Funding Tomorrow’s Pensions, Part III

The following background information and attached questionnaire are a follow-up to the bulletins sent to all plan members by the Board of Pension Trustees for the Combination Plan on 14th October 2010 and 4th January 2011. These bulletins were then followed up with member forums held by the Trustees and the University on 18th and 19th January 2011. These communications dealt with issues surrounding the long term sustainability of the Defined Benefit portion of the Pension Plan. As noted in the forums, the purpose of this communication is to seek member opinion with respect to the various options outlined for addressing plan financial sustainability. Given some of the options available could impact plan design, the Board of Trustees and the University have mutually agreed that this communication and attached questionnaire should be sent to members by the University.

This questionnaire is only being sent to active members as it is only active members who would be required to make higher contributions.

Please indicate your ranking of the options on the enclosed questionnaire and return it to the Pension Office by 18th March 2011. The results of the questionnaire will be used as one of the main inputs to determine the final approach and recommendation to the Board of Governors. I encourage all members to complete and return the attached questionnaire to ensure the collated results reflect the collective view of active members.

Sincerely,

Gayle Gorrill, CA
Vice-President Finance & Operations
University of Victoria

Background Information

You will recall that the Plan actuaries, Mercer (Canada) Ltd, have advised us that if the 1% contribution is maintained then, based on the valuation assumptions, the assets of the Defined Retirement Benefit Account (DRBA) will not be sufficient to support future liabilities and the Plan will not be sustainable. Long term sustainability of the Defined Benefit (DB) minimum requires that annual contributions to the DRBA rise to 5.05% of salary, rather than the current 1%; the increase to be shared with 1.35% paid by members and 2.7% by the University. Alternatively, current contribution rates could be maintained but this would necessitate some reduction of benefits from the DB minimum.

The principal options were outlined in the bulletin “Funding Tomorrow’s Pensions – Part II”, which is available on the Pension web-site if members no longer have their copy (http://web.uvic.ca/vpfin/financialplanning/pension/CombPlanbulletinJan2011final.pdf). The table below is a summary of the advantages and disadvantages of each option. At the member forums, it was suggested that limiting inflation protection to 1% per year, or limiting the DB minimum to ½ of a member’s assets might be alternatives. These ideas essentially fall under option 5, combination of options, since both would still require contribution increases. They are also administratively complex and the second idea would be difficult to reverse should circumstances change in the future. The following table includes consideration of reversibility to allow for the possibility that investment conditions may improve enough to enable future reduction of contributions and/or reinstatement of benefits. The table outlines generally the pros and cons of each approach. Individual members however should assess how each statement relates to their specific situation.
<table>
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<th><strong>OPTION</strong></th>
<th><strong>PRO</strong></th>
<th><strong>CON</strong></th>
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| 1. Increase employee contribution rates | ● Retains current benefits  
● University pays 2.7% of salary  
● Additional employee contributions are tax-deductible  
● Easily reversed | ● 1.35% extra cost to employee  
● No additional funds are contributed to an individual’s combined contribution account (CCA) |
| 2. Eliminate the defined benefit minimum for all future service | ● No additional contributions needed  
● 1% of salary redirected from DRBA to member CCAs | ● Fundamental change converting future plan to defined contribution model  
● Difficult to reverse |
| 3. Change the defined benefit minimum formula by reducing the accrual rate | ● No additional contributions | ● Defined benefit minimums reduced by 20-30%  
● Difficult to reverse |
| 4. Eliminate automatic inflation indexing of the defined benefit minimum for members who have not yet commenced their pension | ● Reduces employee cost to 0.14%  
● Indexing could still be provided if investment returns are sufficient  
● Easily reversed | ● Purchasing power of defined benefit minimum eroded with inflation over time |
| 5. Implement a combination of increasing contributions and reducing either the accrual rate or the amount of mandatory indexing on the defined benefit minimum | ● May balance conflicting member interests | ● May be administratively complex  
● May be difficult to reverse depending on combination |

The previous bulletin outlined some of the considerations members may need to assess before giving their opinions, especially the question of risk tolerance since retention of the full DB minimum versus extra contribution cost is essentially an insurance question.

In response to member requests at the forums, an excel tool has been developed that members can use to better understand the impact of rates of return and salary increases on an individual pension. This tool is not for retirement planning purposes as that is not its intent. The results obtained by using this tool are not a calculation of your actual future pension payments which are also affected by such things as Income Tax Act limits, retirement at ages other than 65 (reductions apply before age 65), optional forms such as joint and last survivor, options other than the 3.5% internal variable annuity with defined benefit minimum, and the fact that actual investment returns are not smooth (i.e. monthly returns are quite volatile). The tool is provided solely to enable members to see the impact on the defined benefit minimum of different future rates of return scenarios in order that the member can better assess risk. The excel tool (called sensitivity tool) is on the pension web site under quick links on the right side of the web page (http://web.uvic.ca/vpfin/financialplanning/pension/pensionmain.htm).

In order to best utilize the tool, plan members will need a copy of their 2009 member statement.
The University would like your input on the following options for addressing the current Combination Pension Plan long term funding issue. Please note: while the results of this questionnaire will be summarized and used as one of the main inputs to determine the final approach to resolve the funding issue, this is not a plan member vote.

The options outlined below are summarized in the covering information bulletin. The corresponding option number is provided in brackets after each of the options below for ease of reference.

Please rank the following options from 1 to 5 in order of preference, with 1 being your preferred option and 5 your least preferred option:

_____ Increase employee contribution rates by 1.35% in order to maintain benefits in their current form (option #1 on information sheet).

_____ Eliminate the defined benefit minimum for all future service so that additional contributions are not required (option #2).

_____ Change the defined benefit minimum formula by reducing the accrual rate sufficiently so that additional contributions are not required (option #3).

_____ Eliminate automatic inflation indexing of the defined benefit minimum for members who have not yet commenced their pension so that additional employee contributions are only 0.14%. Indexing would only be provided on an ad hoc basis if the plan could support it (option #4).

_____ Implement a combination of increasing contributions and reducing either the accrual rate or the amount of automatic indexing on the defined benefit minimum. The plan currently provides for automatic indexing of up to a maximum of 3% with provision for additional ad hoc adjustments if inflation exceeds 3% and the plan can support it (option #5).

Please provide any comments you may have on the options and/or the ranking you have provided (use the reverse for additional space if needed):

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Once you have completed this form, enclose the questionnaire in the envelope marked “Questionnaire Envelope.” Next, complete the Identification Envelope and insert the sealed Questionnaire Envelope. If a plan member returns more than one questionnaire, only the first questionnaire received will be collated.

Questionnaires must reach the Pension Office by 4:30 p.m. Friday 18 March 2011.