Office of the Chief Human Resources Officer

University of Windsor
thinking forward

March 26, 2013

RE: University of Windsor Employees' Retirement Plan (the "Plan") Registration Number 0310573

Dear Pension Plan Member:

The purpose of this memo is to provide an update on the financial status of the University of Windsor Employees' Retirement Plan (the "Plan").

The Plan is registered in Ontario and subject to the Pension Benefits Act of Ontario (PBA). The PBA requires that registered defined benefit pension plans have regular actuarial valuations completed and filed with the regulators. An actuarial valuation is a complete assessment of a plan's financial status at that point in time. The financial status is tested in two ways:

- Under the *"going concern"* test, a plan's liabilities are estimated as if the plan were to continue indefinitely and are compared to the plan's assets
- Under the *"solvency"* test, a plan's liabilities are estimated as if the plan was terminated on the valuation date and are also compared to the plan's assets

If the actuarial valuation shows that a plan has a funding shortfall on either the going concern or the solvency test, then special payments are required to eliminate that shortfall.

The most recently filed actuarial valuation report for the Plan was prepared as at July 1, 2011, and indicated a going concern deficit of $1 million and a solvency deficit of $2.1 million (99% solvency ratio, which represents the ratio of the Plan's assets to the solvency liabilities). As of the date of the valuation, current contribution levels (roughly 7.1% of payroll for the University and for Plan members) were sufficient to fund the accruing benefits as well as the minimum required special payments.

An estimate of the financial position of the Plan as at July 1, 2012 revealed that over the one-year period from July 1, 2011 to July 1, 2012, the going concern deficit has grown to $6.5 million, and the solvency deficit has grown to $36.7 million (80% solvency ratio). The key driver behind the deterioration in the Plan's financial position is the significant decline in long-term interest rates from July 1, 2011 to July 1, 2012, which resulted in higher pension liabilities and a lower solvency ratio. Although University and member contribution rates were increased effective July 1, 2010 as a measure to help preserve the Plan's solvency position, these additional funding contributions have not been sufficient to offset the negative impact of this change in long-term interest rates.

In the absence of dramatic increases in long-term interest rates prior to the next required actuarial valuation as at July 1, 2014, it is anticipated that the actuarial valuation for funding purposes as of that date will reveal large going concern and solvency deficits, comparable to the deficits as at July 1, 2012, as well as significant additional contribution requirements for both the University and for Plan members.

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The Ontario government has made changes to the regulations of the PBA to provide temporary solvency relief for public sector and broader public sector pension plans. Following consultations with the Plan actuary and member representatives, the University applied for approval to take advantage of the relief measures.

The solvency relief measures do not eliminate the deficit, but will modify the timing of the special payments required to fund the deficit. The measures provide relief for a three-year period in order for the University to:

- Ensure that the Plan is financially sustainable in the long term; not solely meeting the metrics prescribed for temporary solvency funding relief;
- Continue dialogue with employee groups regarding plan sustainability, level of benefits, and contribution rates; and
- Continue to review the investment strategies with consideration of any provincial initiatives with respect to public sector pension plans.

Approval of the application is contingent on plan sponsors taking steps to ensure plans are sustainable in the long run. A successful application will potentially enable the University to manage the minimum required contributions to the Plan for the three-year period following the next required actuarial valuation for funding purposes as at July 1, 2014, and allow time for the University to develop strategies to enhance Plan sustainability.

We will continue to monitor the Plan's financial status closely and will provide information as it becomes available.

If you have questions, please contact Ms. Cheryl Paglione, Director of Employee Services, at (519)253-3000 ext. 2014, or by email to cherylp@uwindsor.ca.

Yours sincerely,

Rita LaCivita
Chief Human Resources Officer

Cc: Employees' Retirement Committee
CAW Pension Advisory Committee
Director of Employee Services