

Date: April 18, 2011

To: All current and future members of the Retirement Plan

From: Betsy Springer, Pension Fund Management

Re: Application for Stage 1 Solvency Funding Relief

Over the past few years, Carleton University has been working with the Council of Ontario Universities to obtain relief from onerous solvency funding requirements. The Ontario government has released regulations that will permit some temporary solvency relief. That relief will be provided in two stages to plans that are deemed to be eligible by the province.

Stage 1 funding relief provides limited relief for a three-year period in order for universities to work on solutions that will help to make their pension plans more sustainable in the long run. At the end of the three year period, plans that have made substantial progress toward this goal will be able to take advantage of some additional Stage 2 relief measures. It is the Pension Committee's view that Carleton has already taken steps towards making the Carleton Plan more sustainable through the amendments to the Plan that were communicated to you last July and again in January of this year.

What follows is a summary of the Stage 1 funding application that has been submitted to the Ministry of Finance. As the material is fairly technical, information sessions to further explain the process will be held at the end of this month and in early May. The dates of these sessions will be provided soon.

Summary

Analysis of the Carleton University Retirement Plan ("the Plan") shows that Carleton University ("the University") faces material increased contributions to the Plan as a result of the financial market crisis of 2008-2009 and solvency regulations imposed by the provincial government. An actuarial valuation must be filed effective as at July 1, 2010, and the financial position of the Plan at that date shows that the Plan will be in a deficit position and, as a result, special contributions by the University to the Plan will be required. In addition, University contributions to the Minimum Guarantee fund in respect of future service cost will also increase as a result of more members projected to retire under the defined benefit provision of the Plan due to the significant investment losses on the money purchase defined contribution component of the Plan.

Under current funding regulations, total University contributions over the next four years (July 1, 2010 to June 30, 2014) are projected to be on average about \$35.5 million per annum (18.6% of payroll) as compared to the University contributions from July 1, 2009 to June 30, 2010 of \$11.5 million (7.4% of

payroll). Given the significance of these payments, Stage 1 solvency relief is being sought for the Carleton University Retirement Plan.

The Carleton University Retirement Plan meets the eligibility criteria to enter Stage 1 as:

- the Plan provides defined benefits;
- the Plan is not a multi-employer pension plan;
- the Plan is not a jointly-sponsored plan;
- the Plan is sponsored by Carleton University which is a broader public sector employer;
- Plan members continue to accrue defined benefits under the Plan;
- the Plan's Stage 1 valuation report will be as of July 1, 2010 and will indicate a ratio of assets to liabilities on both going-concern and solvency bases of less than 0.9;
- this application contains a funding plan indicating steps taken to make the Plan more sustainable in the long term.

The solvency funding relief measures require that a "savings target" be calculated for the Carleton University Retirement Plan. The target is based on the funded ratio of the Plan as reported in the last 4 actuarial valuations. Mercer, the Plan's actuary has calculated the "savings target" to be 6.1% which is the required reduction in future university costs or in accrued benefit liabilities. The "savings target" could be met from changes in contribution rates and/or changes in benefit provisions.

Funding Plan

As noted, analysis of the Plan shows that Carleton University faces material increased contributions to the Plan. An actuarial valuation must be filed effective as at July 1, 2010, and the financial position of the Plan at that date shows that the Plan will be in a deficit position. As a result, special contributions by the University to the Plan will be required. These are expected to be about \$18 million annually commencing July 1, 2011 and projected to be over \$40 million in 2013/2014 under current funding regulations.

The deficits and additional contribution requirements put pressure on the financial stability of the Plan. Recognizing the importance of a financially-stable Plan for all current and future Plan members, the Pension Committee researched a number of possibilities for managing the situation, including changes to the benefit design, funding policy, and investment policy of the Plan. The result of this work is the following amendments which have been approved by the University's Board of Governors:

- Effective July 1, 2011, increase members' contributions by up to 2% of pensionable earnings to the Minimum Guarantee fund until the earlier of 10 years or until such time as special payments to the Plan cease; and
- Effective July 1, 2012, make the early retirement reduction factors used in calculating Minimum Guarantee pensions equal to the actuarial equivalent factors currently being used to calculate Money Purchase pensions.

In total, these amendments are expected to reduce the present value of future university costs and of aggregate benefits by more than the prescribed savings target.

Effect on University Contributions

A successful application for Stage 1 relief will have the effect of reducing special payments to the Pension over the next three years. This will allow the University to plan for special payments after that time. It should be noted that the solvency relief measures do not eliminate the unfunded liabilities of the Plan; they affect the timing of payments only. It is also important to note that legislation governing registered pension plans has clear rules that protect pension benefits accrued to the date of any change. Accrued , vested benefits may not be reduced and no changes can be made for current retirees.

If you have questions about the above, please feel free to contact me or your Pension Committee representative, listed below.

Betsy Springer (Chair), Pension Fund Management	ext. 3620
Martha Attridge Bufton, (CUPE 2424), Library	2985
Terry Doelle (CUPE 910, Safety, CUPE 3778), Facilities Mgmt and Planning	3668
Ed Kane (Union-exempt staff), University Services	3622
Bill Lawson (CUASA), Retired	8767
Shirley Mills (CUASA), Mathematics and Statistics	2199
Duncan Watt (Secretary), Vice President, Finance and Administration	3804
Bill Wolfenden, Board of Governors	