RALUT REPORTER

RETIRED ACADEMICS AND LIBRARIANS OF THE UNIVERSITY OF TORONTO

www.ralut.utoronto.ca

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President's Report

By Doug Creelman, Vice-President

Tom Alloway has asked me to write this report on his behalf; I'm happy to do so, because much has happened since the last issue of the Reporter.

The big event, of course, was the Forum, which was offered to a full house at Hart House last month. Topic was the status of our health system, and discussants were Jeffrey Simpson, author of an influential book which has as its central argument that we have a "Chevrolet system at Cadillac prices," and that it cannot be sustained without major modifications and his critic, Physician and writer Michael Rachlis, who argued that the expected "aging bomb" is overblown and disaster is not immanent. A lively question and answer session followed the presentations.

RALUT will be meeting soon, this month or next, with the Governing Council's University Affairs Board, looking toward more formal recognition of retired academics and librarians. The major reason for this is for us to have the benefit of perks that are available to "active" faculty and librarians, students, and alumni, and uniform treatment of our members by departments and faculties across the University.

The Annual General Meeting of RALUT is April 25; watch for its notice. Historian Marty Friedland will be the featured speaker. He has updated his definitive *History of the University of Toronto*, to catch up with the last 10 years, following on his now 10-year-old update of his wonderful book from 2001. Those who have seen his newest update say that it is full of new information and detail that only he could have dug up and made sense of. We look forward to hearing him.

And, of course, the AGM will also feature an excellent Hart House luncheon, and the business session will introduce the nominees for positions on the Board of Directors and suggested officers. Please come out and support our organization and be enlightened and entertained by Professor Friedland.

13th ANNUAL GENERAL MEETING

Thursday, 25 April 2013, from 11:30
Hart House Debates Room

Prof. Martin Friedland, former Dean of the Law School, will tell us about "The University of Toronto: the Last ten years". at 1:00, Thursday the 25th of April, 2013 in the Debates Room of Hart House and I've heard there's much to tell! Elsewhere in this Reporter you will find your invitation to join old friends and colleagues in this fabled room as spring gets nicely underway. This is always a pleasant occasion to look forward to as we slog our way through the snow and slush of winter—its brilliant beauty on a sunny day, notwithstanding. The buffet is included in your RALUT membership and Hart House is fully accessible (see below), so do come. And don't forget to RSVP. Put these dates in your smartphone/daytimer/wall calendar: RALUT AGM, 25 April and RSVP deadline April 15.

Registration and coffee are from 11:30 am in the Debates Room, second level, south corridor of Hart House, with a sandwich buffet lunch beginning at 12:00. At 1:00, Prof. Friedland, with the AGM beginning at 2:00.

Accessibility: The wheelchair ramp runs off Tower Rd into the West Entrance of the House and the elevator, which serves all levels, is on the south corridor between The Hub (front desk) and the Chapel. The wheelchair lavatory is on the first level near the entrance to the Great Hall. Other washrooms are on the lower and second levels.

Getting there:

TTC **Subway** The closest Subway Stop is Museum. Walk south from the Museum stop on west side of Queen's Park Ave, cross Hoskin Ave and continue south on Queen's Park Circle about 30m to the walkway that runs right along the front of Hart House.

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Managing Our Pension Fund Assets

Jack Stevenson, Past-President

For some years there has been concern and controversy about how the University of Toronto's pension fund has been managed, and it—like many other defined benefit plans—is now in deficit as regards its present capacity to meet its long term obligations to all its beneficiaries, current and future.

This deficit does not immediately affect our current retirees, but it is still worrisome, especially to the provincial government, which ultimately finances the employers' contributions to over 100 public sector institutions, including our university. Consequently, Dwight Duncan, Minister of Finance, commissioned Bill Morneau to "…determine the advantages of pooled asset management for Ontario's public sector…" Morneau is Executive Chairman of Morneau Shepell, Canada's largest human resources outsourcing and servicing company with some 2,500 employees.

Morneau's report, Facilitating Pooled Asset Management for Ontario's Public-Sector Institutions, has recently been issued. Well worth reading, it is available in its entirety at http://www.fin.gov.on.ca/en/consultations/pensions/recommendations-report.html. In a nutshell, he concluded:

…there is a significant opportunity for pension funds to realize benefits from the economies of scale and other advantages that a pooling framework would generate. More specifically, implementation of such a framework would reduce duplication and costs, broaden access to additional asset classes and enhance risk management practices. To the extent that these advantages support more diversified portfolios among participating institutions, pooled asset management may also help realize improved investment returns over the longer term. (pp. 1-2)

He estimates that a new fund should have assets of in excess of $50 billion to achieve savings of between $75 million and $100 million per year. He cites examples of successful pension funds with large asset bases, such as 'Teachers' (The Ontario Teachers' Pension Fund, $117 billion), OMERS (Ontario Municipal Employees Retirement System, $55 Billion), bcIMC (British Columbia Investment management Corporation, $92 billion), CPPIB (The Canada Pension Plan Investment Board, $165 billion), and others, such as the New York City's pooled plan, with $120 billion in assets, which has estimated savings of $1 billion per year.

Of course he covers many issues raised by the proposed pooled plan. In this note I touch only on a few matters about which there might be some initial concern or misunderstanding.

First, the proposal concerns only how the assets of the included pension funds are managed, not how they are ultimately disbursed—whether through a defined benefit plan, a defined contribution plan or a hybrid plan—to the beneficiaries. As Morneau plainly states:

- Employees and retirees would remain members of their existing plans;
- The relationship between pension plans and their members would not change;
- Institutions would maintain their current plan designs including benefits levels and contribution rates, as well as funding policies and approaches to administration. (pp. 4-5)

The Morneau plan is directed primarily at defined benefit plans such as that of the University of Toronto: "…not included…are defined contribution plans, supplementary pension plans or endowment funds, all of which are potential voluntary participants in a pooling framework." (p.17)

Second, the main advantage of pooling pension investments is to be cost-effective and to gain economies of scale. Large pension funds can afford to hire expertise in-house, rather than contract these services out at a higher cost, transaction costs can be lowered through their higher purchasing power and, perhaps most importantly, large pension funds have an enhanced ability to invest in assets alternative to stocks and bonds. (See p.17)

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Bus **No.5 Avenue Rd South** Hart House Circle stop lets you off right at that walkway.

No. 94 Wellesley Get off at Tower Road/Trinity College.

Parking is available in Tower Road (leads south from Hoskin Ave to Soldiers' Tower.), Hart House Circle and King's College Circle. Staff in Hart House tell me that at the time of our AGM, we're a little more likely to be able to find parking in those areas. ;-}

See you there!

Roselyn Stone, vice-President (Operations)
416-485.7659 roselyn.stone@utoronto.ca

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Large pension funds, such as the Canada Pension Plan's CPPIB and similar funds elsewhere, in addition to low cost passive indexing-style investments in stocks and bonds have purchased infrastructure, real estate and services firms that provide the relatively secure and long term flow of returns that stabilize a pension fund. For example, OMERS owns a stake in Ontario's electronic Highway 407, which will provide a pretty reliable and increasing stream of income for some forty years. Another example: Teacher's Pension Plan has bought Camelot Group PLC, which operates Britain's national lottery and which in turn is interested in bidding for a ten year contract with the Ontario Lottery and Gaming Corporation. (See The Globe and Mail, Monday, February 25, 2013, p.1) One might not approve of gambling, but the purchase also involved buying Camelot's state of the art electronic systems.

Smart professional managers would not buy into the private equity Ponzi schemes, dodgy hedge funds and fund of funds investments that have sometimes given alternative assets a bad name. Canada has an enormous need for infrastructure—roads, bridges, sewer and water works, transmission lines, etc. This is where we should be investing some of our pension funds. It would be good for our pensions and good for our country.

All that said, one might ask whether there should be an upper as well as a lower bound on the size of a pension fund. Can a pooled pension plan, like some banks become "too large to [be allowed] to fail? Or is there some concern—as I speculate it was a concern of the Harper government in not expanding the Canada Pension Plan—that a pension plan could become too powerful an agent influencing the economy?

Third, the structure and governance of the proposed pooled plan Corporation is of critical importance. Morneau is quite clear that the Corporation "must have an arm's length relationship with government" limited to the accountability and transparency needed to ensure that the Corporation acts in the best interests of its clients. (See Recommendation 3-11.) He proposes an eleven member board of directors, three appointed by plan clients (plan sponsors and their investment funds) of the Corporation, two appointed by the plan members, and the remaining six, including the chair, selected solely on the basis of their professional qualifications from a pool of candidates generated by a nominating committee of the board. (Recommendation 3-12.)

In his consultations Morneau found a complete consensus that "…the government would have limited control over and restricted ability to influence the Corporation's governance and operations." (p.23) The government would be restricted to ensuring accountability and transparency through fiduciary and reporting requirements. It seems that in Morneau's governance scheme (see above) the corporation would also be protected from meddling amateurs, because a majority of directors would have to be professional managers chosen on that ground alone. In effect, this would be a form of technocratic rule that would dominate over a more democratic rule by all the stakeholders, including the government. Is this desirable?

Fourth, the pooled asset management plan should not be confused with the controversial PRPPs (Pooled Registered Pension Plans), which the federal government recently legislated in lieu of increasing the size of the CPP (Canada Pension Plan). PRPPs are intended primarily to encourage the estimated 60% of Canadians who have no employer supported pension plan to help save for their retirement. Employers may, but need not, create a PRPP for their employees; employers may, but need not, contribute to it; employees must belong to such a plan if it is created, but can then opt out; the plans would be run by approved financial institutions, such as banks and insurance companies, who would have management and fiduciary responsibilities for them. However, there is no clear restriction on the amount of fees they could charge so that some critics have charged that PRPPs are really a gift to the financial industry. PRPPs are very much like individual RRSPs (Registered Retirement Savings Plans), except that the assets are to some extent pooled. What Morneau proposes is a horse of a very different color, as indicated in its governance discussed in point two above. Don't confuse his plan with a PRPP.

Fifth, the Morneau report is now open for discussion and comment by interested parties, among them UTFA (University of Toronto Faculty Association), OCUFA (Ontario Confederation of University Faculty Associations), and CURAC/ARUCC (College and University Retiree Associations of Canada) which represent our interests. The retired faculty and librarians of the University of Toronto, as a group, has four persons on UTFA Council. RALUT itself has an active Pensions Committee, led by John Munro, who is also on UTFA Council.

I urge you to take an interest in the Morneau Report. Become informed by reading it and commentaries on it. If you have questions or comments, you can direct them to the RALUT Office, from whence they will be directed to the appropriate person or body.

The Retired Academics and Librarians
of the University of Toronto

invite you to attend the

2013 RALUT Annual General Meeting
Thursday, 25 April 2013

in the storied Hart House Debates Room

registration and coffee from **11:30am**
buffet lunch from **12 noon**

1:00 pm Professor Martin Friedland
former Dean of the Law School speaks on
"The University of Toronto;The Last Ten Years"

2:00 pm the Annual General Meeting

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Please R.S.V.P. by email or phone to the RALUT office by
Monday, April 15. 2013

ral.ut@utoronto.ca 416-978 7256

RALUT LUNCHES

Remember that RALUT has a table reserved for lunch at the Faculty Club for the first Wednesday of each month. Come out to enjoy good food and good conversation with your colleagues!!

The RALUT Forum on Ontario's Healthcare System

John Valleau, Chair, Membership Committee

In Hart House, on February 7, RALUT hosted a "Forum on the Viability and Sustainability of the Ontario Healthcare System" --- a subject bound to be of interest to many members. The Forum featured two lead speakers, Jeffrey Simpson and Michael Rachlis. The former is well-known as a major columnist on national affairs for the Globe and Mail; the latest of his several books is "Chronic Condition: Why Canada's Health Care System Needs to be Dragged into the 21st Century" (Penguin Canada, 2012). Michael Rachlis is highly regarded for his analyses of health policy, and is an adjunct professor in the Dalla Lana School of Health Policy here at UofT. The Forum was planned for RALUT members, and advertised only to them. Word of it seems to have got out, however, so that we were glad to welcome as well a considerable non-RALUT attendance, including some people from the Ministry of Health, and even a whole class of undergraduates, making a total estimated audience of something over 125; so the Forum apparently answered a need wider than we had anticipated.

The Forum opened with extended talks by the two speakers, in which they each expressed their views on a number of topics bearing on our healthcare system and its future development. It was immediately apparent that they held very different views on nearly all those topics, and the remainder of the occasion was taken up primarily by the friendly exchange of comments and criticisms about those opinions, shared by Simpson and Rachlis and the other Forum attendees. We can do no more than scratch this surface here.

In appraising our healthcare system, relevant comparisons can be made only with nations comparably advanced and with, like Canada, a largely public healthcare system --- i.e. principally the cohort of nations of western Europe and Scandinavia (along with Australia and New Zealand). In this context, Simpson and Rachlis both appear to accept two basic premises: (i) Canada's total health care costs (presently somewhere near 11.6% of GDP annually) are among the biggest, exceeded by only 3 or 4 members of the relevant cohort, and (ii) in spite of that, our medical outcomes can only be described as mediocre at best. On the latter issue, Simpson quoted OECD data ranking Canada 12th (of 33 nations) with regard to life expectancy, 20th (of 27) in long-term care, 27th (of 40) for infant mortality, etc., etc. (Meanwhile many important aspects of health care are not fully part of our publicly-supported health system, including prescription drug costs, dental and vision care, most physiotherapy, etc. (although many of these needs are covered in many of the relevant cohort nations); care in these matters is therefore user-paid or requires expensive personal health-insurance, and is thus distributed very unequally and is often out of the reach of many fellow-citizens.) In short, we are not, compared to our peer nations, getting good value for money. Our speakers drew very different conclusions from this unsatisfactory state of affairs, however, and we first outline their views very briefly, afterwards returning to some more detailed aspects of the arguments.

In Simpson's view the costs of healthcare have been increasing at an unacceptable rate and are likely to continue to do so unless we dig in our heels. In particular further continued growth of our tax-supported public healthcare will lead to governmental budget deficits and prevent the support of other essential public programmes, and is thus not sustainable. So in his view further development of healthcare in Ontario must either be foregone or must depend on private money —it was not explained how this could avoid exacerbating the inequalities in care that our healthcare system was intended to prevent. Rachlis believes that this position misinterprets the situation, since correcting the shortcomings of our system depends primarily not on budget increases, but on a thorough-going rationalisation and redesign of our healthcare delivery systems. Furthermore he contends that this will lead not only to much better medical outcomes but also to dramatic cost savings, so that with what we spend at present on our public healthcare system we can provide a far more complete and effective healthcare system (as evidenced by some of the European nations).

Simpson and Rachlis traded a few statistics to support their respective views that our healthcare costs have been skyrocketing recklessly or instead have been only modestly increasing. (In passing, I note that it is very difficult usefully to evaluate such statistics as can be presented in a brief talk and thus without the required subsidiary details about such things as the evolution of the GDP and of other government programme spending, and so on.) It is true that Ontario has recently found itself with substantial deficits, but as Rachlis points out this has not been due to a rapid increase in health costs, but to decrease of government revenue consequent on previous decisions to reduce corporation taxes and the income taxes of the well-off, combined with the recent recession. A major reason for Simpson's belief that medical costs will continue to rise dramatically lies with our increasing longevity, which, he says, "obviously" means a major increase in demands on the system, and also means that workers under 65, whose taxes must support the system, will make up a

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smaller proportion of the population. The jury is probably still out on these demographic effects. There have been guesstimates that it might mean an increased cost of roughly 1% per year for several years. However, as Rachlis and another attendee pointed out, end-of-life medical attention is required at whatever age one dies. Otherwise, drains on the system occur especially for chronically sick or disabled people, but it is not clear to what extent the incidence of these misfortunes will actually increase: the increased life-span represents, after all, an index of general improvement in our health. It is also true that many retirees continue to pay substantial taxes, and that many healthy people over 65 will choose to continue working. How all these influences on health costs will balance out remains to be seen.

But they meanwhile draw attention to a key issue which must be addressed, namely that our present medical delivery system is ill-designed for a society with a large proportion of aging people. Both Simpson and Rachlis drew attention to the urgent need for enhanced home-care and long-term-care services: at present many ailing older people are uncomfortably occupying very expensive rooms intended, and needed, for acute care in our hospitals. Not only would this increase the comfort of many, but, because providing hospital rooms is extremely expensive, substantial cost savings are to be expected. Nor is it appropriate for anyone, but especially older citizens, to be dependent on hospital emergency rooms for straightforward advice and assistance (at any hour) or for immediate first diagnostic services and simple treatments: the move toward local well-staffed public clinics needs to be accelerated. Hopefully, the reduction of these unsuitable demands on our hospitals will also help to reduce wait times for surgery and for the treatment of emergencies.

These matters form one aspect of Rachlis's vision of the needed comprehensive redesign of the way we provide public medical care. He gave other examples of serious inefficiencies in our present arrangements. For instance the spine surgeon who finds that 90% of those referred to her have no need for such surgery! With appropriate diagnostic services most of this waste could be avoided, and the very expensive highly-trained specialist freed to do her proper work. This is but one example of a widespread problem. Rachlis asserts in fact that many of the improved methods of delivering services will cost much less than our present unsatisfactory ones, so that we will be able to extend the range of public healthcare without increasing public costs. (He sees this in the context of completing `the "two phases" which Tommy Douglas saw as required to establish a proper healthcare system, including in the first the extension of the fully public sector to include the essential services not yet supported by tax dollars (drug costs, homecare, dental care, etc.), and, in the second, a delivery system redesigned to increase both effectiveness and efficiency.) Rachlis did not go further into details of what the redesigned service-delivery model would look like.

Simpson questioned the feasibility of this revamping of the system, however, saying that belief in it is essentially an "efficiency cult" that has been greatly oversold. He accepts that major redesign is needed, but he believes it will at best be a long time in coming, for if not why hasn't it occurred already? He reminded us of the Romanow Report's proposal of an injection of funds into the system to carry out needed improvements. The federal Liberal government responded by setting aside 41B$ over ten years: some 36B$ has been spent, but with little dramatic effect. He ascribes much of this disappointment to resistance by the "providers" in the system (meaning especially the physicians and the Canadian Medical Association and possibly the nurses), who of course have a lot of influence behind closed doors, and who fear dramatic changes due to their interest in their own continued well-being. Rachlis seemed to acknowledge that this conservatism does represent a problem, and believes that it must be faced by open democratic discussion of reform proposals in public fora where the "providers" and others could be challenged publicly. This view was supported by another attendee, who believed that the Canadian public strongly favours not-for-profit solutions, and would even be willing to accept increased taxes if necessary, to ensure such a system. Yet another expressed frustration at our media for repeatedly (like Simpson) posing a "false choice" between increased government medicare funding and an increased dependence on private medical care. The service delivery and efficiency issues raised by Rachlis are actually the key to solutions, but are ignored. Even the most ambitious developments along these lines, such as those of the Trillium Health Centre in Mississauga (which includes the UofT's Mississauga Academy of Medicine, see TrilliumHealthPartners.ca) remain invisible.

It was pointed out from the floor, by two people, that the strongest determinant of ill-health is actually economic inequality (see thecanadianfacts.org for a review of health determinants by Julia Mikkonen and Dennis Raphael of York University) and they asked whether the most effective health goal to pursue was not therefore the elimination of poverty? Simpson accepted the premise, but excused himself on the grounds that economic redistribution is a sensitive and difficult ideological matter and not presently a live political issue.

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Furthermore he believes that income redistribution can only come about in the long term, if ever, so that shorter-term challenges to the healthcare system need anyhow to be addressed now.

This report has of course been able to draw attention to only a few of the themes that came out during the Forum: enough, I hope, to suggest it was a most lively and exciting discussion, if necessarily one with a lot of loose ends. One possibility that might interest some RALUT members would be to pursue some of these matters in a more detailed way, by setting up a study-group for the purpose. To what extent such a group might prove able to make a useful contribution to the ongoing debates, it is hard to know. A few of the members who attended the Forum expressed an interest in at least discussing this possibility; let us know if that interests you.

CURAC/ARUCC Meets in St. John's

RALUT is a founding member of the Canadian University Retiree Associations of Canada. They meet annually, this year in Newfoundland. A major purpose of the Association and of the meeting is to share information, ideas, and best practices among the 35 member associations from across Canada. This year they meet in June, from the 12th to the 15th at Memorial University.

RALUT will be represented officially by Doug Creelman, who will report on a survey of member associations regarding their medical coverage and programs for members. Also there will be Peter Russell, our Honorary President, who is a former Chair of the Churchill Society for the Advancement of Parliamentary Democracy. He will be leading a tour to Ship Harbour Newfoundland, where Winston Churchill, Franklin D. Roosevelt and Joseph Stalin developed the Atlantic Accord during World War II. Peter will also be giving an address to the meeting, summarizing the history of CURAC/ARUCC. As founding President he is singularly qualified for the task.

CURAC welcomes any member of a member association (as are all of us at RALUT). The link to the program and information about the CURAC meeting is at: (www.mun.ca/munpa/curac2013/) Come join us; Newfoundland is in fact as lovely and charming as those CBC TV ads.

University of Toronto to Host College and University Work/Family Association (CUWFA) 2013 Convention

The US-based College and University Work/Family Association will hold its annual conference here at the University of Toronto June 5-7. CUWFA's mission is to facilitate the integration of all aspects of work and study with family/personal life at institutions of higher learning. Planning for the conference is still underway, but it has been confirmed that a session devoted to academic retirement will be included in the program. Two RALUT members, Ken Rea and Peter Russell, have been invited to participate in a panel discussion of academic retirement issues, focusing in particular on those arising since the abolition of mandatory retirement here. Both American and Canadian perspectives on these issues will be explored in an effort to identify ways to enhance the retirement experience for faculty and promote the interests of their home institutions and the broader community.

Updated information about the conference can be found online at: www.cuwfa.org/2013-annual-conference

Ken Rea

Call for Photographs: "MY RETIREMENT"

The Academic Retiree Centre is planning a show on the theme "My Retirement" and is accepting submissions from retired faculty, clinical faculty, librarians and senior administrators. We would like to take a page out of your personal memory album to share in a show of photographic prints and short texts from University of Toronto retirees. Do you have a photo that shows you celebrating? Showing strong feelings? Putting your feet up at the cottage? An image of personal significance, it may be accompanied by a short text (up to 300 words) of your choice which will be displayed alongside the image. Please submit jpg image(s) to academic.retiree@utoronto.ca with a subject heading of ARC Art Submissions with the following information included in the body of the email message: your name, phone number, short biography, titles of works. We would be happy to scan your photo at the centre if you are not equipped to do so. Please submit works for review by April 30, 2013.

The exhibit "My Retirement" will be open to the public May 23-September 27, 2013 weekdays during office hours. The Call for Art is on the University of Toronto events calendar (www.events.utoronto.ca/index.php?action=singleView&eventid=9414) as well as on the ARC website (www.faculty.utoronto.ca/arc/Call_for_Art.htm).

RALUT Memorial Funds Spring 2013: A New Challenge

RALUT established the Memorial Award Annual Bursary Fund in 2005 to commemorate our deceased members, with the intention of making annual $1000 awards funded by RALUT to academically excellent University of Toronto undergraduate students in financial need. The first awardee was Peter Knegt in 2006 followed by Steve Bristo in 2007, Arini Markandu in 2008 and Greg Fiorini in 2009.

The decision was then made to initiate an endowment fund, consequently the RALUT Endowed Memorial Fund at U of T was established in April 2007. Thanks to the generosity of our donors complemented by the then available Ontario Trust for Student Support (OTSS) dollar-for-dollar donation matching grant, by 2010 the income generated by this endowment was sufficient to fund the major portion of the $1000 award made to Diana Wilson (RALUT making up the balance.)

During 2011-2012 there was significant growth of the RALUT Endowed Memorial Fund, thus RALUT was able to make two awards of $1000:

- Samantha Au-Yeung
- Taban Hashimi

This past year there was also significant fund growth thus the income earned by the RALUT Endowed Memorial Fund (April 30th 2012 fiscal year-end book value: $77,935.) has enabled RALUT to make three awards of $1000. during the current 2012-2013 academic year:

- Laura Scarlet Clough-Martin
- Amir Torabi
- Daniel Tremblay

The RALUT Endowed Memorial Fund has now become self-sustaining and it is anticipated that awards such as these will continue to be facilitated.

Regrettably, that previously beneficial OTSS dollar-for-dollar donation matching grant has been terminated. However, another option has become available at U of T: University matching of needs-based awards in the 'Boundless Promise' category: Consequently the new RALUT Boundless Memorial Award commemorating deceased RALUT members was inaugurated on November 30th 2012.

The minimum threshold for matching is $25,000 endowed, which needs to be reached within five years. Since awards, but not donations, will be matched, the growth of this fund to the $25,000 threshold is likely to be far less rapid than with our previous endowment.

However, the financial needs of deserving students in these challenging economic conditions remain an increasingly compelling source of concern, and so RALUT is appealing to the generosity of our members. RALUT strongly believes in the importance of maintaining, and even increasing, the ability to assist such students with timely financial aid.

Donations can be made online through the University of Toronto or RALUT websites using this University link: (donate.utoronto.ca/.) Enter "RALUT" in the search box. An alternative option is to print out the donation form accompanying this REPORTER issue.

Every donation is eligible for a university issued tax-deductible receipt.

Grateful thanks to committee member Diane Henderson for all her help.

Beate Lowenberg

Making a difference

Spring 2013

Dear Members and Friends of RALUT,

This year the RALUT Endowed Memorial Award Fund generated sufficient income to finance three needs-based, one-thousand dollar awards. Since such income is now available for the awards, this fund has become self-sustaining.

In our Fall issue we reported that the previous government dollar-for-dollar donation matching plan which was so valuable for the growth of that fund had ended.

The new RALUT Boundless Memorial Award Fund was inaugurated in November 2012. Donations to this new RALUT Boundless Memorial Award fund are destined to assist appropriately selected students in financial need while commemorating our deceased members, with future benefits far greater than these initial monetary awards.

To qualify for matching needs-based awards by the University, the fund must reach a target threshold of $25,000 within five years. Since now the awards—not the donations—will be matched, the growth rate of this new fund is likely to be much slower than that of the RALUT Endowed Memorial Award Fund. Your donations are needed now even more urgently than before.

Please read Beate Lowenberg's article on this page for more information.

With your participation, we can continue
to ***make a difference.***

Yours sincerely,

Tom Alloway, President

A Critique of "The Morneau Report" on Pooled Asset Management

Introduction

Mr. William Morneau, Ontario's Pension Investment Advisor, submitted his report on pooled pension asset management to the Minister of Finance in late October. In mid-November, the Minister made this report available to the public and invited submissions or comments. Morneau observed that,

> **there are currently over 100 public-sector pension funds in Ontario, each of which is responsible for its own investment management ... [and many of which] are unable to realize the lowest possible investment management costs or access the range of asset classes desired.** Morneau, section 1.1

His report makes twenty recommendations, most importantly: to create, subject to certain conditions, "**a new pooled asset manager to oversee investment on behalf of Ontario's public sector pension funds, as well as several non-pension funds . . .**" Morneau envisages that legislation would require these funds to turn over all their assets (totalling about $100 billion) to a new or existing public-sector pooled asset manager for a seven-year period, after which they might be free to withdraw their assets.

CURAC/ARUCC's brief to Ontario's Expert Commission on Pensions [the Arthurs Commission] strongly recommended five years ago that:

> **serious consideration . . . be given to establishing a public-sector investment fund for Ontario that would have the mandate to accept assets from Ontario pension funds on a voluntary basis, and to invest these in ways that reduce market risk for participants while maintaining long-term returns.**

CURAC/ARUCC is pleased that the Ontario government made some steps in this direction in 2009 by authorizing the Ontario Teachers' Pension Plan [Teachers] and the Ontario Municipal Employees' Retirement System [OMERS] to accept third-party assets from pension and other funds, and may now move further.

While CURAC/ARUCC agrees with some minor elements of the Morneau Report, we have moderate to serious reservations about Morneau's key recommendations. We take these up in a logical order that enables the reader to understand the dependence of some of his recommendations on others.

Morneau's Minimum Scale Threshold of $50,000,000,000 of assets

The Yale University endowment fund pioneered investment in so-called 'alternative assets' in the mid-1980s because of their "return potential and diversifying power." It was the first institutional investment fund systematically to apply modern financial analysis as developed by Harry Markowitz in the 1950s (gradually being understood and adopted here). Currently it has under $20 billion in assets, far less than Morneau's threshold of $50 billion, yet its returns exceed those of the median Canadian pension fund by 5%-8% annualized, with lower volatility. As of last 30 June (its fiscal year-end), its 10-year and 20-year records were 10.6% and 13.7% per annum, comfortably above returns of all the large Canadian funds cited by Morneau. Yale's endowment office under David F. Swensen estimates that one fifth of its annual excess return of 5.2% comes from its asset mix, while the rest is attributable to careful management and control of risks. See <http://investments.yale.edu/images/documents/yale_endowment_12.pdf>

Not only does the modest size and long-term success of the Yale endowment cast great doubt on Morneau's minimum scale of $50 billion; it also highlights the importance of a heavy yet careful commitment to alternative asset classes and experienced, high-quality investment management. The $130 million of annual savings that Morneau expects will arise through pooling amounts to just 0.13% of the $101 billion (or more) in assets that he envisages as likely being included in his new fund. Swensen shows that improved asset mix alone is yielding $210 million of savings annually on a fund with $19 billion in assets (1.2%); while careful, risk-conscious and cost-conscious asset management adds a further $800 million annually (about 4.0% more) on this much smaller fund.

Given Morneau's modest estimate of future savings compared to those actually achieved by Swensen at Yale on a much smaller fund, Morneau's minimum scale of "... at least $50 billion" (Recommendation 2-1) must be rejected, along with all consequential implications, especially those making participation compulsory (Recommendations 3-2, 3-4 and 3-5). Pension and other funds will voluntarily enter new pooled asset structures, provided they receive good value net of fees. Coercion to achieve a bloated scale is unneeded, since an adequate minimum scale should result without it. Significantly, no taxpayer-financed indemnification would be required (Recommendation 3-3).

Asset Mix Issues

As the table shows, Canadian pension funds have been traditionally managed. They hold 85% to 100% of their assets in equities, bonds and cash, mostly in large-capitalization North American securities.

Allocation of Assets (Asset Mix) in Various Funds
(data from 2012 and 2011)

<table>
<tr><th>Asset Class</th><th>Yale Endow-ment</th><th>Typical Canadian Pension Fund</th><th>Small Ontarian Pension Fund (ref. Morneau)</th><th>Large Ontarian Pension Fund (ref. Morneau)</th></tr>
<tr><td colspan="5">TRADITIONAL ASSET CLASSES</td></tr>
<tr><td>Domestic Equity:</td><td>6%</td><td>40%</td><td rowspan="2">59%</td><td rowspan="2">49%</td></tr>
<tr><td>Foreign Equity:</td><td>8%</td><td>15%</td></tr>
<tr><td>Fixed Income (bonds & cash):</td><td>7%</td><td>35%</td><td>40%</td><td>36%</td></tr>
<tr><td colspan="5">ALTERNATIVE ASSET CLASSES</td></tr>
<tr><td>Private Equity:</td><td>35%</td><td rowspan="4">10%</td><td rowspan="3">1%</td><td rowspan="3">14%</td></tr>
<tr><td>Real Estate, Natural Resources & Infrastructure:</td><td>30%</td></tr>
<tr><td>Absolute Return:</td><td>15%</td></tr>
<tr><td>Commodities:</td><td>0%</td><td>0%</td><td>1%</td></tr>
<tr><td>TOTAL</td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
</table>

NOTES:
1) Domestic equity for the Yale endowment means US equity; for the typical Canadian pension fund, it is Canadian equity.
2) "Absolute Return" investments comprise a 'market-neutral' sub-category of hedge funds, whose returns, in principle, are likely to exhibit low or negative correlation with the returns of traditional asset classes. This class of investments inevitably requires exposure to derivatives -- which always involve counterparty risk.
3) Morneau refers to 'target' asset allocations; the first two columns to actual allocations. At Yale in mid-2012, target and actual allocations were almost identical, except that cash at 3% exceeded its target of 0%.

In contrast, Yale's investment success depends not on the size of its endowment nor its skills in investing in publicly-traded equity and bonds; instead, it derives from the careful selection and management of other asset types, because the greatest mis-pricings prevail in non-traditional asset classes and these inefficiencies can be exploited by knowledgeable managers. The table identifies four alternative asset classes, along with some sub-categories. Within the traditional category, alternatives to large-capitalization, developed-economy equity exist — namely, mid-cap, small-cap and emerging-economy equity. None of these alternative asset classes is identical with so-called "hedge funds", many of which are extremely leveraged, minimally-regulated and not engaged in actual hedging. Most such funds are unsuitable for pension and endowment funds because leverage exposes them to high risk of major losses.

Many observers believe that the pension and endowment investment at the University of Toronto failed over the last decade by emulating Yale's approach to investment in alternatives. In fact, the University of Toronto Asset Management [UTAM] ignored central features of Yale's investment style: lean, low-cost management; extremely careful selection and oversight of external alternative-asset managers; focus on alternative assets whose returns have low or zero correlation with those on equity and bond markets; and minimal commitment to traditional assets where active management could not improve returns. In contrast, UTAM costs were around 1% annually (twice the percentage level prevailing at much smaller institutions), in part because it employed almost a hundred external managers (too many for its staff to successfully monitor); nearly a third of its managed assets in 2008 were with intransparent "fund-of-fund" managers (who choose the actual hedge managers using opaque criteria); the likely correlations of returns were ignored (because most fund-of-fund managers will not reveal their actual managers or their holdings); and traditional equity investments were heavily directed to efficient markets where returns and expectation of returns were low and active management could not be expected to add value. The experience of UTAM provides no evidence that investment in alternative assets is inappropriate; instead it demonstrates a lack of competence. [See the presentation of Professor George Luste to the Jackman Commission at University of Toronto, 23 September 2009, found at <http://www.utfa.org/sites/default/files/webfiles/pdf_files/UofT-Sept-23-09-Jackman%20commis-final-18p.pdf>]

David Swensen's view of fund-of-funds management is instructive:

> **Fund of funds . . . facilitate the flow of ignorant capital. If an [institutional] investor can't make an intelligent decision about picking managers, how can he make an intelligent decision about picking a fund-of-funds manager who will be selecting hedge funds? And the best [hedge] managers don't want fund-of-funds money because it is unreliable. [Hence] . . . in a fund of funds, you will likely be excluded from the best managers.** Swensen, in a WSJ Interview, 13 January 2009

Morneau was not asked why private- and public-sector pension funds have been reluctant to add non-traditional assets to their portfolios but offered an opinion: high costs and lack of in-house expertise.

> **Investment management costs for alternative asset classes . . . are generally much higher than for traditional assets. . . Direct investments in alternative asset classes require specialized expertise and large amounts of capital, . . . often over a long timeframe. Accordingly, such direct investments can only be achieved efficiently by the largest funds with dedicated in-house expertise and enough capital.**
>
> Morneau, section 2.2

We do not find this fully persuasive. Pension funds in Britain have traditionally been heavily invested in real estate, which in Canada is regarded as an alternative asset class. Do investors in the United Kingdom have an expertise that is lacking in Canada? Can consultants with the requisite expertise not be found in

Canada or be imported? Is Towers-Watson wrong in its recent observation that institutional investors in Canada are currently investing in alternative assets in increasing numbers, despite higher costs?

In our experience, both amateur managers of small pension funds as well as some professional mutual fund managers often are driven by "group-think." If their asset allocation differs from other funds and they do badly, they will be blamed; if it is nearly identical, they can shift the blame to the group or to the "index." Similarly, investment consultants in Canada are only gradually becoming familiar with alternative investment options. In the past, the expertise and experience to advise intelligently on alternatives often was weak, and some consultants suffered from the same herd mentality as the trustees who hired them.

The above considerations imply that Morneau's Recommendation 3-10 is inappropriate and Recommendations 3-4 and 3-5 misdirected. Requiring public-sector pension and other funds to pool their assets in a new fund in the hope that some shifts in asset allocations will result from "cost-effective advice" that may be misinformed is far inferior to directly nudging these funds through regulation to invest a minimum portion of their assets in alternatives that they have carefully selected.

Existing public-sector investment management funds versus a newly created fund

The 2012 Ontario Budget proposed two options for pooled asset management: an existing large public-sector fund or a newly created fund. Morneau rejects the first option for three reasons: inappropriate governance structures at the three relevant funds (Teachers', OMERS, and Healthcare of Ontario Pension Plan [HOOPP]), alleged inability to accept assets in kind, and alleged inability or difficulty in setting up a family of pooled funds that could meet the asset mix decisions of the participating third-party institutions. In our view, these reasons are flimsy. Legislation could readily be altered to make governance of these three funds more acceptable, mandate the establishment of pooled funds, and authorize the acceptance of third-party assets. We suspect that such legislation would be easier to draft than the rules governing a brand-new institution, and that each of these funds could more easily and more efficiently adjust to an expanded mandate than could a new fund immediately create complex new structures.

Morneau underestimates the costs, complexities and delays inherent in setting up a new and fully-operational and capable investment entity in respect of both staffing and functioning. He recommends that his new Corporation absorb all the redundant investment staff of its clients (Recommendation 4-2), despite his recognition that many of the people involved lack investment expertise. His new Corporation should have no serious problem dealing with relatively liquid asset classes such as large-capitalization equities; but identifying, securing and maintaining high quality positions in illiquid asset classes such as private equity and real estate would be a challenge. Instead of forcing a variety of public-sector funds around the Province to buy into unknown, untried and inexperienced investment vehicles, government should ensure that these funds could choose among existing known and successful investment management options.

Hence CURAC/ARUCC urges that the issue of an existing large public-sector fund or a newly created fund be examined further by the Government and that participation be voluntary. Not only could this result in eliminating Recommendations 3-1 through 3-5; it could also eliminate most or all of the three-years of start-up costs that government might bear under Recommendation 4-1 as well as the make-work features of Recommendation 4-2.

Governance

Morneau's recommendations and discussion regarding the structure and governance of the proposed Corporation raise the gravest of misgivings. He claims to "**view excellence in governance . . . as an essential element of an effective and efficient investment management entity**." He cites "**benefits of active stakeholder involvement in strategic decision making . . . [and] in managing stakeholder relationships.**" But then he loses sight of these goals and proposes instead a self-perpetuating governance structure in which — after initial establishment — members of the investment industry would control the Board of Directors of his Corporation in perpetuity and the Ontario government could intervene only in extreme situations. With only token representation, some stakeholders might be able to protest, but ineffectually. Morneau claims that his "**recommendations are based on a review of the structure and governance models employed by some of Canada's most successful pooled investment funds and large pension plans.**" Which ones precisely? We know of none with similar structure and governance.

We examined the governance structures of each of the seven large Canadian public-sector pension funds mentioned by Morneau (Teachers', CPPIB, PSPIB, Caisse, OMERS, bcIMC and AIMCo) and could find none that even approximated Morneau's self-perpetuating industry-controlled structure. Governance structures such as Morneau's do (*de facto*) exist at some corporations and non-profit institutions, and have often given rise to problems such as inadequate oversight of operations, undisclosed conflicts of interests, excessive remuneration of board members and senior officers and oppression of minority shareholders. The recent experience with governance at CP Rail is absolutely relevant in this regard.

CP Rail exhibited the worst efficiency record of any major railroad in North America and had long been an industry laggard. Yet its entrenched 'blue ribbon' board -- which in practice was self-perpetuating -- was unwilling to improve management or to accommodate a major shareholder. A proxy battle resulted in management and a majority of the board being ousted; improvements are already starting to manifest themselves a few months later. But the governance structure proposed by Morneau for the new Corporation fully entrenches the initial board of directors, making no provision for proxy battles. Instead, dissatisfied clients of the Corporation could only force changes through intensive political lobbying or through withdrawal of funds after a 'cooling-off' period of possibly seven years. Neither of these options is attractive for these or for other clients; nor, indeed, are they for beneficiaries, whose current and future pensions are at risk.

The only governance structure in investment management that is compatible with democratic norms empowers those who make contributions and those who benefit to share proportionally in controlling the board of directors. This means that pension sponsors, employers, employees and, yes, pensioners, select all the directors. This is scarcely a revolutionary idea; for the last decade this governance model of pension funds has prevailed in Quebec and it has worked well. Note that in some pension funds, the majority of assets support pensions-in-pay; in such cases, this should result in pensioners or their organizations having the greatest influence in the selection process. It is essential to remember that the big losers at Nortel and in other recent pension conflicts in Ontario have been pensioners — who have no ability to unionize.

Potential Problems with a Pooled Investment Structure

Morneau never addresses a potentially serious problem with a pooled investment structure. Instead he assumes it away, while recommending that, after a cooling-off period [of seven years], participating institutions should be free to withdraw from the pooling framework . . .

This Morneau recommendation is a prescription for disaster. Illiquid asset classes like private equity, infrastructure, real estate and timberland cannot be quickly bought or sold except at disadvantageous prices: they are not liquid! Current values of such assets are often based on appraisals, not markets. Unexpected exit by a few major clients from a pooled fund — or even large shifts among different asset class pools — would likely force Morneau's Corporation to liquidate assets in unfavourable markets, throwing the burden of the resulting losses on the remaining clients in that pool and possibly turning management of the pool into a burden on the Corporation as a whole. Correspondingly, an unexpected entry into an illiquid pool by major funds could temporarily depress returns in that pool for existing clients as the new funds are being deployed.

These are not theoretical quibbles. This scenario actually happened with Canada Life Investment Management's [CLIM's] institutional real estate pool two decades ago. In the wake of the collapse of the Canary Wharf development in London in the spring of 1992, commercial real estate prices fell worldwide, the appraised value of the fund dropped and several large clients promptly withdrew their funds. This forced the fund to sell properties at adverse prices, so its value dropped more. CLIM initially made efforts to reassure clients that real estate values would recover, but some exited at ever lower unit values. Using an emergency contract clause, CLIM then halted further withdrawals and started to wind up the pool. Remaining clients -- primarily pension funds -- suffered additional losses of about 35%.

It is not enough to require the Board of Morneau's Corporation to act in the best interest of its clients (Recommendation 3-11); what should the Board do when these best interests conflict? At a minimum, clients must be treated impartially relative to other clients. Morneau's Recommendation 4-6 must be fundamentally amended so that for illiquid asset pools significant notice periods are required for withdrawal; in addition, large withdrawals must be gradual. Legislation must give the Corporation the necessary powers in this regard.

Sharing the pooled investment structure with endowment and other funds (including similar funds from outside Ontario)

CURAC/ARUCC supports recommendations 3-6, 3-7, and 3-9, provided that all incremental costs incurred by Ontario's pooled-asset manager(s) are fully met by these various funds. In the case of defined-contribution pension monies, considerable administrative costs are involved which must be borne by the clients.

In addition, we suggest that the governing legislation be drafted so as also to permit similar public-sector Canadian organizations outside Ontario to access the services of Ontario's pooled-asset manager(s) on a cost-recovery basis plus a small service fee. Not only could this considerably benefit many small funds in smaller provinces, but it would add to the total assets under management and so help insure that scale economies might be realized.

Summary

CURAC/ARUCC's vision for a public-sector pooled asset manager for Ontario is of a highly competent, relatively low-cost organization controlled by its clients/beneficiaries — who participate voluntarily. We stress that good governance is essential: those whose assets and future benefits are at risk should be those who make the strategic management decisions, not people who have no direct stake in outcomes. The organization should focus heavily on providing expert access to alternative investment classes. However, exit from and access to illiquid alternative asset pools would have to be subject to restrictions that would protect participants equally. Such an organization need not be new, but might result from modifications to one or more existing large public-sector asset managers, such as Teachers', OMERS or HOOPP, who have experience with various types of non-traditional investment. CURAC/ARUCC supports the openness of such an organization to accepting funds from public-sector pension and non-pension clients from both Ontario and other provinces on a full cost-recovery basis. Such a structure should achieve more than an adequate size to enjoy full economies of scale. Thanks to voluntary participation by clients in the investment pools, taxpayers would not be required to provide indemnification against fiduciary liability arising from inward transfer of assets.

This vision differs dramatically from that of Mr. Morneau, who proposes a new, large start-up organization controlled in perpetuity by the financial industry (with token membership on the Board of Directors of persons supposedly reflecting client interests but chosen by the Board) and burdened initially by a very large staff of people, many of whom – as emphasized earlier in Morneau's report -- would lack investment management expertise. High initial costs and slow evolution of the new organization would be the likely consequence of these recommendations. Participation by public-sector pension and other funds in Morneau's Corporation would be required by legislation and remain involuntary for a seven-year period. But Morneau is silent regarding any problems that might arise from entry into or exit from the pooled investment structures. Taxpayers would absorb excess set-up costs (which might, according to Morneau, run to $50 million, but we fear to a much larger amount) and taxpayers would potentially be liable to cover specific fiduciary liabilities.

CURAC/ARUCC fully recognizes the benefits to pension plan sponsors and beneficiaries that could result from implementing a pooled investment management structure for assets, and the consequential benefits to taxpayers in Ontario, but it strongly believes that the Province should pursue an approach that differs sharply from that recommended by the Morneau Report.

Grass Going??

Eleanor Cook, Professor Emerita in the Department of English, has recently written to the RALUT Board about the proposal to replace the grass on the back campus behind University College on the St. George Campus with artificial turf. It is a plea to help save the grass.

> The U of T is proposing to cover the "back campus," that lovely green space behind University College and running alongside Hart House up to Hoskin. It's to provide a sporting facility for the PanAm Games and thereafter for the U. I can't believe this, on environmental grounds & on design/heritage grounds & on student-support grounds. Even walking past that green space is calming and pleasing.

Professor Cook asks us to

> … circulate to the members of RALUT the address, www.change.org/keepbackcampusgreen and ask them to consider signing this petition. There is also a Facebook, etc., campaign as per this forwarded message.

The proposal is hardly new. Several decades ago, Michael Finlayson, speaking for the administration, suggested that the back campus become an underground parking lot, while the playing field would be preserved by covering the garage with artificial turf. Few liked the proposal beyond those making it, and it quietly died an unmourned death.

It is now argued that the artificial turf will extend the playing season for students, since the field is now waterlogged and muddy for much the spring. Artificial turf has no such problem. Back in the early seventies, the field was restored to being a very good playing field. It was carefully graded so as to be higher in the middle so the water that couldn't be soaked up by the grass would drain off to the edges, keeping the field fairly dry. But the care that went into making a good playing field did not continue, and it degenerated into its now sorry state. And later it became a dumping ground for snow plowed from campus streets and sidewalks, which hardly helped preserve it from becoming water-logged. With careful attention the field could become again a good playing-field, obviating any need for artificial turf.

There were in the Toronto Star articles by Laura Kane on Feb. 1, and Heather Malleck on Feb. 6; and in the Globe and Mail articles by Michael Bliss on Feb. 22 and Paul Aird on Mar. 21. The opposition of Margaret Atwood was recorded in the Globe story of Mar. 13: her tweet was quoted:

> **So, @UofTNews: as a soon-to-be dead alum w. $ to leave, am I annoyed by the anti-green plan? Y! @BackCampusGreen keepbackcampusgreen.ca**

The grass that used to exist in fields around Victoria College and St. Michael's College has disappeared into condos and offices. Unfortunately. One would think that at least the grass about University College could be saved.

Fred Wilson

Habemus magisteriem

Richard Nunn, Chair of the Governing Council of the University of Toronto, announced on March 4 that the Council had confirmed the appointment of Professor Meric Gertler as the next President of the University of Toronto. He will succeed Professor David Naylor as President; he will be the 16th of those who have held the office.

Prof. Gertler is a member of the Department of Geography, which he joined in 1983, after receiving his doctorate from Harvard; his area of research is urban issues, including the economies of cities, the urban foundations of innovation, and the role of creativity, culture and diversity in urban life. He has published six books and many papers. His scholarship was recognized by his election as a Fellow of the Royal Society of Canada. He has been Dean of the Faculty of Arts and Science since December 2008.

The fact that the Governing Council has on it representatives of many constituencies in the University ensures that Professor Gertler will have widespread support in the University community. The constituency of the Retired Academics and Librarians at the University of Toronto has a distinguished membership. It is, however, not represented on our Governing Council. But we join the others in our community in welcoming Prof. Gertler to his demanding new position in the University.

Fred Wilson

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