

Governance of Pension Plans

Executive Summary

The governance of UWO pension plans has evolved gradually over the years. Given the relatively unique structure of the plan, historical experience, and the changing external environment, documentation of governance is warranted. An initial overview of the current situation suggests that the size and the defined contribution nature of the pension plans imply that significant resources should be devoted toward their management. Also, seven key principles (choice, fairness, liquidity, well-informed decisions, responsiveness to member preferences, prudence and cost effective administration) should be used to determine the basic structure of the pension plans.

This document outlines the mandate for two standing committees of the Joint Pension Board: Investment Policy, and Communications and Administration. The committees have the principal responsibility for analysing and monitoring the Pension Boards' responsibilities.

Overview of the Current Situation

The Joint Pension Board is a governing body made up of all members from the Academic Staff Pension Board and the Administrative Staff Pension Board. For efficiency, the Joint Pension Board meets frequently to discuss and set pension policies that concern both the Pension Plan for Academic Staff and the Pension Plan for Administrative Staff. The Academic Staff and Administrative Pension Boards are subcommittees of the Board of Governors of the University. The Pension Boards report to the Board of Governors annually and seek the approval of the Board of Governors for significant amendments to the Pension Plans.

Each of the Academic and Administrative Staff Pension Boards consist of four elected members of the respective plans and three appointed representatives of the University. Elected members serve for four year terms. Board members receive no compensation, either financial or time release, for their effort.

The Board works with internal staff in Human Resource Services and retains outside consultants for investment advice, design and actuarial cost advice, as well as legal advice.

The Academic and Administrative Staff Pension Plans have combined assets of over \$945 million, one of the larger funds in Canada. The size of the UWO pension funds both demands and permits significant resources to be devoted to fund management.

The nature of UWO pension plans eliminates some administrative problems faced by defined benefit plans, but also creates additional challenges. Defined contribution plans like those sponsored by UWO allow members to exercise choice over the way in which funds are invested and over the type of retirement income vehicle chosen. This flexibility implies that resources must be devoted to communication efforts that help members make informed decisions, since members assume the risks associated with these decisions.

Pension contributions are made by both Plan members and the University, based upon percentages of pensionable earnings. Plan members may allocate both the University's and their contributions among 15 fund alternatives: two Balanced Funds, a Diversified Bond Fund, a Diversified Equity Fund, a Money Market Fund, a Canadian Bond Fund, a Long Term Bond Fund, a Canadian Equity Fund, two U.S. Equity Funds, a Non-North American Equity Fund, three Target Date Funds, and a Socially Responsible Global Equity Fund. In the event that new members have not chosen a specific allocation, contributions are allocated to the Balanced Growth Fund until written direction is provided by the member.

External managers have been hired to manage all pension funds.

- The Balanced Funds are pre-established mixes of the Diversified Bond and Diversified Equity Fund.
- The Money Market Fund is invested in short-term, high quality fixed income assets.
- Target Date Funds are invested in Government of Canada Bonds and Provincial Bonds with durations that average out to the time to the respective Target Date.
- The Diversified Bond Fund is invested primarily in high quality, fixed income assets of various maturity periods from Canadian and foreign issuers. Up to 10% of the fund investments are in high-yield corporate bond and emerging market debt
- The Long Term Bond Fund is invested in high quality, fixed income assets of maturity periods over 10 years from Canadian issuers.
- The Diversified Equity Fund includes a variety of asset classes including stocks of large and medium capital Canadian companies, U.S. equities and international equities. The regional funds for the bonds and equities (Canadian, US, Non-North American) have the same investment mandate as the respective components of the Diversified Funds.

The Money Market and some of the bond and equity investments are actively managed. The U.S. equity investments are synthetically indexed to the S&P 500 and S&P 400. A portion of the Diversified Bond Fund is indexed to the Scotia Capital Market Universe Bond index.

Rationale for Current Strategies

The Pension Boards are constantly seeking ways to improving returns on members' investments. Past experience with actively managed funds have yielded disappointing value added results. Passive management where feasible and rational, should serve to improve on past returns in these asset classes.

Being able to move in and out of investments quickly is an important feature for investment of UWO pension funds, since many members make this decision monthly. Past investments in asset classes such as Canadian venture capital and Canadian real estate have not allowed for the liquidity required by the plan. For this reason, the degree of liquidity associated with an asset class will be a principle for consideration in the future.

Significant changes in the investment environment have occurred recently. There are much greater opportunities to use derivative instruments to track specific investment alternatives, both within Canada and internationally. These changes have implications for both the choice of passive versus active management and for the feasibility of offering a wider variety of investment funds for members.

In the design of the investment options, a modular approach has been used where the managers and mandates of special regional funds are the same as the components of diversified funds and, in turn, the balanced funds. This design provides for members that are active in their investment allocation decisions and a preset allocation for members who are less active. This design also simplifies the administration and communication of the investment options.

The scope of alternative retirement vehicles has changed dramatically within the last 10 years. Retiring and terminating members are no longer limited to purchasing an annuity, but can choose among Locked-In Retirement Accounts, Life Income Funds, and Retirement Income Funds. As the multiplicity of choices (and vendors of vehicles) has increased, so has the demand for help in making these choices.

Continuity of internal administration is also important. The volunteer and temporary nature of the Pension Board membership can create some confusion about the nature and rationale for certain policies. There are inefficiencies created as new Pension Board members learn what has happened in the past. With a solid governance structure, these inefficiencies can be overcome as committee members develop an

"expertise" in an area and then pass it on to new members. With specific principles defined, new board members will have a framework within which the operation of the plans can be reviewed.

Board members will normally request data and research for their decision making from outside suppliers via the Associate Director, Retirement Plans.

Mission Statement

Our Mission is to provide members with the opportunity to accumulate adequate funds for retirement. We seek to provide sufficient choices but not onerous choices. We seek to provide services and options on a cost effective basis to accommodate members who are active in the management of their retirement savings and also for those members who look to the board for guidance. We will provide these services and options while following our principles.

Principles for UWO Pension Plan Management

The design, governance, and operation of the UWO Pension Plans are bound by the seven principles described below. The purpose of specifying these principles is to define a broad framework within which the plan design can be reviewed and specific operational decisions can be made. It is important to recognize, of course, that the principles themselves may at times conflict. For example, cost considerations may conflict with the goal of optimum choice. In such areas of conflict it will be particularly important for the Pension Board to exercise good judgements in making the appropriate trade-offs. Despite such difficulties, it is anticipated that the act of defining basic principles will be of great benefit in helping both present and future Pension Boards to review the overall design of the pension plans, to make specific operational decisions, and to assure continuity between present and future Pension Boards.

PRINCIPLES:

1. **Offer members the broad and diversified CHOICE of both investment and retirement vehicles.** Flexibility and choice is very important because it allows individuals to adopt different decisions reflecting their degree of risk tolerance, the size and nature of their investment portfolio outside of the UWO Retirement Plan, their age and family circumstances, their interest in adopting an active asset allocation strategy, and their varying need for payments from their portfolio.
2. **Maintain FAIRNESS among members in plan operations.** Within the constraint of administrative feasibility, the choice of one member should not inequitably restrict or adversely affect the choice of another.
3. **Provide investment alternatives which possess high LIQUIDITY.** If members are to be free to move monies from one fund to another, if the portfolios are to be easily rebalanced to their established mix and if retired members are arranging for payments as frequently as monthly, these funds should be as liquid as possible.
4. **Assist members in making WELL—INFORMED DECISIONS about investment and retirement alternatives.** If choice is to be meaningful, members must be provided clear and comprehensive information about the plan operation, fund performance and relevance of plan options to individual circumstances.
5. **Solicit information about and be RESPONSIVE TO MEMBER PREFERENCES regarding the plan.** Communication is a two-way street. If there is to be an effective split of responsibilities

between the Pension Board and member decision-making, members not only need to be informed about available options, they must also have ample opportunity to express their opinions and desires about how the plan itself should be run.

6. **Use PRUDENCE in assessing and reviewing plan decisions and operations.** The fiduciary responsibility of the Pension Board, to use ordinary prudence when dealing with the property of another person, is always of critical importance. Due diligence must be exercised in monitoring and supervising all aspects of the administration of the pension plans, managing all anticipated capital market, operational, legal and reputational risks of the pension and retirement income fund programs.
7. **Assure COST EFFECTIVE ADMINISTRATION of plan operation.** Cost is always a consideration. Concerns about costs may limit the extent to which other principles may be applied to a decision.

Intention of Passive Management

After considerable research into the value added by active management of security selection, the current pension boards made the following motion:

"It is the belief of the Joint Pension Board, based upon the survey of research that has been done for the Board, advice from the Board's investment consultant, and the Board's own historical experience, that in general active investment management cannot be expected to outperform passive management on a risk adjusted basis. Furthermore, the Board recognizes that active management is more costly than passive management. Finally, passive management has the advantage of making investment choices clearer to members."

The Board reviews its current selection of investment managers and its future decisions regarding investment choices for members in view of this intention.

Possible grounds for exception to the general principle of passive management would include the following:

1. Implementation problems: for some asset classes it may be difficult to adopt a completely passive management policy.
2. Attractive active management: in some instances there may be good reasons to believe that such a manager could achieve out-performance and be easily monitored as to effectiveness.
3. No clearly attractive passive benchmark available.

Conflicts of Interest

A member of the Joint Pension Board who is a member of the plan may take part in discussions and vote on all matters relating to the pension plan, other than matters in which the member's interest is not the same or substantially the same as that of other members of the plan.

If a member has any direct or indirect interest, which is not the same or substantially the same as that of other members of the plan, in any matter, and that member is present at a meeting of the Pension Board at which time the matter is considered, the person shall, as soon as practical after the commencement of the meeting, disclose this interest and shall not take part in the discussion or vote on the matter.

Where the Board or Committee is of the opinion that a conflict of interest exists that has not been declared, the Board may declare, by resolution carried by two-thirds of the members present at the meeting, that a conflict of interest exists, and a member of the Board is thus found to be in conflict of interest shall, (a) refrain from taking part in any discussion or vote related to the matter, and (b) withdraw from the meeting when the matter is being discussed if requested to do so by a majority of members present at the meeting.

Joint Pension Board Structure

At its June 23, 2008 meeting, the Joint Pension Board voted to disband its sub committee structure, which created the Investment Policy Committee and the Communications and Administration Committee. This structure was replaced with one monthly meeting of the full Joint Pension Board addressing topics formerly considered by these two committees with all board members having a vote on policy decisions for all issues.

The Terms of Reference for the Joint Pension Board for the items that are the responsibility of the Joint Pension Board are as follows:

Investment Functions

- Choice of pension plan funds available to members
- Decisions regarding asset mix within funds
- Decisions on internal versus external management
- Selection of managers and their mandates
- Selection of investment consultant(s) and their mandate
- Review and update of Statement of Investment Policy and Procedures
- Ensure Joint Pension Board members are knowledgeable regarding investment policy issues
- Participate in activities of PIAC (Pension Investment Association of Canada) and other relevant organizations
- Decisions regarding currency policy

Communications and Administration Functions

- Monitor the fiduciary soundness of all operational pension plan activities
- Oversee the Board's information systems including unit value calculations, member accounting and fund accounting
- Provide input on the assignment of internal resources to Human Resource Services
- Provide opportunities for new and current Board members to become better informed on a broad range of pension matters, including a one-day initiation session and an annual one-day retreat
- Oversee the management of cash in accordance with Board Policy
- Act as the link between Pension Boards and pension plan members Benefits
- Monitor the personal pension counseling program provided to the pension plan members through Human Resource Services
- Provide input to PIAC/ACPM and regulatory bodies on proposed program designs and legislative constraints

Agendas for Meetings

- Agendas and relevant material for each board meeting should be distributed to members at least seven days ahead of each meeting to allow sufficient preparation time
- Notice of all pension board meetings are posted on the Pension Plan web site and posted at the department
- Items for each agenda for each board meeting are based on the plans approved by the Joint Pension Board and amended as required
- When specific motions or decisions are to be made at a meeting, this is to be clearly specified on the agenda