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University of Ottawa
Treasury and Pension Fund Office

December 21, 2012

Public Sector Pension Plan Solvency Relief Application
Pension Policy Branch
Ministry of Finance
5th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
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Subject: University of Ottawa Retirement Pension Plan (1965)

The attached document is the application by the University of Ottawa for funding relief pursuant to the Ontario Regulation 178/11 Solvency Funding Relief for Certain Public Sector Pension Plans.

Please direct questions or requests for additional information to my attention at 613-562-5953 or barbara.miazga@uottawa.ca.

Thank you

Yours truly

Barbara Miazga
Treasurer / Director Pension Fund

Attachments
1. Public Sector Pension Plan Solvency Relief Application
2. Disk Containing Plan Documents (Separate Item)

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Public Sector Pension Plan Solvency Relief Application

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Introduction

This document will serve as the application by the University of Ottawa to provide the University of Ottawa Retirement Pension Plan (the "Plan", Registration No.: 0310839) with the funding relief pursuant to the Ontario Regulation 178/11 Solvency Funding Relief for Certain Public Sector Pension Plans.

The Stage 1 Valuation Date for the Plan will be January 1, 2013. The effective date of the prior actuarial valuation filed with the Financial Services Commission of Ontario (FSCO) was January 1, 2010.

Overview of the Plan

The University of Ottawa's Plan is a contributory defined benefit pension plan with guaranteed indexation. Normal retirement age is 65, with options for both early retirement and deferred retirement. Retirement benefits are based on years of pensionable service and the best 60 months of salaries at retirement and are adjusted thereafter to reflect some or all of the increases in the Consumer Price Index (the "CPI").

The Plan benefits provide for automatic annual indexation of pensions according to the following formula:

If CPI is less than 2%	CPI
If CPI is between 2% and 3%	2%
If CPI is greater than 3%	CPI – 1%

If the Plan meets the financial tests defined in Article 8.5.3 of the Plan text the guaranteed indexation is 100% of CPI to a maximum of 8%. The University's Board of Governors may approve additional ad hoc indexation of benefits for CPI amounts that are not granted under the automatic annual indexation formula.

Active employees contribute at the rate of 4.25% for salaries up to the Plan's integration level that is adjusted annually[1] (an amount used in lieu of the yearly maximum pensionable earnings or the "YMPE"). For salaries above that amount, employees contribute 6.55% of salary. The overall blended rate for employee contributions is approximately 5.59%.

[1] As per Article 5.1.1(i) (c), the Plan's integration level is 85% of the YMPE for the 1999 calendar year indexed at 55% of the percentage increase in the YMPE from year to year since 2003.

Recent History of Valuation Results and Employer Contributions

The most recent actuarial valuation filed with the Canada Revenue Agency (CRA) and FSCO was effective January 1, 2010 and filed in August 2010 showing a net deficit of $59,008,000 on a going concern basis and $25,937,000 on a solvency basis (excluding the cost of future guaranteed indexation). The wind-up position of the Plan as at January 1, 2010 is a deficit of $441,068,000.

The employer's contribution rate for current service cost is 12.19% as determined by this valuation. Combined with the employees' overall blended rate of 5.59% the total current service cost is 17.78% and the cost sharing split is 69% employer and 31% employees.

The University of Ottawa is also funding the above noted deficits with special payments to the Plan. In accordance with pension funding relief measures enacted by the Ontario government, the start of the special payments was deferred until January 1, 2011. The deficit payment schedule is $532,000 paid monthly from January 2011 to December 2025.

Projected Deficit and Contributions

Annual updates to the actuarial valuation that were prepared effective January 1, 2011 and 2012 (not filed with CRA and FSCO) indicate that the financial position of the Plan has deteriorated. A recent projection for the deficits as at January 1, 2013 (based on market value information and economic conditions as at August 1, 2012) shows a deficit of $120,000,000 on a going concern basis (based on the smoothed value of assets) and $345,000,000 on a solvency basis (excluding the cost of future guaranteed indexation). An estimate of the wind-up position of the Plan as at January 1, 2013 is a deficit of $1,010,000,000.

Based on this estimate the employer's (ER) contribution rate for current service cost is projected to increase to 14.50% whereas the employees (EE) will continue to contribute at the overall blended rate of approximately 5.59% as defined in the pension plan by-laws. This total of 20.09% represents a 72% / 28% ER / EE share, with the ER share increasing from the current level of 69%. The projected annual contributions without Public Sector Relief are provided below (all figures are in $ millions unless indicated otherwise).

Calendar Year	Special Payments			Current Service Costs		
	Going Concern	Additional Solvency Payment	Total	Employer	Employees	Total
2013	6.0	-	6.0	42.0	16.0	58.0
2014 to 2018 (per year)	13.0	62.0	75.0	45.5	17.5	63.0
After 2018	-	-	-	50.0	19.0	69.0

Calendar Year	Total Employer Cost			Total Plan Cost		
	Special Payments	Current Service Cost	Total Employer	Total Employees	Total ER + EE	% Pay
2013	6.0	42.0	48.0	16.0	64.0	22%
2014 to 2018 (per year)	75.0	45.5	120.5	17.5	138.0	44%
After 2018	-	50.0	50.0	19.0	69.0	20%

Estimated Savings Target

The estimated Savings Target of the Plan has been calculated in accordance with the Savings Targets section of the Details of Temporary Solvency Funding Relief published by the Ministry of Finance, which is dated August 24, 2010. The Savings Target is estimated based on the previous valuations filed with FSCO and a projection of the Plan's financial position to January 1, 2013.

The effective dates of the previous actuarial valuations filed with FSCO:

January 1, 2007

January 1, 2008

January 1, 2010

Average going-concern funding ratio[2] (based on market value of assets):

Valuation date	Assets ($000s)	Liabilities ($000s)	Funding ratio (max 1.0000)
January 1, 2007	$1,263,928	$1,074,218	1.0000
January 1, 2008	$1,258,502	$1,147,935	1.0000
January 1, 2010	$1,192,151	$1,284,034	0.9284
January 1, 2013	$1,420,000	$1,546,000	0.9185
Average:			0.9617

Average solvency ratio:

Valuation date	Assets ($000s)	Liabilities ($000s)	Solvency ratio (max 1.0000)
January 1, 2007	$1,263,178	$1,263,178	1.0000
January 1, 2008	$1,257,752	$1,257,752	1.0000
January 1, 2010	$1,191,401	$1,217,338	0.9787
January 1, 2013	$1,419,000	$1,764,000	0.8044
Average:			0.9458

[2] The estimated deficit at January 1, 2013 of $126 million differs from the estimate of the going concern deficit as of this date (provided on page 4 above) due to the market value basis used to value the assets.

Savings Target **= 1 – lesser of 0.9617 and 0.9458**

= 1 – 0.9458

= 0.0542 or 5.42%

As at January 1, 2012, the date of the last complete actuarial valuation of the Plan, the estimated Present Value of Future Benefits of current active members with respect to future service only, can be summarized as follows:

Present Value of Future Benefits (with respect to future service of current active members) as at January 1, 2012 ($ millions)	
Present Value of Future Member Contributions	$172
Present Value of Future University Costs	$434
Total	$606
Present Value of future salaries (not capped)	$3,183

Applying the 5.42% Savings Target to the Present Value of Future Benefits yields a Savings Target of $33 million ($606 million times 5.42%), or 1.0% of the Present Value of Future Salaries ($33 million divided by $3,183 million). That is, the Present Value of Future University Costs in respect of active members ($434 million) would need to be reduced by at least $33 million in order to meet the Savings Target.

The information in this section is provided for information purposes only and will need to be updated as at January 1, 2013, based on the actuarial basis to be used to prepare the actuarial valuation at that date.

Sustainability

The University of Ottawa has established that sustainability of the pension plan should achieve two objectives: reasonable costs to maintain a competitive pension plan, for the University and the employees; and predictable costs for the University and the employees over time.

The University fully recognizes that the existing Plan design and employer/employee cost sharing arrangement is not sustainable going forward. The requirement to make deficit payments in the amount of $75 million, over and above its share of current service cost, would have dire consequences on the ability of the University to achieve its academic mission and mandate.

In light of the projected deficits and annual contributions that would be required without the Public Sector Solvency Relief, the University has started the process of addressing pension plan sustainability. Prospective changes to lower the cost of the Plan have been identified and pension reform discussions with employees groups have recommenced.

Detailed Funding Plan

A detailed funding plan has been developed to show how the Plan could be modified such that its provisions are consistent with the intent of the Ontario government's relief regime. The funding plan has been developed based on prospective Plan changes that have been or could be introduced for discussion with the collective bargaining agents (CBAs) and non-represented employees. It will also be shared with pensioners in due time.

There are four types of Plan design changes that have been identified to reduce the cost of the Plan based on comparisons to other pension plans in the broader public sector:

1. Review the pension formula, mainly related to the integration level used to determine the pension and employee contributions, which is different than the true YMPE, and the 1.5% minimum accrual. A rough estimate of the potential savings of current service cost is 1.1% of payroll.

2. Review the indexation formula, which is guaranteed irrespective of the Plan's financial health. A rough estimate of the potential savings of current service cost is 1.5% of payroll.

3. Review the retirement age, mainly related to low service employees due to unreduced retirement of age 60 without a minimum service condition. A rough estimate of the potential savings of current service cost is 0.5% of payroll.

4. Review the cost sharing arrangement between the University and its employees to achieve better balance and more predictable costs for the University.

A combination of some or all of the prospective Plan design changes identified above is expected to achieve the Savings Target. The University will discuss these changes with Plan members and CBAs during the Stage 1 relief period with the changes to become effective no later than five years after the end of Stage 1 relief.

Pension Reform Discussions with Plan Members

The University of Ottawa initially engaged its employee unions in pension reform discussions in 2010 with a view to reach agreement on changes that would make the Plan more affordable. On several occasions between January and April 2010 the University met with its employee unions to explore options. This process involved detailed modeling undertaken by the Plan's actuary on design and related costs. The University also sought realignment of cost sharing to ensure the long term financial sustainability of the Plan.

The University and the employee unions were not able to reach an agreement at that time. To remove uncertainty related to the pension funding requirement over the next three years, the University filed an actuarial valuation report one year early (January 1, 2010) and commenced deficit funding payments in 2011.

The Ontario government's 2012 budget announcement on issues affecting pension plans combined with increasing deficits have compelled the University to recommence the pension reform discussions with its employee unions. The process to address long term financial sustainability of the Plan is well underway through the following steps taken this year:

- A consultation process with key stakeholders (including senior management and Committees of the Board of Governors) was undertaken to inform on the Plan's financial position
- Aon Hewitt, who is not the Plan's actuary, was engaged as a neutral expert advisor to facilitate the pension reform discussions at the negotiating table
- Communications were circulated to all employee groups on the University's intention to restart pension reform discussions to address long term financial sustainability
- A full day orientation session was held for representatives of union and non-unionized employee groups and CBAs to provide information and gather input on the process
- A subsequent session was held with this group to exchange information, further the understanding of the issues of the respective parties, and compile a list of information requirements and topics to present to the group
- The Pension Plan Committee, which includes representatives from active employee groups and retirees, is also being kept apprised of the process

Plans are in place to continue the pension reform discussions and communications with Plan stakeholders early in 2013.

Details on Collective Bargaining Agreements

Details on the bargaining units at the University of Ottawa and the term of the current agreements are provided below. The estimates on the number of members that are participating in the Plan are as at November 30, 2012:

Association/Bargaining Unit	Number of Members	Term of Current Agreement
Professional Institute of the Public Service of Canada (PIPSC)	232	May 1, 2011 to April 30, 2014
Support Staff University of Ottawa (SSUO) of the Ontario Secondary School Teachers' Federation (OSSTF)	1,315	May 1, 2007 to April 30, 2012
The Association of Professors of the University of Ottawa (APUO)	1,252	May 1, 2011 to April 30, 2012
The International Union of Operating Engineers Local 772-A	29	July 1, 2010 to June 30, 2013
The Employees of the Trades, Grounds and Transportation, Local 772-B of the International Union of Operating Engineers	40	July 1, 2010 to June 30, 2013

There are an additional 553 Plan members that are not represented by a CBA. Of these additional 553 members, approximately 300 are members of the Non Unionized Employee Association (NUEA). This group has representation at the pension reform discussion table but the NUEA is not formally recognized, rather, it acts as a vehicle to facilitate communications between these employees and the University.

Amendments to the Pension Plan

There have been no amendments made to the Plan in the last five years leading up to the date of Stage 1 valuation report or prior to this period that are scheduled to come into effect during this period that may have enhanced the sustainability of the Plan.

There have been no Plan amendments made prior to entering Stage 1 that are scheduled to come into effect after entering Stage 1 that may have increased the cost of the Plan.

A bylaw amendment that was approved by the University's Board of Governors on December 10, 2012 and filed with CRA and FSCO on December 20, 2012 has been completed to document current administrative practices and bring the Plan text up to date since 2007. There are no financial impacts stemming from this amendment.

Plan Documents

An administrative codification of the Plan text has been completed to incorporate all past amendments, including the above noted bylaw amendment that was approved by the University's Board of Governors on December 10, 2012.

Since December 31, 1999, valuation reports have been filed (as at January 1 for all years) for 2000, 2001, 2002, 2003, 2004, 2005, 2007, 2008, and 2010.

Copies of the Plan text codification and the valuation reports filed since December 31, 1999 are provided on a disk as a separate attachment