DALHOUSIE UNIVERSITY
Inspiring Minds

April 16 , 2014

Dr. Carolyn Savoy
President, ADRP
Room 2831, Life Sciences Centre
Dalhousie University

Dear Dr. Savoy:

Thank you for your letter of February 17, 2014. The timing of your letter was quite coincidental as a follow-up discussion on indexation had already been placed on the February 28th meeting agenda at the request of the Trustees of the Retirees Trust Fund ("RTF").

Your letter not only reinforced the Trustees' belief that there would be concern among a number of retirees on the lack of indexation over the past years, but provides the Trustees an opportunity to clarify the reasons behind their decisions that apparently were not totally clear in our November 25, 2013 letter to the pensioners of the Dalhousie University Staff Pension Plan (the "Plan").

As you are aware, Rule 9 of the Plan defines a conditional indexing feature where investment returns over a hurdle may be used to index pensions up to the amount of Canadian CPI. However, Rule 9(e) requires that when investment returns fall short of the hurdle, the shortfall must be recovered before the conditional indexing may resume. Unfortunately, the collapse of the 2008-09 financial markets resulted in the RTF declining 11.9%, leading to a 13.1% shortfall. This shortfall has since been reduced to 6.6%, but as mentioned earlier, this must be recovered before the formula-based conditional indexing can resume. The unfortunate result of this is that this formula has not been able to provide any indexation since 2009.

The Plan does permit the Trustees to use their discretion to fund indexation when a surplus in the RTF exists. As noted in our November 25, 2013 letter;
"The recent actuarial valuation of Dalhousie's pension plan shows a going concern surplus of approximately $26 million in the Retirees Trust Fund. As the trustees' priority is to protect existing benefit obligations, we need to look holistically at the current state of the Fund and how it could be impacted by a number of important factors."
It should be pointed out that the final results of the March 31, 2013 actuarial valuation were available to the Trustees when they deliberated on the potential use of surplus for some catch-up of indexation missed in previous years. The Trustees, in their discretion, decided not to use any of the existing surplus to catch up on missed indexation for the following reasons:

- Although the March 31, 2013 going concern surplus was valued at $26.5 million, it represents only 7.8% of the RTF's liabilities. The RTF has on a number of occasions experienced soft quarterly returns that would eliminate a surplus of that relatively small amount;
- The point of growing liabilities was not in reference to added liabilities from new pensioners. Rather, it was referring to the good fortune of Dalhousie's retirees who are enjoying longer lives. With these longer lives, retirees collect pensions longer and thus, the RTF liabilities also grow. In fact, this experienced increase in life expectancy added $5.9 million to the RTF's liabilities since the previous March 2010 valuation;

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- The Canadian Institute of Actuaries is scheduled to introduce the Canadian Pension Mortality ("CPM") tables in 2014. The Plan's actuaries had estimated that these new CPM tables could increase the RTF's liabilities by another 6% - 8%. Again, this would eliminate the RTF's 7.8% surplus.
- The actuarial extrapolation to June 30, 2013 indicated that the going concern surplus decreased slightly to $25.2 million (or 7.5%);
- The March 31, 2013 solvency position showed a $21.4 million deficit.
- The RTF Trustees had engaged an independent actuary a few years ago to look at the potential outcomes of using surplus at different surplus levels. The analysis showed that if a portion of a 5% surplus was used, the Fund would have a 40% chance of being in a deficit position in 10 years. The RTF still had a 35% chance of ending in deficit if some portion of a 10% surplus was used. As a result, the Trustees believe that a buffer of at least 10% be maintained before additional liabilities are incurred through the discretionary use of surplus.

After considering the above issues, the RTF Trustees were concerned that if they decided to spend a portion of the surplus at this time, the RTF could easily find itself in a deficit position, which would be completely unacceptable. The RTF Trustees observed, as you did in your letter, the robust returns that the RTF enjoyed in the quarters that ended September 30 and December 31, 2013. As a result of these returns, the Trustees scheduled to review this matter at the February 28, 2014 meeting. The returns from these two quarters may have added 5.5% to the RTF's funded position, but with the expected 6% to 8% liability growth expected from the new CPM tables, the RTF could still be left with a thin surplus. As you noted in your letter, the RTF Trustees are not compelled to act by any particular dates, thus the Trustees thought it prudent to wait for the results of the scheduled March 31, 2014 actuarial valuation.

Although this response may leave many pensioners disappointed, I do hope that this clarifies the Trustees' rationale and their desire to keep the RTF fully funded so it may fulfill all current pension obligations. Please feel free to contact me on other indexation questions which you may have.

Sincerely,

George McLellan, Chair, Retirees' Trust Fund Trustees