2010 Joint Pension Board Retreat
Summary

Preamble

Outlined below are commentaries collected from specific discussion point provided by participants at the Joint Pension Board retreat. In the last session reported called Session 7 –Establishing Priorities, Joint Pension Board was provided with a list of possible priorities and invited to add any other possible priorities for the upcoming year. The board members were asked to select the four top priorities in order to rank these priorities for purposes of developing a work plan for the 2010/2011. All deliverables that received at least one vote were reported. Some of these deliverables may not be implemented due to lack of support from board members.

Session 2 – Retirement Plan Analysis

Trends Affecting Western Retirement Plans:

1. Lower replacement ratios
    a. Provide members with scenarios to inform them
    b. Provide members with "gap" statements
    c. New normal is that investment returns will be lower
    d. Need for members to understand that they need to save sooner and more
2. Leveling of RIF assets
    a. May be partly due to some RIF members' need for external financial advice
    b. We need to protect accumulated assets from a complex industry
    c. Put more emphasis on the RIF program ("sell more")
3. Lack of attention and willingness to make decisions
    a. Outreach, need to be part of the natural rhythm of the staff and faculty employment when providing pension and retirement education
    b. Revamp our web presence
4. Communication / Education expectations when you retire:
    a. Continue to be transparent on fees – members need to understand the impact of fee on investment returns.
5. Low financial literacy:
    a. How to manage a DC plan in that environment?
    b. Set a good default for those who join
6. Low levels of voluntary contributions:
    a. Higher default level of contributions if that can be agreed to with labour groups
    b. Work with labour groups for changes to contracts
    c. Send annual reminders to encourage participation or increase the level of voluntary contributions
    d. Managing members' expectations through education about the cost of retirement
7. Aging population and delayed retirement:

   a. Possibly eliminate the RIF program, but this could impact the competitiveness of our overall plan
   b. Requires further study
   c. New legislation allows for people to draw variable payments out of DC plan while working
   d. Alternative workload arrangements more prevalent
8. Increased counseling:
   a. 70-80 age group are having a difficult time making investment decisions
   b. Strategies can be different: group, advice tailored to members' needs, tools on expectations for members going into RIF

<u>Session 3 – Optimizing the Retirement Platform</u>

1. Are there some actions that you know you want to take?
   a. Investigate the feasibility of increasing employee contributions through an employer match
   b. Provide education and scenario modeling to members
   c. Simplify the plans and information available; make tools more user friendly
   d. Provide a gap statement
2. Are there actions you know you want to avoid?
   a. Giving financial advice
3. Are there things you want to ponder, or to discuss further, in the next little while?
   a. Push the edge of education (to the limit of financial advice)
   b. Auto-enrolment for part-time employees
4. Are there things you feel you might want to return to later, but not in the near future?
   a. Come back to the impact of aging and longevity risk
   b. Review longevity risk products

<u>Session 4 – Review of Investment Options</u>

Things that can be improved on the Western Retirement Plans:
1. Web navigation to the asset allocation tools and other website and system improvements
   a. Survey group for effectiveness of info and members' needs
   b. Getting out to university community to discuss pension, doing surveys, introducing website
2. Simplify terminology and language
   a. Survey group for effectiveness of info and members' needs
3. Give members access to book value / historical values
4. Best practice for non optimal or unusual investment behaviours:
   a. Contact these investors the way we contact members in the default options
5. Provide a list of financial advisors
6. Record keeping
   a. Is doing our own record keeping still the right approach?
7. Voluntary contributions are too low
   a. Impose higher default rates

b. Provide more education
c. Challenges with collective agreements
d. Look at ways of increasing the default contribution rates for all employees or only for new hires
e. Provide a window for existing members to decide to increase their voluntary contributions and have UWO provide a match

Session 6 - Lifecycle Fund Debate

For:
- Lifecycle funds will assist members who are not rebalancing
- It is a good default option
- Members choosing lifecycle funds are more likely to end up with a sustainable pension
- It limits UWO liability in terms of dealing with members who we have identified are not making investment allocations
- The U.S. has moved toward this model so it's worth taking a look at it in the Canadian market
- We can design the system in house and sub-contract some of the administrative tasks
- Internal resources used would decline in the long-term due to the reduced number of transactions and counseling sessions

Against:
- There's not enough historical evidence of success
- There's no evidence that what is good for the U.S. is also good for the Canadian market
- There are differences in legislation between the U.S. and Canada
- It would cause us to make too many modifications to our systems
- We already have too many choices
- Lifecycle funds provide a false sense of comfort as they imply that investors will have enough money at some distant time in the future and that they don't have to do anything in the interval
- They assume that everyone with the same age has the same risk tolerance
- There's no accepted benchmark
- There will most likely be no significant impact in members' decisions of adding them – communication will be challenging
- The legal risks seem significant - a glide path might arguably be financial advice
- Very long term decisions; things can change significantly in capital markets over 40 years
- We need to think of exit strategies, prior to the target date, for unanticipated events such as marriage breakdowns
- They have higher fees than our existing funds, i.e. there's a fee for the glide path on top of the money management fees
- Outcomes at target date are uncertain
- We could encourage a gradual build up in fixed income funds as members approach retirement

- Some Joint Pension Board principles may not be upheld
  - There may be a fairness issue as members in some funds with more assets would pay lower fees
  - These products are complex and would make it more difficult for members to make a well-informed decision
  - Is it the right fit for members? Members haven't been pushing for lifecycle funds
  - There's an issue about prudence as there's no right benchmark to measure performance
  - Lifecycle funds are not cost effective, there's a cost for the glide path on top of the money management fees
- It's not a big release from administrative burden as only 10% of members make investment changes in a given year

Rebuttal (For):
- We are not introducing new funds since we'll use our existing funds
- Fairness issue can be managed by charging the same price to all members
- Even though there's no recognized benchmark for lifecycle funds, there are ways for us to assess whether the underlying investment managers are doing well
- There's a false sense of comfort too for members who are not in lifecycle funds in terms of thinking they're being taken care of
- The financial advice issue is no different than for funds such as the Diversified Equity Fund where we select the asset mix

Rebuttal (Against):
- The Pension Board was concerned about liability when the two Balanced Funds were designed
- The decision to select an asset allocation and not touching it for several years may be appropriate for some members

Vote:
For: 5
Against: 10

<u>Session 7 – Establishing Priorities</u>

Deliverables	Description / Implications
1) Enhance our education programs	• Review readership of our publications • Update investment personality questionnaire • Make additional tools available to members (tools that can show them the impact on their replacement rates of making different decisions or having a different experience, such as making voluntary contributions,

Deliverables	Description / Implications

	having higher rates of return, etc.), such as a gap statement
	• Review success our current education programs
	  o Number of attendees at FEIC workshops
	  o Evaluation forms
	  o Hits on TFE™ and investment personality questionnaire
	• Review other opportunities to improve offerings

2) Development of a communication plan for the retirement plans	• Review our communication practices and identify main messages and most effective communication tools • Develop a plan for all main groups outlining what, when and how we will be communicating with members, and other beneficiaries • Develop targeted communications as needed • Identify specific member actions needed and communications initiatives to support these • Actively seeking members' feedback
3) Encourage more voluntary contributions	• Monitor voluntary contributions • Highlight the advantages of making voluntary contributions
4) Address changes in pension plan legislation that affect UWO RIF	• DC plan members to be allowed to take LIF-type payments out of the pension plans • Significant implications for UWO RIF • Details on legislative changes to come
4) Should we allow terminated members to stay in the plan?	• Currently the pension plan document provides for continued participation • Review standards for RIF membership
4) Are we doing best practices in terms of governance?	• Review our practices • CAPSA Governance Principles • Improve risk management processes • Pension Board conduct a self assessment of our practices • Ensure compliance with all legal and

Deliverables	Description / Implications
	regulatory filings and deadlines
7) Monitor members' investment choices	• Keep monitoring figures for RPP and RIF members • Stress importance to young members of having a large equity exposure at meetings and workshops • Design investment decision-making tools and explore lifecycle funds to address the issue • Prepare research to validate equity exposure at various ages
8) Adjust for trends impacting the retirement industry	• Account for member inertia and need for investment education, low expected returns, aging of RIF members, low level of voluntary contributions
8) Add lifecycle funds	
8) Eliminate one of the U.S. equity funds	

Revised 9.24.10