concern valuation.
- Pensionable earnings, the Income Tax Act pension limit, and the Year's Maximum Pensionable Earnings increase in accordance with the related going concern assumptions.
- Active members accrue pensionable service in accordance with the terms of the Plan.
- To accommodate for new entrants to the Plan, we have added to the projected liability an amount equal to the liability of new entrants that have joined the Plan since the previous valuation.
- Cost of living adjustments are consistent with the inflation assumption used for the going concern valuation.

## **Solvency Basis**

In determining the financial position of the Plan on the solvency basis, we have used the same assumptions and methodology as were used for determining the financial position of the Plan on the hypothetical wind-up basis, except that in accordance with the Act, we have excluded the future indexation of benefits. As such, the pre and post-retirement indexation rate was assumed to be 0%

The solvency position is determined in accordance with the requirements of the Act.

## Appendix E

# Membership Data

### Analysis of Membership Data

The actuarial valuation is based on membership data as at January 1, 2021, provided by the University of Ottawa.

We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), pensionable earnings, credited service, contributions accumulated with interest, and pensions to retirees and other members entitled to a deferred pension. Contributions, lump sum payments, and pensions to retirees were compared with corresponding amounts reported in financial statements. The results of these tests were satisfactory.

If the data supplied are not sufficient and reliable for its intended purpose, the results of our calculation may differ significantly from the results that would be obtained with such data. Although Mercer has reviewed the suitability of the data for its intended use in accordance with accepted actuarial practice in Canada, Mercer has not verified or audited any of the data or information provided.

In assessing whether it is appropriate to use membership data as at January 1, 2021 rather than as at May 15, 2021, we were guided by the Canadian Institute of Actuaries Standards of Practice ("SOP") with respect to the data used to prepare actuarial work. Ideally, membership data on the valuation date would be used to prepare our actuarial report. However, section 1530.08 of the SOPs explicitly anticipates appropriate actuarial engagements where less than ideal data are available to the actuary:

*1530.08 If the ideal data are unobtainable at reasonable cost within the available time, then the actuary would consider what, if any, alternative data are sufficient and reliable.*

For our engagement with the University, ideal data were not available at May 15, 2021 and could not be made available without the Plan incurring unnecessary additional fees. As per the SOPs, we considered the appropriateness of readily available membership data as at January 1, 2021.

We considered if the data as at January 1, 2021 are sufficient and reliable for the purposes of the valuation. The data are sufficient to determine the Plan's obligations at May 15, 2021 using the methods described in this report. The data are reliable to the extent that changes in Plan membership between January 1, 2021 and May 15, 2021 that are not reflected in the valuation do not materially impact the valuation results. We have assessed the materiality of changes in membership data by reviewing the Plan's demographic experience in recent actuarial reports and the level of experience gains/losses. Experience has been relatively stable and consistent with expectations, and we note that most demographic assumptions were reviewed in 2019 and, if appropriate, updated at January 1, 2020 to reflect membership experience observed over the period 2014 through 2018. We have also reviewed the level of contributions to the Plan from January 1, 2021 to May 15, 2021, and consulted with the University on any special events. We have concluded that using ideal data would not materially impact the valuation results and that the data used are sufficient and reliable for the purpose of this report.

Plan membership data are summarized below. For comparison, we have also summarized corresponding data from the previous valuation.

|  | 2021-01-01    | 2020-01-01    |
|--|---------------|---------------|
| <b>Active Members - Academic</b>                               |               |               |
| Number   | 1,226         | 1,235         |
| Total annualized pensionable earnings for the following year   | \$205,978,000 | \$203,789,000 |
| Average annualized pensionable earnings for the following year | \$168,000     | \$165,000     |
| Average years of pensionable service                           | 13.5          | 13.4          |
| Average age  | 50.7          | 50.5          |
| Accumulated contributions with interest                        | \$248,767,000 | \$218,384,000 |
| % of female  | 43%           | 42%           |
| <b>Active Members – Administrative</b>                         |               |               |
| Number   | 2,263         | 2,188         |
| Total pensionable earnings for the following year              | \$197,168,000 | \$188,942,000 |
| Average pensionable earnings for the following year            | \$87,100      | \$86,400      |
| Average years of pensionable service                           | 10.3          | 10.5          |
| Average age  | 44.3          | 44.4          |
| Accumulated contributions with interest                        | \$171,774,000 | \$148,011,000 |
| % of female  | 62%           | 63%           |
| <b>Deferred Pensioners<sup>30</sup></b>                        |               |               |
| Number   | 578           | 566           |
| Total annual pension   | \$5,489,000   | \$5,159,000   |
| Average annual pension   | \$9,500       | \$9,100       |
| Average age  | 50.2          | 50.1          |
| <b>Pensioners and Survivors</b>                                |               |               |
| Number <sup>31</sup>   | 2,587         | 2,505         |
| Total annual lifetime pension <sup>32</sup>                    | \$98,995,000  | \$93,828,000  |
| Average annual lifetime pension                                | \$38,300      | \$37,500      |
| Average age  | 73.5          | 73.3          |

<sup>30</sup> Excluding 56 pending members entitled to a commuted value at January 1, 2021 and 45 pending members at January 1, 2020

<sup>31</sup> 1,193 Academics, 1,389 Support, and 5 identified as "Religious" as of January 1, 2021, and 1,167 Academics, 1,332 Support, and 6 individuals identified as "religious" as of January 1, 2020

<sup>32</sup> Statistics include indexation as of January 1, 2021 and January 1, 2020, respectively



The membership movement for all categories of membership between the previous actuarial valuation at January 1, 2020 and the membership date of January 1, 2021 is as follows:

|                            | Actives      | Deferred Pensioners and pending members | Pensioners and survivors | Total        |
|----------------------------|--------------|---|--------------------------|--------------|
| <b>Total at 01.01.2020</b> | <b>3,423</b> | <b>611</b>                              | <b>2,505</b>             | <b>6,539</b> |
| New entrants               | 291          |   |                          | 291          |
| Terminations:              |              |   |                          |              |
| • Transfers/lump sums      | (35)         | (43)                                    |                          | (78)         |
| • Deferred pensions        | (70)         | 70                                      |                          | 0            |
| • Pending                  | (17)         | 17                                      |                          | 0            |
| Deaths                     |              |   |                          |              |
| • Without survivors        | (1)          |   | (42)                     | (43)         |
| • With survivors           | (1)          |   | (21)                     | (22)         |
| • Pending                  | (3)          | 3                                       |                          | 0            |
| New survivors              |              |   | 22                       | 22           |
| Retirements                | (98)         | (25)                                    | 123                      | 0            |
| Rehires                    |              |   |                          |              |
| Benefits expired           |              |   |                          |              |
| Adjustments                |              | 1                                       |                          | 1            |
| <b>Total at 01.01.2021</b> | <b>3,489</b> | <b>634</b>                              | <b>2,587</b>             | <b>6,710</b> |

The distribution of the active members as at January 1, 2021, by age and pensionable service, is summarized as follows:

| Age      | Years of Pensionable Service |                  |                  |                  |                  |                  |                  |                 | Total              |
|----------|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|--------------------|
|          | 0-4                          | 5-9              | 10-14            | 15-19            | 20-24            | 25-29            | 30-34            | 35 +            |                    |
| Under 20 |                              |                  |                  |                  |                  |                  |                  |                 |                    |
| 20 to 24 | 31<br>\$60,203               |                  |                  |                  |                  |                  |                  |                 | 31<br>\$60,203     |
| 25 to 29 | 137<br>\$66,528              | 16<br>\$76,354   |                  |                  |                  |                  |                  |                 | 153<br>\$67,556    |
| 30 to 34 | 218<br>\$80,724              | 112<br>\$79,487  | 24<br>\$80,274   |                  |                  |                  |                  |                 | 354<br>\$80,302    |
| 35 to 39 | 212<br>\$98,301              | 146<br>\$97,302  | 121<br>\$83,443  | 13<br>\$83,984   |                  |                  |                  |                 | 492<br>\$93,972    |
| 40 to 44 | 181<br>\$107,001             | 154<br>\$116,055 | 145<br>\$124,173 | 56<br>\$102,995  | 8<br>\$90,026    |                  |                  |                 | 544<br>\$113,479   |
| 45 to 49 | 113<br>\$114,076             | 86<br>\$115,306  | 171<br>\$140,097 | 126<br>\$134,021 | 30<br>\$103,096  | 10<br>\$106,802  |                  |                 | 536<br>\$126,513   |
| 50 to 54 | 71<br>\$121,550              | 73<br>\$123,061  | 129<br>\$124,636 | 128<br>\$152,365 | 94<br>\$134,704  | 28<br>\$114,461  | 24<br>\$86,816   |                 | 547<br>\$130,064   |
| 55 to 59 | 50<br>\$126,857              | 59<br>\$122,564  | 91<br>\$124,387  | 99<br>\$151,840  | 61<br>\$145,705  | 79<br>\$124,443  | 44<br>\$109,846  | 7<br>\$77,366   | 490<br>\$130,652   |
| 60 to 64 | 17<br>\$123,269              | 18<br>\$107,412  | 51<br>\$131,180  | 47<br>\$144,468  | 27<br>\$148,460  | 45<br>\$169,379  | 40<br>\$144,705  | 6<br>\$159,999  | 251<br>\$142,979   |
| 65 +     | 4<br>\$206,128               | 12<br>\$118,468  | 11<br>\$167,694  | 14<br>\$173,407  | 11<br>\$163,718  | 10<br>\$178,960  | 13<br>\$192,004  | 16<br>\$192,596 | 91<br>\$172,380    |
| Total    | 1,034<br>\$96,295            | 676<br>\$106,049 | 743<br>\$121,019 | 483<br>\$139,749 | 231<br>\$134,946 | 172<br>\$136,719 | 121<br>\$125,629 | 29<br>\$158,037 | 3,489<br>\$115,548 |

The distribution of the inactive members as at January 1, 2021, by age, is summarized as follows:

| Age          | Deferred Pensioners <sup>33</sup> |                 | Pensioners and Survivors |                 |
|--------------|-----------------------------------|-----------------|--------------------------|-----------------|
|              | Number                            | Average Pension | Number                   | Average Pension |
| < 45         | 193                               | \$6,822         | 1                        | *               |
| 45 – 49      | 88                                | \$10,296        | 2                        | *               |
| 50 – 54      | 105                               | \$12,651        | 2                        | *               |
| 55 – 59      | 122                               | \$11,504        | 96                       | \$32,185        |
| 60 – 64      | 40                                | \$8,636         | 369                      | \$33,210        |
| 65 – 69      | 17                                | \$8,402         | 534                      | \$35,622        |
| 70 – 74      | 5                                 | \$2,638         | 555                      | \$44,575        |
| 75 – 79      | 3                                 | \$7,143         | 413                      | \$41,250        |
| 80 – 84      | -                                 | -               | 321                      | \$39,867        |
| 85 – 89      | 1                                 | *               | 170                      | \$35,107        |
| 90 – 94      | 3                                 | \$2,471         | 102                      | \$33,393        |
| 95 +         | 1                                 | *               | 22                       | \$24,728        |
| <b>Total</b> | <b>578</b>                        | <b>\$9,497</b>  | <b>2,587</b>             | <b>\$38,266</b> |

\* Pensions in cells with less than three are not shown for confidentiality reason.

<sup>33</sup> Excluding 56 pending members.

## Appendix F

# Summary of Plan Provisions

Mercer has used and relied on the plan documents, including amendments and interpretations of plan provisions, supplied by the University of Ottawa. If any plan provisions supplied are not accurate and complete, the results of any calculation may differ significantly from the results that would be obtained with accurate and complete information. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and the results of estimates under each of the different interpretations could vary.

This valuation is based on the plan provisions in effect on May 15, 2021.

The following is a summary of the main provisions of the Plan in effect on May 15, 2021. This summary is not intended as a complete description of the Plan.

|                                   |  |
|-----------------------------------|--|
| <b>Background</b>                 | The Plan became effective September 1, 1963.<br>Benefits are based on a set formula and are entirely paid for by the University.   |
| <b>Eligibility for Membership</b> | An employee hired after age 30 must join the plan on the effective date of employment. An employee hired before age 30 is eligible to join the plan on the first day of any month and must join the plan after two years of service, or attainment of age thirty, whichever is the earliest. Part-time employees are eligible to join the plan after they have, in two consecutive calendar years, worked for 24 continuous months and either earned 35% of the YMPE or worked at least 700 hours in each of these two consecutive calendar years. |
| <b>Employee Contributions</b>     | Members are required to contribute 7.15% of earnings up to 85% of the 1999 YMPE indexed at 55% of the percentage increase in the YMPE since 2003, and 10.95% of the excess earnings up to total contributory earnings of 120% of the maximum salary paid to a professor.<br>For members in receipt of the University's long-term disability income plan, contributions are not required.   |
| <b>Retirement Dates</b>           | Normal Retirement Date <ul style="list-style-type: none"><li>• Academic Staff – The first day of July coincident with or next following the member's 65th birthday.</li><li>• Support Staff – The first day of the month coincident with or next following the member's 65th birthday.</li></ul> Early Retirement Date <ul style="list-style-type: none"><li>• If a member has been in the Plan for at least two years, the member may choose to retire as early as age 55.</li></ul>  |

|   |   |
|---|---|
| <p><b>Normal Retirement Pension</b></p> | <p>For service before January 1, 2004, the maximum between:</p> <ul style="list-style-type: none"> <li>• 1.3% of the average of the 60 highest monthly pensionable earnings up to 85% of the 1999 YMPE and 2% of the excess for each year of credited service; and</li> <li>• 1.5 % of the average of the 60 highest monthly pensionable earnings for each year of credited service.</li> </ul> <p>For service on or after January 1, 2004, the maximum between:</p> <ul style="list-style-type: none"> <li>• 1.3% of the average of the 60 highest monthly pensionable earnings up to 85% of the 1999 YMPE indexed at 55% of the percentage increase in the YMPE since 2003 and 2% of the excess for each year of credited service; and</li> <li>• 1.5 % of the average of the 60 highest monthly pensionable earnings for each year of credited service.</li> </ul>   |
| <p><b>Early Retirement Pension</b></p>  | <p>If a member retires early, the member will be entitled to a pension that is calculated the same way as for a normal retirement. An unreduced pension will be payable if the member has attained age 60 or has satisfied the rule of 90 (age + credited service = 90).</p> <p>The pension will be actuarially reduced for the period that the early retirement date precedes the earlier of attainment of age 60 or the rule of 90 (based on credited service assuming that the member would have remained in employment).</p>  |
| <p><b>Maximum Pension</b></p>           | <p>The total annual pension payable from the Plan upon retirement, death or termination of employment cannot exceed the lesser of:</p> <ul style="list-style-type: none"> <li>• 2% of the average of the best three consecutive years of total compensation paid to the member by the University, multiplied by total credited service; and</li> <li>• the maximum permitted under the Income Tax Act (\$3,245.56 per year of service in 2021), multiplied by the member's total credited service, reduced for early retirement as per the Income Tax Act, as applicable.</li> </ul> <p>The maximum pension is determined at the date of pension commencement.</p>  |
| <p><b>Death Benefits</b></p>            | <p>Pre-retirement:</p> <ul style="list-style-type: none"> <li>• If a member dies before the normal retirement date and before any pension payments have begun, the member's spouse, or beneficiary if there is no spouse, will receive a lump sum settlement equal to the value of the benefits to which the member would have been entitled had employment terminated on the date of death.</li> </ul> <p>Post retirement:</p> <ul style="list-style-type: none"> <li>• The normal form of payment is a lifetime pension guaranteed for five years if there is no eligible spouse at retirement. If there is an eligible spouse at retirement, the normal form is a lifetime pension guaranteed for five years with a survivor pension of 60% of the original pension amount payable to the surviving spouse after the member's death. However, the member may elect to receive an optional form of pension on an actuarial equivalent basis.</li> </ul> |

**Termination  
Benefits**

If a member's employment terminates for reasons other than death or retirement, the member is entitled to receive a deferred pension equal to the benefit accrued to the date of termination of service, commencing at age 60 or upon attainment of 90 points (based on actual credited service), but not earlier than age 55. A member may elect to receive an actuarially reduced pension as early as age 55. Instead of receiving a pension, a member may, before age 55, transfer the greater of the commuted value of that pension and twice his required contributions with interest into another retirement vehicle in accordance with the pension legislation.

**Pension  
Indexation**

Pensions, including deferred pensions, are increased annually from January 1<sup>st</sup> following the earliest of the date of retirement or termination of service in accordance with changes in the cost of living as measured by the Consumer Price Index (CPI). Pensions are indexed annually by the increase in the CPI minus 1%, up to a maximum increase of 8% per annum. However, if the increase in CPI is 3% or less, then indexation is provided up to the lesser of 2% or the actual rate of increase in the CPI.

Additional increases to reflect full CPI increases to the date of adjustment may be granted, provided the plan's financial position meets specific conditions set out in the plan provisions.

## Appendix G

# Plausible Adverse Scenarios

In this Appendix, the financial impact on the Plan's going concern results (i.e., going concern financial position at the valuation date and current service cost from the valuation date to the next valuation date), on the Plan's hypothetical wind-up and solvency financial positions at the valuation date and on the special payments of plausible adverse scenarios that would pose threats to the Plan's future financial condition is illustrated for the following risks:

- Interest rate risk, the potential that interest rates will be lower than expected;
- Deterioration of asset values; and
- Longevity risk, the potential that pension plan members will live longer than expected.

The following table summarizes the results, where we assumed for:

- Interest rate risk, an immediate parallel decrease in market interest rates of 1.2%;
- Deterioration of asset values, an immediate decrease of 8.0% in the market value of non-fixed income assets; and
- Longevity risk, that life expectancy from the valuation date at age 65 for a male and a female would increase by 1.6 years and 1.4 years, respectively.

| (in \$000s)  | Going Concern<br>Valuation Results<br>as at 2021-05-15 | Plausible Adverse Scenario Results<br>as at 2021-05-15 |                                  |                |
|--|--|--|----------------------------------|----------------|
|  |  | Interest Rate<br>Risk                                  | Deterioration of<br>Asset Values | Longevity Risk |
| <b>Market value of assets</b>  | \$2,849,273  | \$2,902,236  | \$2,672,739                      | \$2,849,273    |
| <b>Going Concern Financial Status</b>  |  |  |                                  |                |
| Market smoothed value of assets  | \$2,777,577  | \$2,795,232  | \$2,718,699                      | \$2,777,577    |
| Going concern funding target   | \$2,354,765  | \$2,433,205  | \$2,354,743                      | \$2,431,651    |
| Provision for Adverse Deviation  | \$190,988  | \$442,227  | \$190,986                        | \$195,138      |
| Funding excess (shortfall)   | \$231,824  | (\$80,200)   | \$172,970                        | \$150,788      |
| <b>Estimated Employer's Current<br/>Service Cost including Provision<br/>for Adverse Deviation</b> |  |  |                                  |                |
| May 15, 2021   | \$52,207   | \$65,300   | \$52,207                         | \$55,300       |
| May 15, 2022   | \$53,075   | \$66,386   | \$53,075                         | \$56,220       |
| May 15, 2023   | \$54,316   | \$67,939   | \$54,316                         | \$57,535       |

| (in \$000s)  | Hypothetical<br>Wind-up and<br>Solvency Results<br>as at 2021-05-15 | Plausible Adverse Scenario Results<br>as at 2021-05-15 |                                  |                |
|--|---|--|----------------------------------|----------------|
|  |   | Interest Rate<br>Risk                                  | Deterioration of<br>Asset Values | Longevity Risk |
| <b>Hypothetical Wind-up Financial Position</b>                     |   |  |                                  |                |
| Market value of assets   | \$2,849,273   | \$2,902,236  | \$2,672,739                      | \$2,849,273    |
| Termination expense provision                                      | (\$1,000)   | (\$1,000)  | (\$1,000)                        | (\$1,000)      |
| Wind-up assets   | \$2,848,273   | \$2,901,236  | \$2,671,739                      | \$2,848,273    |
| Wind-up liabilities  | \$4,275,012   | \$5,367,802  | \$4,275,012                      | \$4,542,080    |
| Wind-up excess (shortfall)   | (\$1,426,739)   | (\$2,466,566)  | (\$1,603,273)                    | (\$1,693,807)  |
| <b>Solvency Financial Position</b>                                 |   |  |                                  |                |
| Reduction in wind-up liabilities due to value of excluded benefits | (\$1,510,204)   | (\$2,076,779)  | (\$1,510,204)                    | (\$1,680,760)  |
| Surplus excess (shortfall)   | \$83,465  | (\$389,787)  | (\$93,069)                       | (\$13,047)     |
| Solvency ratio   | 1.03  | 0.88   | 0.97                             | 1.00           |
| Transfer ratio   | 0.67  | 0.54   | 0.63                             | 0.63           |

| (in \$000s)                           | Minimum annual<br>special payments<br>as at 2021-05-15 | Plausible Adverse Scenario Results<br>as at 2021-05-15 <sup>34</sup> |                                  |                        |
|---------------------------------------|--|--|----------------------------------|------------------------|
|                                       |  | Interest Rate<br>Risk  | Deterioration of<br>Asset Values | Longevity Rate<br>Risk |
| <b>Going Concern Special Payments</b> |  |  |                                  |                        |
| May 15, 2021                          | \$0  | \$0  | \$0                              | \$0                    |
| May 15, 2022                          | \$0  | \$11,132   | \$0                              | \$0                    |
| May 15, 2023                          | \$0  | \$11,132   | \$0                              | \$0                    |
| <b>Solvency Special Payments</b>      |  |  |                                  |                        |
| May 15, 2021                          | \$0  | \$0  | \$0                              | \$0                    |
| May 15, 2022                          | \$0  | \$0  | \$0                              | \$0                    |
| May 15, 2023                          | \$0  | \$0  | \$0                              | \$0                    |
| <b>Total</b>                          |  |  |                                  |                        |
| May 15, 2021                          | \$0  | \$0  | \$0                              | \$0                    |
| May 15, 2022                          | \$0  | \$11,132   | \$0                              | \$0                    |
| May 15, 2023                          | \$0  | \$11,132   | \$0                              | \$0                    |

The balance of this Appendix provides details of the plausible adverse scenarios selected and the determination of their impact on valuation results.

<sup>34</sup> A new special payment is assumed to start one year after the valuation date.



## Interest Rate Risk

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to the potential that interest rates will be lower than expected. For this purpose, we have assumed an immediate parallel decrease in market interest rates underlying fixed income investments, where fixed income investments include the categories shown in the investment policy summarized in Appendix B.

Using a methodology consistent with the one used to determine the going concern discount rate, we have determined that a parallel decrease in market interest rates of 1.2% would have a non-trivial probability (between 1 in 10 and 1 in 20) of occurring within the year following the valuation date. For purpose of this scenario, we have assumed that such a decrease in market interest rates would occur immediately on the valuation date and would have the impact on the value of assets and going concern assumptions described on the next page.

| Defined Term                     | Description  |
|----------------------------------|--|
| Market value of assets           | The decrease in market interest rates has been assumed to affect only the market value of the fixed income investments. The decrease is assumed to have occurred immediately on the valuation date.  |
| Smoothed value of assets         | Going concern: For purposes of determining the smoothed value of assets, 1/3 of the change in the market value of asset has been recognized in the smoothed value of assets.   |
| Discount rate assumption         | Going concern: It was assumed that the decrease in market interest rates affects only the expected return on assets for the fixed income portion of assets. The discount rate assumption was therefore decreased from 6.15% to 5.90%. The discount rate used to value benefits assumed to be settled through a lump sum was not changed.<br><br>Hypothetical wind-up and solvency: The interest rates used in the valuation were reduced by 1.20% for both benefits assumed to be purchased from an insurer and benefits assumed to be settled through a lump sum. |
| Other assumptions                | Except as mentioned above, all assumptions used were the same as those used for this valuation.  |
| Provision for Adverse Deviations | It was assumed that the long-term benchmark bond yields would decrease by 1.2%, causing a reduction in the benchmark discount rate from 6.15% to 4.95%. This reduction, combined with a reduction in the best estimate long-term expected return of 0.25%, results in a net increase in the level of the PfAD from 9.54% to 21.60%.  |

## Deterioration of Asset Values

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to a deterioration of asset values. For this purpose, we assumed an immediate reduction in the market value of the Plan's non-fixed income assets, where non-fixed income investments include the categories shown in the investment policy summarized in Appendix B.

Using a methodology consistent with the one used to determine the going concern discount rate, we have determined that a decrease of 8% in the market value of value of non-fixed income assets would have a non-trivial probability (between 1 in 10 and 1 in 20) of occurring within the year following the valuation date. For purpose of this scenario, we have assumed that such a decrease would occur immediately on the valuation date and would have the impact on the value of assets and valuation assumptions as described on the following page.

| Defined Term                   | Description  |
|--------------------------------|--|
| Market value of assets         | The decrease in the market value of the non-fixed income portion of assets is assumed to have occurred immediately on the valuation date.                      |
| Smoothed value of assets       | For purposes of determining the smoothed value of assets, 1/3 of the change in the market value of assets has been recognized in the smoothed value of assets. |
| Going concern assumptions      | This scenario is assumed to have no impact on the assumptions used for this valuation.   |
| Wind-up & solvency assumptions | This scenario is assumed to have no impact on the assumptions used for this valuation.   |

## Longevity Risk

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to the potential that pension plan members will live longer than expected. For this purpose, we have determined that a plausible adverse scenario would be to assume that future mortality improvements<sup>35</sup> will be in line with the average improvements experienced by the Canadian population over the most recent 15-year period available, with uniform improvement rates for all future years but varying by age<sup>36</sup> and gender.

The table on the following page summarizes the improvement rates under the plausible adverse scenario compared to those currently assumed under the CPM-B scale and is based on Canadian population experience from the Human Mortality Database (HMD) from 2002 to 2016.

<sup>35</sup> i.e. starting one year after the valuation in this context

<sup>36</sup> Improvement rates below age 45 are set to those at age 45

| Age | Males |       |       |                  | Females |       |       |                  |
|-----|-------|-------|-------|------------------|---------|-------|-------|------------------|
|     | CPM-B |       |       | Adverse Scenario | CPM-B   |       |       | Adverse Scenario |
|     | 2020  | 2025  | 2030+ |                  | 2020    | 2025  | 2030+ |                  |
| 20  | 1.59% | 1.20% | 0.80% | 1.68%            | 0.98%   | 0.89% | 0.80% | 1.47%            |
| 30  | 1.88% | 1.34% | 0.80% | 1.68%            | 0.98%   | 0.89% | 0.80% | 1.47%            |
| 40  | 1.80% | 1.30% | 0.80% | 1.68%            | 1.17%   | 0.98% | 0.80% | 1.47%            |
| 50  | 1.17% | 0.98% | 0.80% | 1.76%            | 0.98%   | 0.89% | 0.80% | 1.34%            |
| 55  | 1.47% | 1.13% | 0.80% | 1.67%            | 1.11%   | 0.96% | 0.80% | 1.14%            |
| 60  | 1.77% | 1.28% | 0.80% | 1.75%            | 1.24%   | 1.02% | 0.80% | 1.34%            |
| 65  | 2.06% | 1.43% | 0.80% | 2.11%            | 1.36%   | 1.08% | 0.80% | 1.65%            |
| 70  | 2.06% | 1.43% | 0.80% | 2.48%            | 1.36%   | 1.08% | 0.80% | 1.77%            |
| 75  | 2.01% | 1.41% | 0.80% | 2.66%            | 1.36%   | 1.08% | 0.80% | 1.93%            |
| 80  | 1.96% | 1.38% | 0.80% | 2.63%            | 1.36%   | 1.08% | 0.80% | 2.03%            |
| 85  | 1.38% | 1.03% | 0.68% | 2.32%            | 1.31%   | 0.99% | 0.68% | 1.98%            |
| 90  | 0.75% | 0.62% | 0.48% | 1.68%            | 0.75%   | 0.62% | 0.48% | 1.60%            |
| 95  | 0.16% | 0.25% | 0.34% | 1.04%            | 0.16%   | 0.25% | 0.34% | 1.12%            |
| 100 | 0.14% | 0.22% | 0.30% | 0.64%            | 0.14%   | 0.22% | 0.30% | 0.80%            |
| 105 | 0.14% | 0.22% | 0.30% | 0.38%            | 0.14%   | 0.22% | 0.30% | 0.55%            |

## Appendix H

# Employer Certification

With respect to the Report on the Actuarial Valuation for Funding Purposes as at May 15, 2021 of The University of Ottawa Retirement Pension Plan, I hereby certify that, to the best of my knowledge and belief:

- The valuation reflects the terms of the University's engagement with the actuary described in Section 2 of this report, particularly the requirement not to reflect a margin for adverse deviations in the going concern valuation.
- A copy of the official plan documents and of all amendments made up to May 15, 2021 was provided to the actuary and is reflected appropriately in the summary of plan provisions contained herein.
- The asset information summarized in Appendix B is reflective of the Plan's assets.
- The membership data provided to the actuary included a complete and accurate description of every person who is entitled to benefits under the terms of the Plan for service up to January 1, 2021, and there were no special events affecting the Plan membership between January 1, 2021 and May 15, 2021.
- All events subsequent to May 15, 2021 that may have an impact on the Plan have been communicated to the actuary.

*Original version of the report signed by:*

Tom Valks  
\_\_\_\_\_  
Signed

Jennifer Doyle  
\_\_\_\_\_  
Signed

Tom Valks  
\_\_\_\_\_  
Name

Jennifer Doyle  
\_\_\_\_\_  
Name

Chief Investment Officer  
\_\_\_\_\_  
Title

Vice-President, Finance and Administration  
\_\_\_\_\_  
Title

December 8, 2021  
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Date

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