UniversitéLaurentienne
LaurentianUniversity

SPECIAL MEETING OF THE BOARD OF GOVERNORS

Thursday, September 28, 2023
4:00 p.m. to 4:30 p.m. – Open Session

Via Zoom

AGENDA

Members are reminded of the requirement that they give notice of conflict of interest prior to consideration of any matter on the Board open and closed session agendas.

No.	ITEM	PG	LEAD	TIME
1.	**Adoption of Agenda**	-	V. Cameron	*4:00*
2.	**Declaration of Conflicts of Interest**	-	V. Cameron	*4:00*
3.	**Finance and Property Committee Item:** 3.1 *For Approval:* Employee Retirement Plan Actuarial Valuation Report of January 1, 2023	2-29	D. Harquail *M. Piché* *N. Lavallée*	*4:00-4:25*
4.	**Chair's Items**	-	V. Cameron	*4:25-4:30*
5.	**Adjournment**	-	V. Cameron	*4:30*

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BOARD EXECUTIVE SUMMARY

Board of Governors

Agenda Title	Employee Retirement Plan Actuarial Valuation Report of January 1, 2023

Agenda Item No.	3.1
Date of Meeting	September 28, 2023 – Special Meeting
Open/Closed session	Open

Action Requested	☒ **For Approval** ☐ For Information
Proponent	Michel Piche, Vice-President, Finance and Administration (Interim)
Presenter(s)	Norm Lavallee, Associate Vice-President, Financial Services

1. PURPOSE

THAT the Board of Governors approve Laurentian filing of its Employee Retirement Plan Actuarial Valuation Report, dated January 1, 2023.

2. SYNOPSIS

The Retirement Plan of Laurentian University of Sudbury (Plan) is a single employer plan where the Board is the administrator of the Plan. The Plan is required to file a pension valuation with the regulator, Financial Services Regulatory Authority of Ontario (FSRA), at least every 3 years. The last valuation is July 1, 2021, which would require another valuation for July 1, 2024.

The Plan is currently well funded as of January 1, 2023. The University recommends a strategic valuation of January 1, 2023, in order to provide certainty in for the next three years considering market uncertainty at this time.

3. RESOLUTION TO CONSIDER:

THAT the Board of Governors, as recommended by the Board Finance and Property Committee, approve the actuarial assumptions and filing of the valuation to FSRA relating to the January 1, 2023 Plan, as presented at its special meeting of September 28, 2023.

4. RISK ANALYSIS

Please note below the specific institutional risk(s) this proposal is addressing.	
☐ Enrolment Management	☐ Relationship with Stakeholders
☐ Faculty and Staff	☐ Reputation
☒ **Funding and Resource Management**	☐ Research Enterprise
☐ IT Services, Software and Hardware	☐ Safety
☐ Leadership and Change	☐ Student Success
☐ Physical Infrastructure	

5. RECOMMENDATIONS

THAT the Board of Governors approve the actuarial assumptions and filing of the valuation to FSRA relating to the January 1, 2023 Plan.

A **<u>Background/Issue Description</u>**

An actuarial valuation of the Employee Retirement Plan of Laurentian University of Sudbury (Plan) was performed as of July 1, 2021, due to the extensive changes to the terms of the Pension Plan that became effective on July 1, 2021, The actuarial valuation report was then filed with the Financial Services Regulatory Authority (FSRA); and

The Plan was estimated to be in a well-funded position as of January 1, 2023, and having a strategic valuation of January 1, 2023, will extend the next valuation requirement to January 1, 2026 in order to provide certainty for the Plan Contributions for the next three years;

The advantages of this strategic filing are as follows:

- Solvency valuation goes from a deficit of $(20.5) million to a surplus of $20.4 million. This results in a solvency funded ratio of 104.9% and reduces the payments to the Pension Benefit Guarantee Fund (PBGF) by approximately $150,000 per year ($450,000 over the next 3 years).

- The valuation reflects the impact of higher inflation and increase in payments to existing retirees for 2023 and 2024.

- The valuation extends the next mandatory valuation date from July 1, 2024, to January 1, 2026. This ensures stability in a time of unsure market performance and economic challenges.

- The valuation provides a basis for the evaluation of benefit improvements for July 1, 2025.

The Plan needs to file with FSRA the new valuation by September 30, 2023, to be effective January 1, 2023.

B **<u>Alignment with Strategic Objective or Plan of the University</u>**

N/A

C **<u>Other options considered (*where applicable*):</u>**

N/A

D **<u>Risks including legislative compliance</u>**

N/A

Legislative Compliance	• General Bylaws of the Board of Governors (LU) • Laurentian University Act • Financial Services Regulatory Authority • Canadian Association of Pension Supervisory Authorities • Pension Benefits Act, Ontario • Canada Revenue Agency

E **Financial Implications:**

Filing of the pension valuation with the regulator (FSRA) provides certainty in contributions over the next three years.

F **Benefits**

Pension Benefit Guarantee Fund (PBGF) savings of approximately $150,000 per year ($450,000 over the next 3 years).

G **Consultation and Approval Path:**

The actuarial valuation assumptions and impacts were reviewed by the:

- Pension Committee, August 31, 2023
- Board Finance and Property Committee, September 25, 2023 – for recommendation
- Board of Governors, September 28. 2023 - for approval

H **Communications Plan**

N/A

J **Next Steps**

Filing of the new valuation report to FSRA by September 30, 2023

I **Appendix**

- Presentation (August 31, 2023) – *Retirement Plan of Laurentian University of Sudbury January 1, 2023 Valuation Results*

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Retirement Plan of Laurentian University of Sudbury
January 1, 2023 Valuation Results

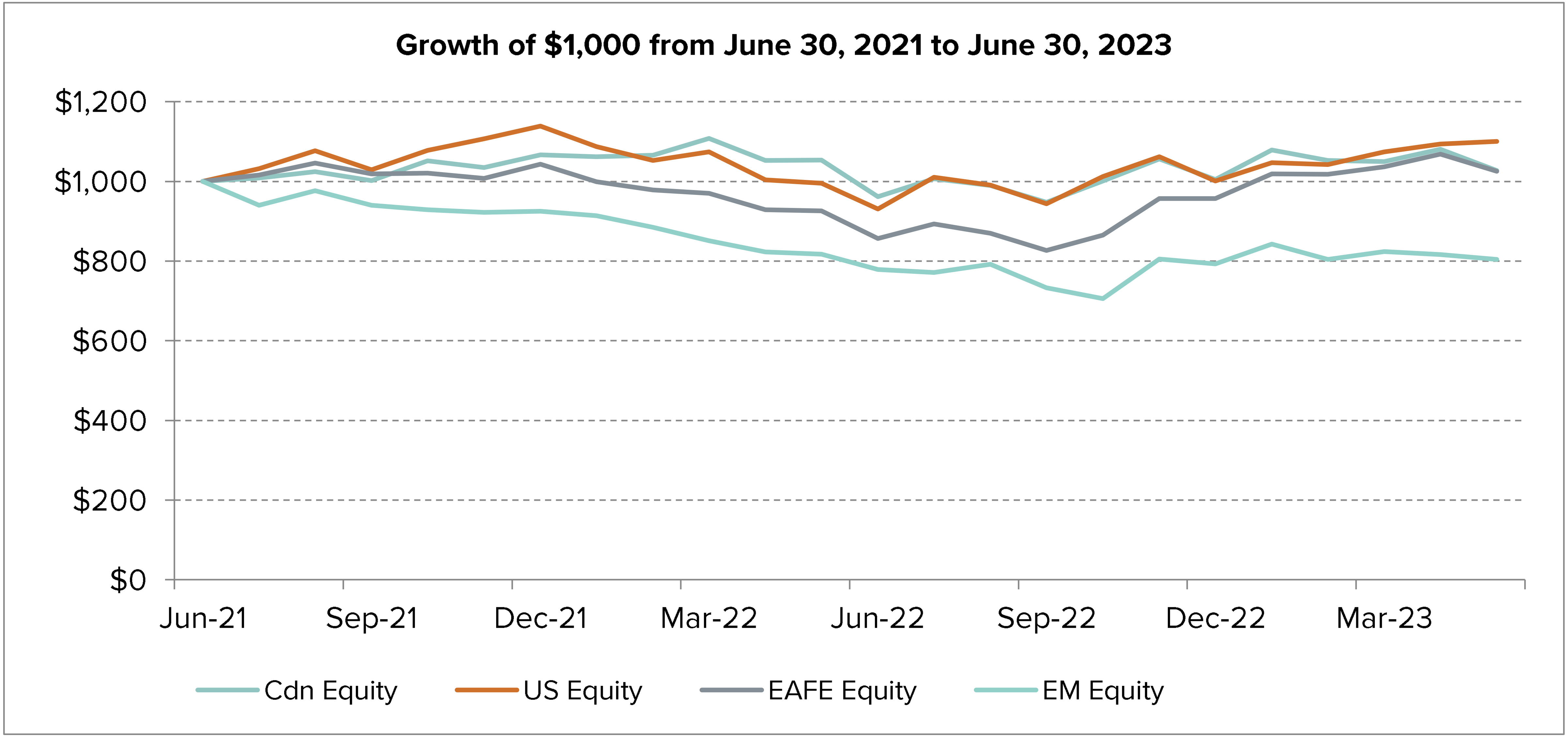
Laurentian University Pension Committee meeting

August 31, 2023

Recap

- Last valuation performed as of July 1, 2021
  - Resulting from Plan changes due to CCAA
  - Prior to that, previous valuation was filed January 1, 2020
    - Next required valuation was due July 1, 2024
  - Strategic valuation – Plan was estimated to be in a well funded position as of January 1, 2023
  - If still well funded next year, can still file July 1, 2024 valuation
  - If markets still uncertain, could wait until January 1, 2026 to file next valuation
    - Evaluation for benefit improvements start effective July 1, 2025

Highlights since the last actuarial valuation



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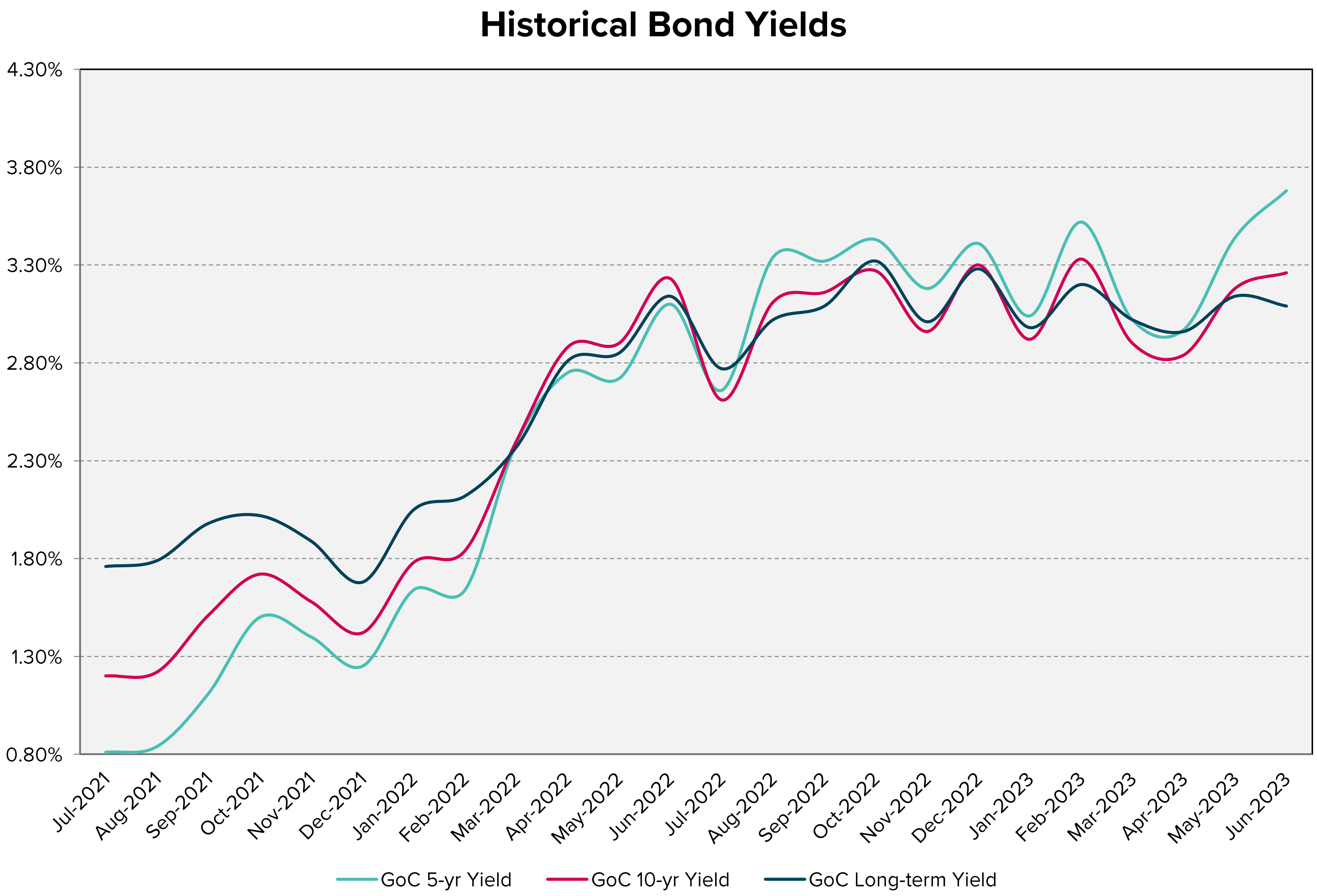

Revisions to assumptions

- Assumptions updated (impact going concern valuation only):
  - Going concern interest rate – 6.10% (was 5.8%)
  - Lump sum interest rate – 2.5% net (was 2.0% net)
  - DB Contribution interest rate – 3.6% (was 2.5%)
  - Provision for adverse deviations (PfAD) – 7.86% (was 7.97%)
  - Cost of living adjustments – 3% for first 2 years after the valuation (was 2%)
  - Salary scale – 2.5% as of July 1, 2023 (for current service cost rule only – not applicable for last valuation as previous valuation used actual salaries)
- Solvency / wind-up assumptions were updated as prescribed

Going Concern

in $1,000s	July 1, 2021 Filed	January 1, 2023 Preliminary
Value of DC entitlements	$112,022	$84,382
Going concern DB assets	$377,097	$358,758
Going concern DB liabilities	(328,383)	(343,537)
Provision for adverse deviation	(20,183)	(20,602)
Excess / (unfunded liability)	**28,531**	**(5,381)**
Funded ratio (incl. PfAD)	106.2%	98.8%
Contributions (% of pay)	16.00%	16.00%
Current service cost incl expenses (% of pay)	12.44%	12.58%
Special payments (% of pay)	0.00%	1.04%
Contribution margin	**3.56%**	**2.38%**

Going Concern – reconciliation

Reconciliation	Excess / (unfunded liability) in $1,000s
July 1, 2021 valuation	**$28,531**
Excess contributions (PfAD, cont’n margin, and special payments)	5,710
Interest during the period	4,477
Investment experience	(45,973)
Indexation	(3,013)
Mortality experience	(47)
Retirement experience	4,493
Termination experience	(4,301)
Other experience	(1,070)
January 1, 2023 valuation results before assumption changes	**($11,193)**

Going Concern – reconciliation

Reconciliation	Excess / (unfunded liability) in $1,000s
January 1, 2023 valuation results before assumption changes	($11,193)
▪ New discount rate & CV rates	11,571
▪ Change in EE contribution rate	(596)
▪ COLA assumption	(4,070)
▪ DB interest rates	(674)
▪ PfAD adjustments	(419)
January 1, 2023 valuation results after all changes	**($5,381)**

Current service cost– reconciliation

Reconciliation	Excess / (unfunded liability) in $1,000s
July 1, 2021 valuation	**12.44%**
Changes due to demographics	0.38%
Changes due to assumption changes	(0.23%)
Change due to PfAD change	(0.01%)
January 1, 2023 valuation	**12.58%**

Solvency Valuation Results

in $1,000s	July 1, 2021 (last filed)	January 1, 2023 (preliminary)
Adjusted DB solvency assets	376,726	358,357
Solvency DB liabilities	(397,229)	(337,979)
Solvency excess / (deficiency)	(20,503)	20,378
Solvency ratio	**96.0%**	**104.9%**
Reduced solvency excess / (deficiency)	55,885	83,790

- Solvency ratio excludes wind-up expenses, but includes DC assets
- Reduced solvency excess/(deficiency) shows reflects 85% of the liabilities

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Wind-up Results

in $1,000s	July 1, 2021 (last filed)	January 1, 2023 (final)
Wind-up net assets	376,726	358,357
Wind-up liabilities	(575,798)	(482,778)
Wind-up excess / (deficiency)	(199,072)	(124,421)
Transfer Ratio	**71.1%**	**78.1%**

- Wind-up results include value of future COLAs
- If estimated transfer ratio drops by 10% (e.g. drops to 78.1% x (1-10%) = 70.3% CV payments must be held until filing made to and permission granted by FSRA
- Transfer ratio monitored monthly

Annual 2023 Contributions

	% of pay		In $1,000s	
	July 1, 2021 (last filed)	January 1, 2023 (preliminary)	July 1, 2021 (last filed)	January 1, 2023 (preliminary)
Employee contributions	8.0%	8.0%	$5,724	$5,497
Employer contributions	8.0%	8.0%	5,724	5,497
Total contributions	**16.0%**	**16.0%**	**$11,448**	**$10,995**
Plan Cost				
▪ Current Service Cost	10.2%	10.3%	7,285	7,058
▪ PfAD on Current Service Cost	0.8%	0.8%	581	554
▪ Administrative expenses (w PfAD)	1.4%	1.5%	1,031	1,030
▪ Total Special Payments	0.0%	1.0%	0	713
Total Plan Cost	**12.4%**	**13.6%**	**$8,897**	**$9,355**
Contribution margin	**3.6%**	**2.4%**	**$2,551**	**$1,640**

* Contributions based on pay estimated to be $71,528,000 for 2021/2022 and $68,720,000 for 2023 calendar years respectively

Benefits and Funding Policy

- The parties agreed to spend any emerging surplus to build reserves and grant benefit improvements
- No benefit improvement until July 1, 2025 unless in excess surplus
- While the plan is currently funded over 95% on a solvency basis, the Plan is below 105% on a going concern basis
- As the Plan fails the going concern test, no benefit improvements would be provided assuming they were allowable based on this valuation

Next steps

- Eckler to file report with regulators (regulatory deadline of September 30, 2023)

Appendix

Membership Reconciliation

	Actives & LTDs	Deferred Vested	Pensioners and Survivors	Holdbacks
July 1, 2021	766	609	439	91
Entrants/Re-hired	98	2	-	1
Retirement annuity start	(28)	(25)	53	-
Retirement paid out	-	(7)	-	-
Terminations deferred vested	(58)	58	-	-
Terminations paid out	(2)	(14)	-	-
Retirement / Termination payout with holdback	(42)	(144)	-	186
Death	-	(2)	(19)	-
New Survivor	-	-	6	-
Expired Guarantee	-	-	(1)	-
January 1, 2023	734	477*	478	278

**Includes 13 NOSM members with frozen service as of December 31, 2005*

Membership Data

	July 1, 2021 (last filed)	January 1, 2023 (preliminary)
Active and LTD Members		
Number	766	734
Average age	47.8	48.1
Average years of credited service	12.3	12.5
Average pensionable earnings	$93,700	$93,900
Deferred Vested Members		
Number	609	477
Average age	48.5	47.6
Average annual deferred pension	$6,500	$4,300
Pensioners and survivors		
Number	439	478
Average age	74.4	74.4
Average annual lifetime pension	$37,600	$37,900

Assumptions - Going Concern

	July 1, 2021 (last filed)	January 1, 2023 (preliminary)
Economic		
Investment return	5.80% per year	6.10% per year
PfAD	7.97%	7.86%
Inflation rate	2.00% per year	2.00% per year
Salary scale	Not applicable	2.5% as of July 1, 2023
Commuted value interest rate	2.0% per year (net)	2.5% per year (net)
Interest on employee contributions	2.50% per year	3.60% per year
Increases in YMPE and ITA benefit maximum	2.50% per year	2.50% per year

Assumptions - Going Concern

	July 1, 2021 (last filed)	January 1, 2023 (preliminary)
Demographic		
Mortality	Custom mortality rates based on Club Vita 2021 analysis of individual longevity profile of each plan member with improvement scale CPM-B	Custom mortality rates based on Club Vita 2021 analysis of individual longevity profile of each plan member with improvement scale CPM-B
Mortality adjustments	N/A	N/A
Termination	Age-related rates	Age-related rates
CV take-up rate on termination	50%	50%
Disability	None	None
Retirement	Age-related rates	Age-related rates

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Assumptions - Going Concern

	July 1, 2021 (last filed)	January 1, 2023 (prelim)
Other		
Asset valuation method	Market value	Market value
Administrative expenses	$955,000 per year	$955,000 per year
Investment expenses	0.1% Implicit in discount rate	0.1% Implicit in discount rate

Assumptions - Going Concern

Discount Rate Development	July 1, 2021 (last filed)	January 1, 2023 (prelim)
Simulated Gross Investment Return	**5.92%**	**6.22%**
Provision for investment related expenses	*-0.10%*	*-0.15%*
Going Concern Discount Rate (with rounding)	**5.80%**	**6.10%**

Asset Allocation	Percentage of Fund at Market Values	
Component Asset Classes	**Actual at December 31, 2022**	**Target Allocation**
Canadian equities	12.3%	15.0%
Global equities	29.6%	30.0%
Fixed income	7.1%	9.5%
Core Plus Bond	18.1%	20.5%
Mortgages	5.1%	5.0%
Real estate	12.0%	10.0%
Infrastructure	11.7%	10.0%
Cash & cash equivalents	4.0%	0.0%

Assumptions - Going Concern

- Determination of PfAD:

Closed Plan	Open Plan	FMD
i. Flat Component: 5% (**fixed**)	i. Flat Component: 4% (**fixed**)	4.00%
+	+	+
ii. Non-fixed Income Asset Allocation (**variable**): 0% - 23%	ii. Non-fixed Income Asset Allocation (**variable**): 0% - 12%	3.86%
+	+	+
iii. Assumed return in excess of benchmark discount rate (BDR) (**variable**)	iii. Assumed return in excess of benchmark discount rate (BDR) (**variable**)	0.0%
		=
		7.86%

Assumptions - Wind-up/Solvency

	July 1, 2021 (last filed)	July 1, 2023 (preliminary)
Economic Factors		
Solvency discount rate	For members electing to receive an annuity: 3.00%	For members electing to receive an annuity: 4.91%
	For members electing a commuted value: 1.80% for 10 years, 3.30% thereafter	For members electing a commuted value: 4.30% for 10 years, 4.70% thereafter
Interest rate (for wind-up)	For members electing to receive an annuity: -0.39%	For members electing to receive an annuity: 0.99%
	For members electing a commuted value: 0.7% for 10 years, 1.2% thereafter	For members electing a commuted value: 2.2% for 10 years, 2.6% thereafter
Income Tax Act limits	$3,245.56	$3,506.67

Assumptions - Wind-up/Solvency

	July 1, 2021 (last filed)	July 1, 2023 (prelim)
Demographic		
Mortality	CPM 2014 with improvement scale CPM-B	CPM 2014 with improvement scale CPM-B
Turnover	100% of members terminate on valuation date	100% of members terminate on valuation date
Disability	None	None
Retirement	Retire at age that produces the highest present value of the vested pension	Retire at age that produces the highest present value of the vested pension
Election of annuity vs. CV	- 75% of retirement eligible members elect an annuity; Remainder elect a CV - 25% of non-retirement eligible members elect an annuity; remainder elect a CV	- 75% of retirement eligible members elect an annuity; Remainder elect a CV - 25% of non-retirement eligible members elect an annuity; remainder elect a CV
Other		
Asset valuation method	Market value of assets	Market value of assets
Plan termination expenses	$371,000	$343,600