IN THE MATTER OF A SALARY AND BENEFITS DISPUTE

B E T W E E N:

THE GOVERNING COUNCIL OF THE UNIVERSITY OF TORONTO

("The University")

- AND -

THE UNIVERSITY OF TORONTO FACULTY ASSOCIATION

("UTFA")

BEFORE:

Mr. Justice Warren K. Winkler	**Chair, Dispute Resolution Panel**
Mr. Larry Bertuzzi	**University Nominee**
Mr. Jeffrey Sack, Q.C.	**UTFA Nominee**

December 12 & 13, 2005

SUBMISSIONS OF THE UNIVERSITY

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NOTE

Except for the parties' agreement on mandatory retirement, which has been settled, all proposals, positions and statements about matters believed to be in agreement in this Submission are made on a without prejudice basis.

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I BACKGROUND

This interest arbitration is being conducted pursuant to the mandatory dispute resolution provisions in Article 6 of the Memorandum of Agreement between the University of Toronto (“the University”) and the University of Toronto Faculty Association (“UTFA”) (Tab 1)[1]. The Panel is being asked to issue a report on salary and benefits for the University’s faculty members and librarians for the one-year period ending June 30, 2006.

The previous agreement governing salary and benefits was a two-year agreement based on a mediated settlement. It expired on June 30, 2005. Negotiations began in February 2005. The parties reached an agreement on March 14, 2005 to eliminate mandatory retirement (Tab 2). The remaining issues in the negotiation were then referred to mediation with Mr. Kevin Burkett. On May 29, 2005, after five days of mediation, Mr. Burkett issued a report which included the parties’ positions at the conclusion of mediation (Tab 3). The salary and benefits issues in dispute are referred to this Panel pursuant to Article 6 and include the following:

1. Salary and Progress through the Ranks (PTR), increase;
2. Amendments to the Pension Plan;
3. Amendments to the Extended Health Care Plan;
4. Amendments to the Professional Expense Reimbursement;
5. Amendments to Research and Study Days for Librarians.

All other issues, although the subject of negotiations by agreement, are not referred to this Panel in this process.

This brief contains the University’s submissions on the outstanding salary and benefit issues.

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[1] All tab references are to the University’s Exhibit Book.

a. The University

The University's vision is to become a leader among the world's best public teaching and research universities in its discovery, preservation and sharing of knowledge through its teaching and research and its commitment to excellence and equity."[2]

The University is the largest and most distinguished university in Canada. With more than 67,000 students, 2,500 faculty and 8,500 staff and an operating budget of over $1.1 billion, the University occupies three campuses: Scarborough, Mississauga and the historic St. George Campus. It is also federated with three smaller universities on the St. George campus as well as several colleges and institutes. It is fully affiliated with nine teaching hospitals. The University offers programmes in 17 academic divisions, offers 75 PhD programmes and includes 14 professional faculties. The Faculty of Arts and Science on the St. George Campus is made up of 36 departments and encompasses a greater range of disciplines than any other university in Canada. The University of Toronto Library includes 15 million holdings and is one of the top four research libraries in North America.

For the year ended April 30, 2005, total University expenses were $1.6 billion. The University operating expenses were $1.1 billion (excluding sponsored research, ancillary operations and capital fund expenditures). Of the $1.1 billion, approximately $754 million represented salary and benefit expenses. Of that amount, $337 million was for total compensation as defined in the Total Compensation Report for faculty members and librarians who are affected by this award.

b. The Planning and Budget Function

The University's current direction has been established through a broadly consultative and rigorous planning process which generated *Stepping UP*, its 2004-10 academic plan (Tab 4). *Stepping UP* was built upon ideas submitted by all members of the University's community, including faculty, students, staff, governors, alumni, departments, research institutes, faculties, student unions and associations, and staff union executives.

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[2] As set out in the University's Academic Plan, *Stepping UP*.

The goals in *Stepping UP* are supported by a multi-year budget which also spans from 2004 to 2010. The Long-Range Budget Framework was approved by Governing Council in March 2004 and has been updated once in March 2005 based on evolving assumptions (Budget Report 2005-06, Tab 5).

The University's last fiscal year ended on April 30, 2005 (Financial Report 2004-05, Tab 6).

c. Faculty Members and Librarians

There is no doubt that the excellence of the University owes much to the quality of its faculty and librarians who are represented by UTFA in these negotiations.

For the academic year 2004/05, the average faculty and librarian salaries were as follows:

Tenure Status	Rank	Avg Annualized Salary	# of Employees
Tenured/Tenure Stream	Professor	$133,828	780
	Associate Prof	$105,998	561
	Assistant Prof	$91,870	416
	Prof Ranks Average Salary	$115,008	1,757
Non Tenured Teaching Strm	Lecture/Sr Lecture	$80,059	271
Permanent Status	Librarians	$82,738	125

Notes
- Excludes Faculty with Senior Administrative duties
- Excludes Faculty on LTD or other unpaid leave
- Excludes Clinicians

Most members of the professoriate are tenured or in the tenure stream. Senior Lecturers and Librarian III and IV are "permanent status employees".

II SUMMARY ARGUMENT

The Panel is seized of this matter at a critical time for the University.

There is finally a strong public acknowledgement – based on the publication of the "Rae Report" – that Ontario universities have been underfunded for over a decade. While the University of Toronto has worked hard to maintain its position as a leader among the world's best public teaching and research universities throughout this period, it has not been immune to the consequences of this under-funding: its student-faculty ratios have increased, class sizes have grown, its facilities are in a state of increasing disrepair, and its graduate enrolment levels have not fulfilled the potential that the University has as a leading research university. In the spring of 2005 President Frank Iacobucci said that the University (along with others in Ontario) is at a "tipping point" and explained that it must rectify these trends immediately.[3] More than ever, the need to maintain and extend excellence is at the top of the University's agenda.

The University believes that its faculty members and librarians play a critical role in the achievement of this agenda, but it nonetheless must take a strong stand against UTFA's proposals. Through the period in which the key performance measures noted above have declined, the University's faculty and librarians have fared well. They have received real wage increases and are the highest paid among their peers in Canada. In addition, they have first-class benefits while employed and on retirement.

The University believes that the strength of its faculty and librarians justifies their superior compensation and expects to maintain this superiority over the long-term. However, in view of the fiscal realities faced by the University in the accomplishment of its academic objectives, and in the context of a one year settlement, the University's proposal for a modest yet reasonable ATB increase while at the same time enhancing its merit-focussed PTR scheme, is appropriate and responsible.

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[3] Frank Iacobucci's Remarks to the Canadian Club of Toronto, Tab 7.

The details of the provincial government's new funding policy and the amount of new money to be allocated to the University under the 2005 provincial budget are yet to be determined; however the University has every reason to expect that the province's actions will be consistent with the University's objectives and priorities. It is clear that additional funding advanced by the province will be allocated to a number of specific funding envelopes. It is also clear – based on the recommendations in the Rae Report itself – that the province will expect the University to direct new money to *specific measures to improve quality of education* rather than allow it to be "swallowed" by general increases to salary and benefits. Further, most of the funding announced by the province was already incorporated into the assumptions of the University's budget and planning process.

a. The under-funding of Ontario universities has been recognized

The Rae Report (Tab 8), was published in February 2005. It recognized that the quality of post-secondary education in Ontario has suffered from years of under-funding and made a number of recommendations to government and universities to promote recovery.

Beginning in the early 1990s, Ontario universities have faced a steep decline in provincial government operational funding. Funding during this decade has been characterized by reduced grant levels. The context of declining support is best described in the University's 2005-06 Budget Report:

> As they entered the 1990's the University of Toronto and all other Ontario universities were experiencing a period of relative financial stability and recovery; government grants and tuition were increasing at rates slightly above the general inflation rate, and budget reductions were, relatively speaking, modest in scale. With the full onset of the economic recession in 1992 through 1994, operating grants were frozen and then reduced through the Social Contract ($17.3 million) and the Expenditure Control Plan ($5 million). Tuition fees increased by a range of 8 to10 per cent annually to partially compensate for the loss of grant revenue. The Ontario Student Assistance Plan was modified by government from a combined grant/loan program to an all-loan program as a cost reduction measure.
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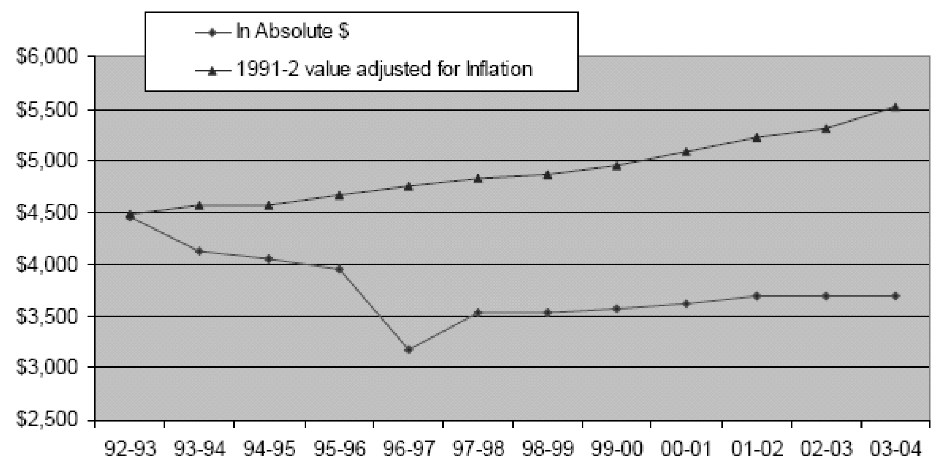
> In 1995 the new government fulfilled its election promise to further reduce operating grants to universities by $280 million, a loss of $53.9 million to the University of Toronto. Again as a partial offset to the loss of grant revenue, government permitted significant increases in tuition fee rates; 20 per cent in 1996-97 and 10 per cent on average in each subsequent year up to and including 1999-2000. Tuition fees were deregulated for international students, and for students in some professional and all graduate programs. Government operating grant revenue reached a peak at approximately $400 million in 1992-93, fell to $339 million in 1997-98 and has risen to $484M in 2004-05 with the

> introduction of a number of new funding envelopes targeted to enrolment increases and performance indicators. However during the past decade, the system-wide *government operating funding per* BIU[4] has decreased in absolute terms by over 16% and in real terms by 30%. At the same time, tuition revenue has increased from $100 million in 1992-93 to $361 million in 2004-05, as a result of both tuition fee rate and enrolment increases. Starting in 1996-97 the Government mandated that 10% of the revenue from tuition fee increases be spent on student aid; this was increased to 30% in 1997-98 and subsequent years.

Fig. 1. Government Operating Funding per BIU



This funding trend distinguishes Ontario universities from comparator universities in all other provinces; in 2001-02, Ontario ranked 10th out of the 10 provinces in per FTE provincial operating grants.[5]

The impact of the funding trend was summarized by Mr. Rae at page 9 of his Report:

> There is no avoiding the fact that higher education has not been a recent focus of public policy. Financial support provided both to the institutions and to students over the last several years simply hasn't been enough. When the foundations of Ontario's postsecondary system were put in place forty years ago, education was the single biggest item in the provincial budget. Today that is no longer true: the costs of health care

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[4] BIUs are funding units defined by the Ministry of Training, Colleges and Universities. Each student reported to the government for funding purposes generates a specified number of funding units (BUIs) depending on the program of registration and the level of study. Undergraduate weightings in non-medical programs are from 1.0 to 3.0; masters, 3.0 to 4.0; and doctoral, 6.0.

[5] Source: *Ontario Universities – 2002 Resource Document,* Council of Ontario Universities, September 2002. Data for 2001-02 is the most recent available.

> have soared, and health care's share of the provincial treasury has increased dramatically. Since 1987, there has been an 18% decline in real per capita provincial operating spending on postsecondary education (at the same time that health expenditure per capita has risen more than 30% in real terms). Ontario's postsecondary system is decidedly under-resourced compared to its U.S. and Canadian peers.
>
> The relative importance of different sources of funding has also changed. Provincial operating transfers account for a smaller share of institutional revenue, while federal and provincial research dollars, private donations, tax credits and tuition make up a larger share. Overall revenue to the institutions may have grown, but it has not kept up with enrolment, higher costs and new technologies. Contact hours between students and faculty have been reduced, because we have far more students and not enough new teachers. Uncertainty about funding means we risk losing the best and brightest faculty and students to other jurisdictions. Necessary maintenance of educational facilities has been deferred. The viability of some colleges, in particular, is in doubt. Underfunded institutions put the quality of student experience at risk. Underfunding also affects the ability of some institutions to provide enough spaces for a wider group of applicants.

b. The University has suffered

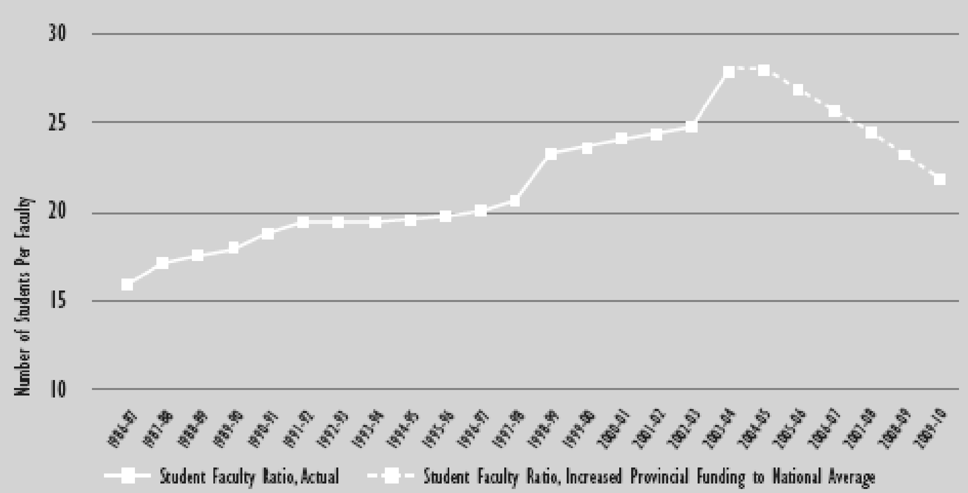
The University has not been immune to the negative consequences of under-funding described by Mr. Rae. This is clearly shown in a number of the University's most important performance measures.

Limited student-faculty interaction

Student-faculty interaction is widely acknowledged as one of the most important determinants of the quality of learning experience for undergraduate and graduate education and has suffered on a number of measures.

The University's student-faculty ratio has risen from 16:1 in the mid-1980s to 27:1 in 2003-04. (Figure below from *The Choice for a Generation,* the University's submission to the Rae Review).

CHART 7: Student to Faculty Ratios: 1986-87 to 2009-10, Actual and Projected with Funding at National Average



The University has made investments to address this trend within its budget constraints. For example, it has increased the complement of teaching assistants (spending an additional 40% more on teaching assistants since 2000-01). Although this strategy may be effective in relieving faculty members from the additional workload associated with higher student-faculty ratios, the University recognizes that increasing its complement of teaching assistants instead of increasing the size of the faculty is not a sufficient long-term strategy.

The impact of under-funding is also reflected in class size statistics. The table below shows that distribution of first year class size in Arts & Science at the St. George Campus, at the Mississauga Campus ("UTM"), at the Scarborough Campus ("UTSC") and in the faculty of Applied Science & Engineering. For example, it shows that in 2004, only 17% of instruction[6] in the Arts & Science faculty at the St. George Campus was delivered in classes of 50 students or less.

The table shows a trend in all four categories towards a greater proportion of education being delivered in classes of greater than 200 students (e.g. at UTM, 26.9% of

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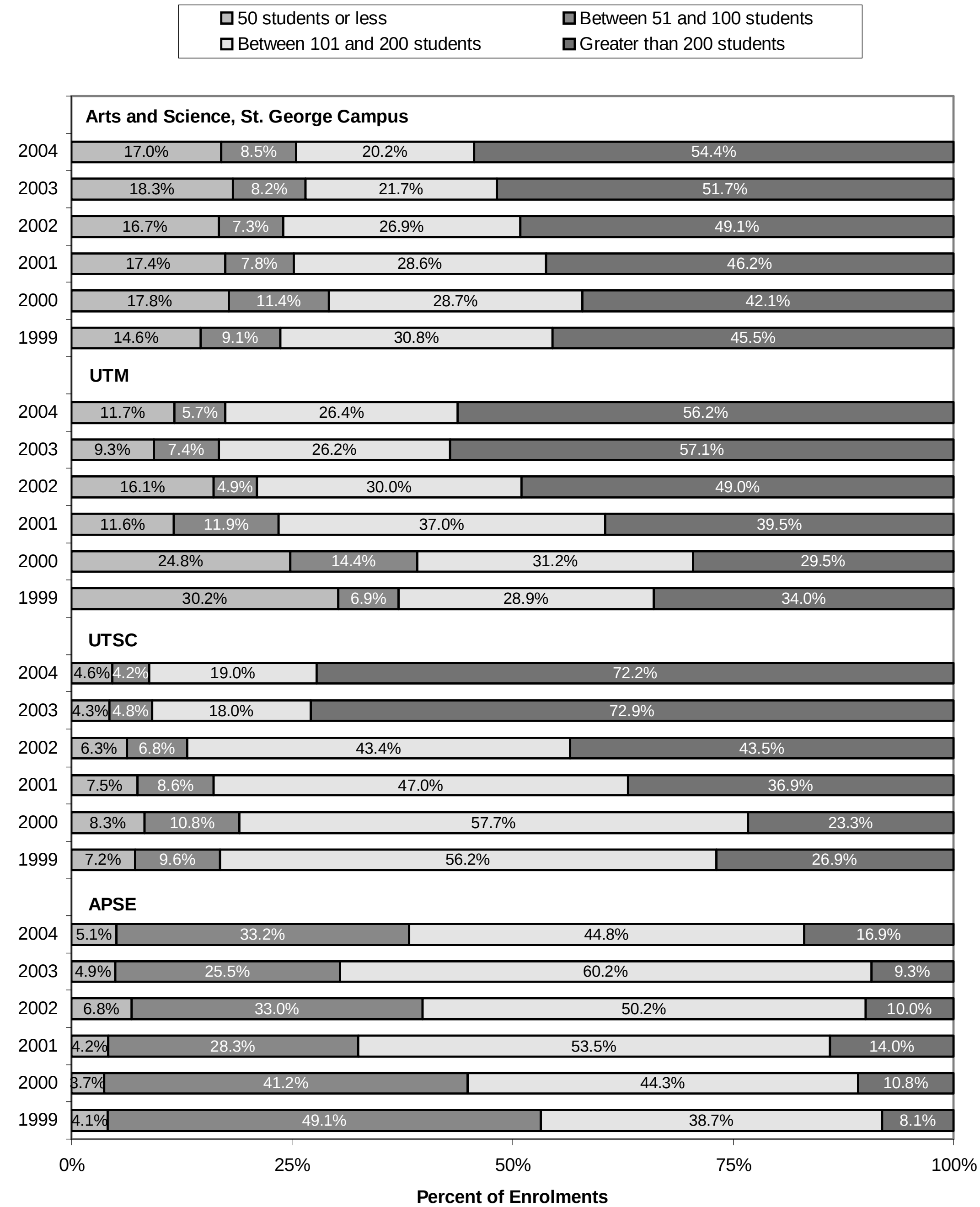
[6] Measured as a percentage of total Full Course Equivalents. Enrolment in half-credit courses is counted as 0.5 per student. Enrolment in full-credit courses is counted as 1.0 per student.

education was delivered in “large” classes at in 1999 compared with 72.2% in 2004). It also shows a trend away from delivery of education through classes of 100 students or less and 50 students or less at UTM and UTSC (e.g. at UTM, 30.2% of education was delivered in “small” classes in 1999 compared with 11.7% in 2004).

Class Size Experience in Undergraduate First Year Courses
Fall & Winter Enrolments from 1999 to 2004



Source: Planning & Budget reported on data compiled from ROSI.

Weighted enrolment expressed in Full Course Equivalents (FCEs). Enrolment in half-credit courses is counted as 0.5 per student. Enrolment in full-credit courses is counted as 1.0 per student.

Along with class size, out-of-class student-faculty interaction is an important factor in the quality of education. The results of the National Survey of Student Engagement ("NSSE") – which the Ontario Government is expected to require as a measurement tool to assess quality, the province's new funding policy – shows the University has room to improve in relation to other universities in Canada.

The NSSE survey measures the extent to which undergraduates at a university are engaging in five forms of out-of-class interaction that are empirically linked to high levels of learning and development. For example, it questions students on whether they have discussed ideas from their readings or classes with faculty members outside of class. Students' answers (on a Likert scale) are averaged across the five forms of interaction to produce a benchmark score out of 100. The larger the score, the more positive the underlying responses.

The table below shows that the University performed worse than participating G10 universities[7] and participating American doctoral-extensive universities for first year and senior student out-of-class faculty-student interaction. While trend data is not available, the University's relative position on this benchmark is of concern, and reflects provincial government under-funding.

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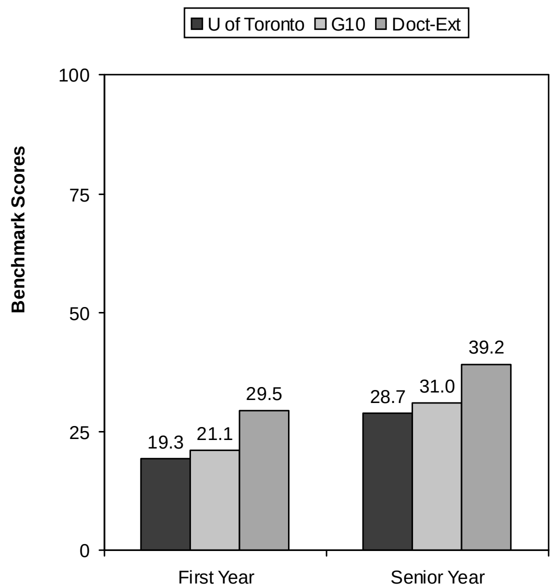
[7] Alberta, McGill, McMaster, Queen's, UBC, Waterloo and Western.

Figure 1c-ii
Student-Faculty Interaction

Students learn first-hand how experts think about and solve practical problems by interacting with faculty members inside and outside the classroom. As a result, their teachers become role models, mentors, and guides for continuous, life-long learning.



Student-Faculty Interaction Survey items:

- Discussed grades or assignments with an instructor
- Talked about career plans with a faculty member or advisor
- Discussed ideas from your readings or classes with faculty members outside of class
- Worked with faculty members on activities other than coursework (committees, orientation, student-life activities etc.)
- Received prompt feedback from faculty on your academic performance (written or oral)
- Worked with a faculty member on a research project outside of course or program requirements

Space is limited

Space enables effective learning and research to take place. Appropriate space is a critical resource which is currently in high demand at the University.

Although funding for building and renovating space generally comes from sources outside the operating budget, funding pressure on the University’s operating budget has limited its ability to service new debt, and despite building and acquiring more workspace as part of its capital construction plan, the University’s current space allocation is still woefully inadequate and below the standards established by the Council of Ontario Universities (COU).

Condition of facilities in decline

While facing increasing usage demands, the University's physical facilities are in an increasing need of repair. At April 30, 2005 the University's deferred maintenance expense[8] was $347 million. This number stood at $210 million in 2001-02.[9]

In 1999, the Council of Ontario Universities ("COU") and the Ontario Association of Physical Plant Administrators adopted a five-year program to assess university facilities using consistent software, cost models and common audit methodology. The University participated in the study and audited over 94% of its building space across the three campuses. Based on the study, the COU published a report on the condition of Ontario university facilities in 2004 (Tab 9). The audit showed that approximately 66% of the University's buildings were in poor condition, significantly worse than the provincial average of approximately 50% (Tab 9, Table 1.1A, columns 3 and 4). The University also performed worse than average when maintenance deficiencies were compared on the basis of building area, with approximately 54% of its audited building area in "poor" condition compared to the provincial average of 42% (Tab 9, Table 1.1A, columns 7 and 8).[10]

Graduate student enrolment limited

Graduate students are key participants in the University research enterprise. Their role is so important to research that the percentage of graduate students in the student population – the "graduate student mix" – is generally viewed as an indicator of the intensity of research at an institution.

While the Ontario government provided some funding for graduate expansion at Ontario universities between 2000-01 and 2004-05, this funding did not match the actual growth that occurred during this period. Specifically, the graduate expansion funding received

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[8] Deferred maintenance expense is a cost assigned to work that has been deferred and either forms part of the future budget cycle or has been postponed until funds become available.

[9] This is the earliest year for which comparable data is available.

[10] Buildings with deferred maintenance expenses exceeding 10% of current replacement value were deemed to be in poor condition.

by the University between 2000-01 and 2004-05 was approximately 70% of the corresponding operating grant value of the actual enrolment growth.

The University has funded modest enrolment growth and has also supported programs to recruit the best graduate students. For example, the University guarantees each doctoral stream master's student funding for one year and each doctoral student funding to cover tuition plus a stipend for the first four years of the program. The current guaranteed minimum annual stipend is $12,000 plus SGS fees of $5,442. The University has also increased the number of "direct entry" doctoral programs, enabling excellent students to complete their studies soon after finishing an undergraduate degree and enabling mature students to complete their programs in a minimum amount of time.

Despite these efforts, the proportion of graduate students at the University has declined: graduate students constituted 19.3% of the student population in 1997-98; this figure dropped to 18.4% in 2003-2004. The percentage of doctoral stream students in the total student population declined from 14.6% to 12.3% over the same period.

In *Stepping UP*, the University has committed to recalibrating the balance of undergraduate students, graduate students and second-entry professional degree students to be consistent with the mandate of a leading teaching and research university. To improve the graduate student mix by approximately 6% (and bring the University in line with its peers), it will need to increase the number of graduate students by 30%. This plan is associated with significant cost increases.

c. The University's plans are based on a policy of fiscal prudence

The University's budget context is defined by reduced operational funding per BIU, increased enrolment from the double cohort (which will continue to affect the University as a result of flow-through of double cohort students to upper year and graduate studies), greater reliance on tuition revenue (which has been subject to various caps and freezes), and a pension deficit which requires payment of $26.4 million to the pension fund each fiscal year until 2020. This context is summarized at pages 1 and 2 of the Budget Report 2005-06:

> The practical effect of the Government funding policy has been that the University has had to introduce budget reductions to absorb a significant portion of cost increases for compensation, library acquisitions, graduate student funding, and utilities. The university's expenditure patterns have also changed significantly over this period. Support for student aid has increased dramatically, from $7.7 million in 1991 to $96.6 million in 2004-05. Overall, the increase in expenditures on student financial aid is approximately 40% of the increase in tuition revenue, making the University of Toronto one of the most accessible in the country. Library acquisition costs have continued to increase sharply throughout the period, from $9 million in 1991 to $23.1 million in 2004-05.
>
> In 2000 the Government announced a cap on tuition fee increases for all regulated programs in each of the five years 2000-01 to 2004-05 at 2% per year, not compounded. During this period the University has also limited tuition fee increases for all continuing students in the deregulated programs to 5%.
>
> Fee increases for new students in the deregulated programs were generally set at 5%, with the exception in some years of professional programs in business, dentistry, computer science, engineering, information technology, medicine, pharmacy and law, where the revenue from larger increases is being used to enhance quality in these programs. In 2004-05 there was no tuition increase in any grant-eligible program as a result of a tuition freeze imposed by the provincial government. This freeze will continue in 2005-06.
>
> These circumstances, taken together, have dramatically altered the size and composition of the operating budget. Provincial government operating grants now represent just over 40 per cent of total revenue, down from 70 per cent in 1991-92. Tuition revenue has doubled in proportional terms, from16 per cent to 33 per cent of the total. Other sources of revenue, such as endowment payout, federal government support and divisionally-generated income, have increased and diversified considerably. These sources now represent 25 per cent of the revenue base. As a result, the University is much less dependent upon a single dominant source of revenue, but at the same time is exposed to a wider array of risks such as stock market performance.
>
> The major challenge facing the University in the current planning period is to deal with the increased enrolment. The University admitted a significantly higher number of students during the past three years to accommodate the double cohort. Although no further increases in undergraduate intake levels are planned, total enrolment will continue as a result of flow-through to upper years. Enrolment is expected to peak in 2006-07, and then drop slightly.

This context has required the University to plan for expenditure reductions. Based on the assumptions in the Budget Report 2005-06, with no expenditure reduction, expenses are expected to rise to $1,326 million by 2009-10 against revenues of $1,244 million, resulting in annual deficit of $82 million and an accumulated deficit at the end of the planning period of $288 million. The University has planned for approximately $100 million in expense reductions between 2005 and 2010 to reduce the planned deficit to acceptable levels and to comply with Governing Council requirement that the deficit accumulated over the six-year budget period be less than 1.5% of gross revenue (see table below, from Budget Report 2005-06).

Table 1C. Expense reduction schedule

($millions)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Base reduction in dollars	$10.5	$11.4	$29.6	$11.7	$11.8	$17.7
Percentage Reduction	2.0%	2.0%	5.0%	2.0%	2.0%	3.0%
One-time-only reduction				$11.7	$5.9	
Percentage OTO reduction				2%	1%	

Even with these planned expense reductions, the University will run a deficit of approximately 1.5% of gross revenue over the current budget period. Therefore, any unanticipated expenses which are not offset by unanticipated revenues will need to be recovered through further expense reductions. Expense reductions are imposed on the divisions[11] and (as trends in student-faculty ratios and class sizes indicate) typically restrict the divisions' ability to hire new faculty.

When budget reductions are introduced to balance the University's operating budget, they are determined on a portion of the operating budget called the "relevant base". This is the part of the budget that can be subjected to expense reductions. The expenses excluded from the relevant base consist of two main categories of costs.

The first is Contractual Obligations and Policy Commitments, which includes expenses over which the University has no control, such as utilities, costs associated with statutory obligations related to safety, hazardous materials, etc., contractual obligations with other institutions (colleges, Federated Universities), and costs that are dictated by University Policy, in particular the cost of library acquisitions. The second category is the funding used for student aid.

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[11] The University is organized into operating "Divisions", which are in-turn divided into academic "Departments". Most, but not all, Divisions are multi-departmental.

The relevant base for 2004-05 was $523.9 million. For 2005-06, it is $568.2 million. These are the total funds that are actually available to academic and administrative divisions to cover their operating expenses.

Since UTFA compensation is a significant component of the University's annual operating expense (approximately 30% and almost 60% of the relevant base), any increase to UTFA salaries and benefits will have a significant impact on the University's operation. For example, the University has modelled for a 2% ATB increase plus normal PTR increases in 2005–06; in the absence of additional uncommitted revenue, every 1.0% ATB increase above the budgeted ATB increase will require other expenditures to be reduced by approximately $2.8 million to comply with Governing Council's accumulated deficit limit of 1.5% at the end of the budget period in 2010.

The University acknowledges that faculty and librarians are essential to its mission, but its strategy must be to support its faculty and librarians within the context of its extensive and comprehensive academic and financial strategic plan. This strategy is to recruit, retain and support its faculty and librarians, who are already paid more than all their Canadian peers, by accomplishing a number of broad, "enabling" objectives. For example, *Stepping UP* includes the following objectives:

- The President and Provost will establish a working group to coordinate the development of programs to support the efforts of academic units to make the University of Toronto an "employer of choice" for faculty, with special attention to faculty early in their careers who are part of dual career couples.

- The University will make every effort to ensure that teaching potential is an important consideration in making new faculty appointments and that new faculty are enabled to become excellent teachers.

- We will provide the highest quality of research infrastructure our resources and our ingenuity permit.

- As part of our effort to enable the research of new faculty, every department should develop programs and strategies to improve the success of new faculty in grant applications.

- The University of Toronto should be viewed as an employer of choice by highly skilled employees from a diversity of backgrounds.

- We will make it possible for qualified staff members to create a career trajectory to increasingly responsible positions.

d. Government funding commitment is not available to fund compensation

In May 2005, the province responded to the Rae Report with its plan for postsecondary education. As part of the plan, it committed $1.2 billion to increase the annual operating budgets of institutions in the post-secondary education system (including all Ontario Universities and Colleges of Applied Arts and Technology) by 2009-10. While the direction of the provincial budget is a very positive development, the amount of money that will be available to the University of Toronto is not yet known and, in general, the University's budget outlook has not changed as a result of the provincial budget. (See Moody's Investor Service analysis at Tab 10 and Dominion Bond Rating Service analysis at Tab 11.)

Ontario universities are currently discussing the allocation of budget monies with the province. What is currently known is that $282 million will be provided to *all* Ontario universities for 2005-06 in five "funding envelopes" (see table below). Allocation of the remaining monies between 2006 and 2010 has not yet been determined.

Funding Envelopes (all Universities, 2005 – 2006)	
Envelope	**Investment (000,000s)**
Quality	$121
UG Enrolment Growth	$65
Expand Graduate Education	$19
Tuition Stabilization	$58
Medical and Clinical	$19

The only envelope that is arguably available to fund salary and benefit increases is the "quality" envelope. The University will receive approximately $16 million in the 2005-06 "quality" envelope. This money will effectively replace the $16 million in 2005-06 funding lost when the province capped its Ontario Quality Assurance Fund. Since the University Budget was not adjusted to reflect this loss (see Tab 5, page 48), the $16 million *will have no impact on the 2005-06 Budget*. In other words, any increase in faculty compensation that exceeds the amount modelled in the budget will likely have to be met through expenditure reductions that will have a negative impact on the quality of education that the University wishes to provide.

e. The province expects that new money be spent on promoting excellence

It should also be noted that any money provided in the "quality" envelope in years beyond 2005-06 will be subject to an expectation that it be spent on specific measures to improve the quality of education. Accountability is a strong theme in the Rae Report and, in response, the province has already passed legislation that will make Ontario universities subject to the *Freedom of Information and Protection of Privacy Act*. As mentioned above, Ontario universities are also expected to be required to participate in the annual National Survey of Student Engagement so that quality improvement can be measured and assessed.

Large investments into ATB and benefit increases are inconsistent with this expectation. As the Rae Report emphasized at page 17, new money will not improve the quality of postsecondary education if it is swallowed by across-the-board salary increases.

> There needs to be a candid discussion – and consequent decisions – to ensure that new money does not simply translate into much higher, across-the-board salary increases. Pay systems should be sufficiently flexible that real merit and outstanding performance can be appropriately rewarded. Student contact, mentoring and teaching excellence have to be strong components of compensation incentives. If substantial amounts of new money are simply swallowed by the existing system, without improvements in the quality of the student experience, nothing much will have been achieved. Both governments and students would rightfully feel that an opportunity had been squandered. It is well within human will and ingenuity to ensure that new money means better and more tangible results.

The Minister of Finance confirmed the government's expectations in the 2005 Ontario Budget at (Tab 12, page 17):

> These new operating investments in colleges and universities will fund enrolment growth, expand graduate education and create new faculty positions. The investments will result in improvements to the student learning experience by increasing contact between faculty and students, and by providing better student services, and will result in higher quality research. Overall, quality will improve. The government's expectation is that this historic investment will not simply be used to enrich compensation packages within the system.

f. This expectation is consistent with the University's priorities and mission

The recognition of merit is fundamental to the University's mission as reflected in its *Stepping UP* objectives (particularly those which relate to rewarding excellent teaching), and the strategic financial planning which has been developed to support that plan. This significance was best explained in 1993 in the Final Report of the Committee to Review the Administration of PTR. In response to complaints that subjective evaluation of merit was unfair, at page 4 the Committee stated:

> [The Committee] decided in the end that to abandon merit as the basis for annual PTR career development awards would fly in the face of a 20-year consensus among faculty members, librarians and administrators, a consensus fully shared by the Faculty Association. It may well be true that the University can improve the way in which it evaluates colleagues and communicates the evaluation, but to deny the centrality of the merit principle as the dominant force which propels every faculty member and librarian through the salary structure would run counter to this University's culture and aspirations. Faculty members and librarians are hired and promoted on the basis of their merit. As this University strives to improve its standing as one of the finest research universities in the world, with the best graduate, undergraduate and professional programs we can develop, it would be wrong to remove the merit principle as the driving force behind its academic policy.

The nature of work at a university – in which each individual contributes to scholarship in a very different way – underlies the need to reward individual contribution. Rewarding merit reinforces the climate of excellence that attracts and retains the best scholars and students. This has long been the University's belief. In an extract from the Budget Committee's Recommendations to Governing Council for the 1973 – 74 estimates, which recommend the acceptance of a scheme to provide for a merit component of salary, the following statement was made:

> In the event that funds available are insufficient to permit award of merit increases as proposed, we envisage reductions in salary scale as being necessary.

The basic thrust of the University's position in bargaining has been to give precedence to the PTR scheme over across-the-board increases. The Dispute Resolution Panel recognized both parties' commitment to PTR in its 1993 decision.

Now, particularly in light of new pressure for transparency and accountability, the University must be prepared to demonstrate to the government (and the public) the outcomes it generates from public funding and, as the Rae Report recognized, must ensure that it continues to compensate faculty and librarians in a manner that encourages the highest quality in teaching, research and scholarship and service.

g. UTFA proposal must be assessed in this context

The University values its faculty members and librarians and recognizes their fundamental importance to its mission. The University faculty and librarians receive the highest academic salaries of any university in Canada. The salary increases sought by UTFA are not justified by an assessment of comparator institutions. Further, implementation of UTFA's proposals for salary and benefits would increase the projected cumulative deficit and require expenditure reductions that would limit the University's ability to fulfill its academic objectives. Given the context described above *and in a one-year agreement*, providing faculty members and librarians with a modest yet reasonable ATB increase and supporting the merit-focussed PTR scheme is most consistent with the University's fiscal reality, the achievement of its academic mission and its bargaining objectives. The University submits that the Panel should adhere to the principle of replication and make a recommendation that is strongly based in the above-described context and reflective of the University's objectives.

III SUBMISSIONS ON JURISDICTION AND ROLE OF THE PANEL

a. The Panel's Jurisdiction

The Panel has been appointed pursuant to Article 6 of the Memorandum of Agreement to conduct a hearing and to issue a report. The jurisdiction of the Panel is defined by subsections 16 – 19 of Article 6:

> 16. The Dispute Resolution Panel shall make every reasonable effort to issue a unanimous report which shall attempt to reflect the agreement the parties would have reached if they had been able to agree. In endeavouring to reach a unanimous report the members of the Panel may confer with their appointing parties. The members of the Panel shall make their decision without taking into account the possibility that it may be repudiated by the Governing Council.
>
> 17. The Dispute Resolution Panel shall prepare a report setting out recommendations for terms of settlement together with reasons in support thereof.
>
> 18. Before preparing a report, the Dispute Resolution Panel shall hold a hearing after giving both parties appropriate notice. The Dispute Resolution Panel shall determine its own procedure but shall allow each party to:
>
> (a) be represented by counsel or an agent;
>
> (b) call evidence and make submissions and arguments, oral and written; and
>
> (c) conduct cross-examination of witnesses at the hearing.
>
> 19. The jurisdiction of the Dispute Resolution Panel shall encompass only those unresolved matters relating to salaries and benefits that have been referred to it by the parties. The Dispute Resolution Panel shall, however, take into account the direct or indirect cost or saving of any change or modification of any salary or benefit agreed to by the parties in making its recommendation for terms of settlement.

b. The Panel's Role

Article 6 of the Memorandum of Agreement provides a dispute resolution mechanism for matters unresolved in bargaining; however, it does not include any specific criteria to be of assistance to the parties during negotiations. The Panel will be guided by principles they determine to be relevant to the dispute before them and by the direction in Article 6 to "attempt to reflect the agreement the parties would have reached if they had been able to agree."

The University submits that the Panel should be guided by the following principles.

- *Replication.* The Panel should attempt to replicate, using the best available information, the bargaining result which would have occurred had the parties been entitled to settle their dispute through strike or lockout.

- *The Fiscal Context.* In our submission, it is impossible to determine what agreement would have resulted from free collective bargaining without due regard to the fiscal context in which that bargaining would have been negotiated. The necessity to address the current consequences of underfunding, as well as the accountability expectations attached to government funding; together with the continuing competitive position of salary and benefits at the University of Toronto, must have a major impact on the determination of a settlement and constitute more important criteria than salary increases at other universities.

- *External comparisons.* The University acknowledges the relevance of comparison with other academic unit settlements and agreements which must be understood in the institutional context surrounding the settlements, but submits that other settlements and agreements, particularly those in the broader public sector, are also relevant comparators.

- *Total compensation.* The Panel should assess total compensation and should not examine provisions in isolation.

- *Demonstrated need.* The Panel should only change salaries or benefits if a party can show a demonstrated need.

Replication

The Panel should attempt to replicate, using the best available information, the bargaining result which would have occurred had the parties been entitled to settle their dispute through strike or lockout.

The rationale for the replication principle was described by Arbitrator Adams in *Re Beacon Hill Lodges and SEIU* (25 June 1982) (at pages 4 - 5), as follows:

> The ideal of interest arbitration is to come as close as possible to what the parties would have achieved by way of free collective bargaining in the sense that to do more would affect an unwarranted subsidization of nursing home employees by the public and to do less would result in nursing home employees subsidizing the public. Efforts must be made to find comparable community standards against which the position of particular parties can be assessed. However, free collective bargaining determines wages in a social, economic and political environment. While wages are "discussed" at the bargaining table in terms of cost of living trends, productivity, justifications for the catch-up and the overall compensation, such arguments are ultimately subject to the inherent bargaining power of parties to impose their wills on each other. It is this aspect of free collective bargaining that interest arbitration cannot reproduce. But, because there is no exact litmus test for bargaining power, boards of arbitration try to set out in detail a rational justification for their economic awards.

By the language of subsection 16 of Article 6, the Parties have agreed that the Panel's jurisdiction is to make a recommendation in accordance with the replication principle. This was recognized by the Chair of the Dispute Resolution Panel stated in *Governing Council of the University of Toronto and the University of Toronto Faculty Association* (23 December 1986) (at pages 5 - 6):

> By that formulation, the parties moved away from the adjudicative model of interest arbitration, agreeing instead to the so-called "replication model": where the decision-maker is to try to replicate the agreement that the parties would have reached if they had been left to the ordinary devices of collective bargaining – including economic sanctions. Put simply, at what point would the Association and its membership have settled rather than commence or continue a strike (if the strike option had been available)? At what point would the University have settled rather than commence or continue a lockout (if the lockout option had been available)? In theory, the answers to those two questions are the same. And, the tasks of the decision-maker, upon a review of the evidence and the submissions of the parties, is to discern the likely point of common ground.
>
> …
>
> What it does mean is that the role of the decision-maker is no longer simply to identify the criteria – either contractual or jurisprudential – around which to pivot a detached and dispassionate award. Rather, the essential function of the decision-maker becomes the identification of the factors which likely would have influenced the negotiation behaviour of the particular parties in the actual circumstances at hand.

In 1993, the Dispute Resolution Panel again considered the application of the replication model in the context of a disastrous economic climate (at pages 12 – 13):

> In common with virtually all public sector employers, this university has not been immune from the effects of the recession; as the provincial government is forced to reduce and even later draw back from funding commitments. No doubt, there will always be room for argument about whether the university administration might have managed things differently or better. But in the final analysis, and leaving aside situations of manipulation or rampant waste, the negotiators of collective agreements (or, as here, the functional equivalent) must take things as they find them; and so must their interest arbitration boards. Put succinctly, for an interest arbitration award to be seen as faithful to the replication model, it must have a recognizable air of reality to it.
>
> ...
>
> As we have already commented, the prevailing economic climate in Ontario has lately been savagely recessionary. The oppressive character of the recession can be measured both in terms of its depth and its duration. Among other consequences of the recession has been a dampening of both private and public sector pay demands and bargaining outcomes. <u>Harkening back to the replication model, we are of the view that these economic realities of the day would have profoundly influenced the eventual product of the parties' direct negotiations according to the normal processes of collective bargaining - including the threat or actuality of a strike or lockout.</u>" (Emphasis added)

Fiscal Context

In our submission, it is impossible to determine what agreement would have resulted from free collective bargaining without due regard to the fiscal context in which that bargaining would have been negotiated. The necessity to address the current consequences of underfunding, as well as the accountability expectations attached to government funding; together with the continuing competitive position of salary and benefits at the University of Toronto, must have a major impact on the determination of a settlement and constitute more important criteria than salary increases at other universities.

External Comparison

In *(Re) McMaster University and McMaster University Faculty Association* (1990), 13 L.A.C. (4th) 199 (at pages 204 - 205), Arbitrator Shime stressed that faculty-to-faculty comparisons is not the only relevant factor in assessing compensation in an academic unit interest arbitration:

> In conclusion, it is my view, that university salary determination should be based on the following factors in the order in which they appear:

(1) Salary schedules and benefit comparisons with other universities in Ontario: see, e.g., principles concerning individual compensation as agreed between McMaster University and the faculty association.

(2) Salary schedule and benefit comparisons with universities outside of Ontario.

(3) Comparisons within the education sector such as high schools and community colleges.

(4) Comparisons with other professional salaries, e.g. -- lawyers, doctors, engineers, social workers.

(5) Comparisons with the Consumer Price Index and Individual Composite Index as well as other relevant indices.

(6) All comparisons should be based on total compensation which would include pensions and other benefits. [citations omitted]

Total Compensation

The University submits that the Panel should, to the greatest extent possible, assess total compensation and should not examine provisions in isolation.

The principle of comparison based on total compensation – which is reflected in the language of subsection 19 of Article 6 – has long-enjoyed acceptance among interest arbitrators. Arbitrators have accepted that meaningful comparisons cannot be made by looking at each provision in isolation. In *Re 46 Participating Hospitals and SEIU and Local Unions* (1 June 1981) Professor Paul Weiler explained the reason why an assessment of the totality of compensation and benefits should form the basis of any interest arbitration award:

> I have always thought it essential not to look at any such item in isolation. With rare exceptions any such proposed improvement looks plausible on its face. The Union can point to some number of bargaining relationships where this point has already been conceded. It may even be true that, taken one by one, no single revision will actually cost that much. But, cumulatively, these changes can mount up substantially. Thus, sophisticated parties in free collective bargaining look upon their settlement as a total compensation package, in which all of the improvements are costed out and fitted within the global percentage increase which is deemed to be fair to the employees and sound for their employer that year. In fact, the general wage hike itself generates corresponding increases in the vast bulk of the compensation package represented by the wages, since it increases the regular hourly rate upon which holidays, vacation, overtime and other premiums depend. This means that in any one negotiating round only limited room is left available for improvements in the scope and number of these contract revisions, and the Union must establish its own priorities among these various fringe items.
>
> These facts of free collective bargaining must be kept in mind if arbitration is, indeed, to try to replicate the results which would be achieved in the former setting. The reason is that the arbitration model does not inherently require the parties to make these tough choices in their negotiating positions. Inside the bargaining unit, for example, one group

> of employees may want higher pensions, another segment seeks longer vacations, a third is interested in a new dental plan, while others simply want as much higher take-home pay as possible (depending on their respective positions, ages, family situations, and so on). In the arbitration context, the Union does not have to worry that if it asks for too many things at once, the result will be a painful work stoppage. Indeed, the Union may be tempted -- as also the Employer which has its own diverse constituencies which it does not want to alienate -- to carry all of these initial demands forward to the arbitration hearing, on the theory it has nothing to lose by asking. And, indeed, a party may even hope that the more improvements it does ask for, the more will be given. Certainly it is essential to the integrity of arbitration that these latter assumptions not be reinforced.

Any selection of favourable individual precedents lacks significance without comparison to the value of all wages and benefit components as a whole. No doubt, examples can be found of generous or favourable awards with respect to any individual proposal, but until the entire package is considered, that precedent is of little value. Accordingly, UTFA must do more than compare proposed benefits to those granted by other universities or employers in isolation without also addressing relative total compensation.

Demonstrated Need

The University submits that the Panel must hear compelling evidence that shows a demonstrated need for the change in existing language or addition of a new benefit before the same is granted. This principle has been recognized in a number of arbitration awards.

For example, in the 1979 final offer selection between the Dufferin County Board of Education and Ontario Secondary Schools Teachers' Federation (19 March 1979) (at page 10), Arbitrator Kennedy said:

> ...an arbitrator or a final selector must set strict standards to be met before ruling that the clause be imposed upon the reluctant party ... I feel it is incumbent upon an arbitrator or a selector to require that the party proposing the clause establish firstly that there is a demonstrated need for the provision desired and secondly that the proposed solution will in fact, deal with the need which is stated.

IV SUMMARY OF OUTSTANDING ISSUES

a. Matters Settled – Mandatory Retirement

On March 14, 2005, the parties entered an agreement to end the mandatory retirement of academic staff. This agreement includes provisions for unreduced early retirement as well as a three year phased retirement program which includes phased reduction to part-time appointments while continuing to earn pension benefits on the basis of full-time salary plus a significant retiring allowance. The University has also made a Statement of Commitment to Retired Faculty and Librarians (see Tab 13).

b. Matters Not in Dispute

Based on the parties' exit positions at the end of mediation, the University believes the following changes to salary and benefits are not in dispute.

- Effective July 1, 2005 the minimum salary for Librarian III and IV to be increased from $48,600 to $62,500 and from $55,400 to $75,700 respectively.
- Effective July 1, 2005 the salary ceiling for Librarian II ($51,200) to be eliminated.
- Effective July 1, 2005 the minimum salary for Lecturers to be increased from $52,100 to $62,500.
- Effective July 1, 2005 the minimum per course stipend rate payable to part-time non-sessional appointments represented by UTFA and faculty members teaching on overload to be increased from $10,338 to $12,500.

c. Matters in dispute

The position taken by the UTFA at the conclusion of mediation, set out in Tab 3, sets out a number of issues which fall outside the jurisdiction of the Panel. Article 6 of the Memorandum of Agreement makes clear, in section 19, that "the jurisdiction of the Dispute Resolution Panel shall encompass only those unresolved matters relating to salaries and benefits that have been referred to it by the parties". All the issues described in the UTFA Position in Section C, although described as "Salary and Benefit

Related Issues" are not salary and benefit issues at all but requests for provisions on the provision of information by the university to UTFA and are not properly before the Panel. Neither are the Memorandum issues in Section D or E General Issues item (i) or, to the extent that it relates to "senior research associates", item (ii).

The following table summarizes UTFA's exit position with respect to salary and benefits at the end of mediation and the University's one-year proposal, organized into five issues.

Issue	University Position	UTFA Position
Salary	2.5 % ATB increase effective July 1, 2005	4.0% ATB increase effective July 1, 2005
	Distribute a special one time PTR allotment July 1, 2005 calculated on the basis of $500 per FTE for Professoriate and prorated amounts for Lecturers and Librarians. Ten percent of the additional amount will be set aside to be added to Provostial and Decanal merit pools.	Each PTR pool shall be increased by 1.0% of total salary in that pool, effective July 1, 2005.
		An amount of 0.5% of total salary shall be set aside for the purpose of addressing salary inversion and anomalies. Allocation shall be retroactive to July 1, 2005.
		The senior salary category for faculty and librarians shall be abolished, effective June 30, 2006.
Pension Benefits	Maintain current position	All retirees shall receive augmentation to their pensions in an amount equal to full inflation catch-up as of July 1, 2005. This applies to all pensions from RPP, OISE and SRA.
		At the time of retirement, individual faculty and librarians shall have the option of receiving a monthly pension or a lump-sum payment equal to the commuted value of the individual's pension. Those who opt to receive the lump-sum payment shall be eligible to receive benefits on the same basis as those receiving a monthly pension

Issue	University Position	UTFA Position
Medical Benefits	A Health Care Spending Account ("HCSA") will be introduced effective July 1, 2006 as an alternative vehicle for funds available under the Professional Expense Reimbursement ("PER"). Prior to July 1st of each University Year (July 1st to June 30th), Faculty members and Librarians entitled to the PER will be able to elect the following allocation of the PER funds for that University Year: 100% to the PER (default election); 50% to the PER and 50% to the HCSA; 100% to the HCSA. The timing and form of the election will be as prescribed by the University, subject to consultation with the Faculty Association, and the election will be irrevocable.	The current benefit for massage therapy, physiotherapy, and chiropractic care shall be increased to $1000 maximum annually and shall be extended to include the services of a licensed optometrist. Orthodontics: Expenses shall be covered with the employer paying 50% of orthodontic expense costs up to $3,500 per person per lifetime for active and retired faculty and librarians and their dependent children. The long-term disability plan shall be modified to enable disability pension recipients to return to work on a part-time basis for indefinite periods of time without financial penalty. A new premium rate structure shall be introduced to provide the following options: Member, Member plus, Member plus 20 or more. Faculty and librarians who retired before 1981 shall have the same benefits as those who retired during and after 1981, effective January 1, 2006. UTFA shall receive full and complete access to the rules, regulations, and guidelines that Green Shield follows in determining whether or not to pay claims made through the medical and dental insurance plans.
PER	Introduce a Health Care Spending Account as an alternative vehicle for funds available under the Professional Expense Reimbursement (PER) as described above.	The PERA shall be increased from $775 to $1000 per year effective July 1, 2005. All part-time faculty represented by UTFA shall receive expense reimbursement pro-rated at 33% per full-course equivalent of the PERA rate effective July 1, 2005.
Research and Study Days for Librarians	Maintain current position	The annual number of Research and Study Days for librarians shall be increased from 5 to 20.

V COSTING DOCUMENTS

As noted above, subsection 19 of Article 6 requires the Panel to take into account the direct or indirect cost or saving of any change or modification of any salary or benefit agreed to by the parties in making its recommendation for terms of settlement.

The following pages include information on the current total compensation of faculty and librarians and the cost of proposals, where costing is possible. The underlying calculations for the cost of proposals are included at Tab 14.

a. Total Compensation Reports

UNIVERSITY OF TORONTO
SUMMARY OF TOTAL COMPENSATION - ALL STAFF
FOR THE PERIOD MAY 1, 2004 TO APRIL 30, 2005
(REFLECTING PENSION CURRENT AND PAST SERVICE COSTS ACTUALLY PAID)

	Amount $	%
Salaries and Wages (Less Employees' benefit plan contribution)	470,570,583	71.60%
Employees' Benefit Plans Contributions	55,586,886	8.46%
Total Salaries and Wages	526,157,468	80.06%
University's Benefit Plans Contributions	131,080,011	19.94%
Total Compensation	657,237,479	100.00%

	Amount			%		% of Total Compensation		
BENEFIT PLANS	**Total**	**University's**	**Employees'**	**University's**	**Employees'**	**Total**	**University's**	**Employees'**
Pension Plans (including SRA)	99,245,197	72,947,823 *	26,297,374	73.50%	26.50%	15.10%	11.10%	4.00%
Legislative Plans:								
Canada Pension	29,683,848	14,841,924	14,841,924	50.00%	50.00%	4.52%	2.26%	2.26%
Employment Insurance	14,148,263	7,885,871	6,262,392	55.74%	44.26%	2.15%	1.20%	0.95%
Employers' Health Tax	11,275,654	11,275,654	-	100.00%	0.00%	1.72%	1.72%	0.00%
Work place Safety Insurance	1,528,544	1,528,544	-	100.00%	0.00%	0.23%	0.23%	0.00%
	56,636,309	35,531,993	21,104,316	62.74%	37.26%	8.62%	5.41%	3.21%
Medical Plans:								
Extended Health Care	10,590,442	7,773,332	2,817,110	73.40%	26.60%	1.61%	1.18%	0.43%
Dental	8,829,677	6,911,751	1,917,926	78.28%	21.72%	1.34%	1.05%	0.29%
Semi-Private Hospitalization	942,000	693,092	248,908	73.58%	26.42%	0.14%	0.11%	0.04%
Vision Care	425,203	209,059	216,144	49.17%	50.83%	0.06%	0.03%	0.03%
	20,787,322	15,587,234	5,200,088	74.98%	25.02%	3.16%	2.37%	0.79%
Life & LTD								
Disability insurance	5,164,620	4,131,639	1,032,981	80.00%	20.00%	0.79%	0.63%	0.16%
Group Life Insurance	3,286,270	2,113,622	1,172,648	64.32%	35.68%	0.50%	0.32%	0.18%
	8,450,890	6,245,261	2,205,629	73.90%	26.10%	1.29%	0.95%	0.34%
Other:								
Joint Membership	1,177,785	410,335	767,450	34.84%	65.16%	0.18%	0.06%	0.12%
Union Based Plans	369,394	357,365	12,029	96.74%	3.26%	0.06%	0.05%	0.00%
	1,547,179	767,700	779,479	49.62%	50.38%	0.24%	0.12%	0.12%
TOTAL BENEFITS	186,666,896	131,080,011	55,586,886	70.22%	29.78%	28.40%	19.94%	8.46%

* Includes $24.6 million for RPP and SRA deficit reduction, as per pension contribution strategy approved by the Business Board on January 2004.

Note:
Excluded from the benefit plans above, are the non-contributory benefits such as pensioner's medical benefits, scholarships, staff waivers, dependent and SCS fee waivers, maternity leave, professional development, severance, employee assistance, educational assistance, medical benefits for LTD and pre-81 retiree HCEA.

UNIVERSITY OF TORONTO
SUMMARY OF TOTAL COMPENSATION - FACULTY AND LIBRARIANS
FOR THE PERIOD MAY 1, 2004 TO APRIL 30, 2005
(REFLECTING PENSION CURRENT AND PAST SERVICE COSTS ACTUALLY PAID)

	Amount $	%
Faculty and Librarians Salaries and Wages (Less Employees' benefit plans contributions)	240,470,477	71.36%
Employees' Benefit Plans Contributions	26,356,149	7.82%
Total Salaries and Wages for Faculty and Librarians	266,826,626	79.18%
University's Benefit Plans Contributions	70,171,504	20.82%
Total Compensation for Faculty and Librarians	336,998,130	100.00%

	Amount			%		% of Total Compensation		
BENEFIT PLANS	Total	University's	Faculty and Librarian's	University's	Faculty and Librarian's	Total	University's	Faculty and Librarian's
Pension Plans (including SRA)	59,749,522	45,292,767 *	14,456,755	75.80%	24.20%	17.73%	13.44%	4.29%
Legislative Plans:								
Canada Pension	11,403,428	5,701,714	5,701,714	50.00%	50.00%	3.38%	1.69%	1.69%
Employment Insurance	5,339,999	2,956,302	2,383,697	55.36%	44.64%	1.58%	0.88%	0.71%
Employers' Health Tax	5,882,845	5,882,845	-	100.00%	0.00%	1.75%	1.75%	0.00%
Work place Safety Insurance	658,631	658,631	-	100.00%	0.00%	0.20%	0.20%	0.00%
	23,284,903	15,199,492	8,085,411	65.28%	34.72%	6.91%	4.51%	2.40%
Medical Plans:								
Extended Health Care	4,366,728	3,167,768	1,198,960	72.54%	27.46%	1.30%	0.94%	0.36%
Dental	3,578,684	2,771,382	807,302	77.44%	22.56%	1.06%	0.82%	0.24%
Semi-Private Hospitalization	393,335	286,538	106,797	72.85%	27.15%	0.12%	0.09%	0.03%
Vision Care	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
	8,338,747	6,225,688	2,113,059	74.66%	25.34%	2.47%	1.85%	0.63%
Life & LTD								
Disability insurance	2,585,828	2,068,460	517,368	79.99%	20.01%	0.77%	0.61%	0.15%
Group Life Insurance	1,890,402	1,150,288	740,114	60.85%	39.15%	0.56%	0.34%	0.22%
	4,476,230	3,218,748	1,257,482	71.91%	28.09%	1.33%	0.96%	0.37%
Other:								
Joint Membership	678,251	234,809	443,442	34.62%	65.38%	0.20%	0.07%	0.13%
Union Based Plans	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
	678,251	234,809	443,442	34.62%	65.38%	0.20%	0.07%	0.13%
TOTAL BENEFITS	96,527,653	70,171,504	26,356,149	72.70%	27.30%	28.64%	20.82%	7.82%

* Includes $24.6 million for RPP and SRA deficit reduction, as per pension contribution strategy approved by the Business Board on January 2004.

Note:

Excluded from the benefit plans above, are the non-contributory benefits such as pensioner's medical benefits, scholarships, staff waivers, dependent and SCS fee waivers, maternity leave, professional development, severance, employee assistance, educational assistance, medical benefits for LTD and pre-81 retiree HCEA.

b. Cost of University Proposal

COSTING OF UofT SALARY AND BENEFIT PROPOSALS FOR 2004/05 **CONFIDENTIAL**
(thousands of dollars)

* documents attached

		Relevant Base $	Annual Cost $
Estimated base salaries for Faculty and Librarians as of June 30, 2005 (includes teaching stipends)		**277,707**	
Cost of full PTR			***$5,655***
***A)* A COMPENSATION**			
1) Salary - ATB Increase			
2.50% ATB			***$6,700***
2) Salary Scale			
(i) Increase PTR amounts by $500	*		***$1,171***
(ii) Librarian III minimum to be raised from $48,900 to $62,500	*		***$67***
Librarian IV minimum to be raised from $55,700 to $75,700	*		***$0***
(iii) Lecturer minimum salary to be raised from $52,100 to $60,000	*		***$129***
3) Per-Course Payments			
(i) The rate per full course be increased from $10,338 to $12,500 effective July 1, 2005	*		***$2,032***
Sub Total (including PTR)		**277,707**	***$15,754***
Estimated base benefits (excluding statutory benefits) for Faculty and Librarians as of June 30, 2005		**44,850**	
Estimated increase in salary related benefits (Pension, LTD and Group Life) (excludes stipend rates)			***$1,564***
Sub Total - Salary (including increase to salary related benefits costs)			***$17,318***
Relevant Base- salary and non-statutory benefits		**322,556**	
TOTAL COST OF ALL PROPOSALS			***$17,318***

c. Cost of UTFA Exit Position

COSTING OF UTFA SALARY AND BENEFIT PROPOSALS
FOR 2004/05
(thousands of dollars)

CONFIDENTIAL
24-Nov-05
* documents attached

				Relevant Base	Annual Cost
				$	$
	Estimated base salaries for Faculty and Librarians as of June 30, 2005 (includes teaching stipends)			**277,707**	
	Cost of full PTR				***$5,655***
A)	**A**	**COMPENSATION**			
	1)	**Salary - ATB Increase**			
		4.00% ATB			***$10,720***
	2)	**Salary Scale**			
		(i) Increase PTR amounts by 1% of the Salary Base of those eligible for PTR	*		***$2,651***
		(ii) Adjustment Fund of 0.5% of the Salary Base of those eligible for PTR			***$1,325***
		(iii) Librarian III minimum to be raised from $48,900 to $62,500	*		***$67***
		Librarian IV minimum to be raised from $55,700 to $75,700	*		***$0***
		(iv) Lecturer minimum salary to be raised from $52,100 to $60,000	*		***$129***
	3)	**Per-Course Payments**			
		(i) The rate per full course be increased from $10,338 to $12,500 effective July 1, 2003	*		***$2,032***
		(ii) All part-time faculty represented by UTFA to receive expense reimbursement prorated to 33% per FCE of PERA rate			***not costed***
		Sub Total (including PTR)		**277,707**	***$22,579***
		Estimated base benefits (excluding statutory benefits) for Faculty and Librarians as of June 30, 2005		**44,850**	
		Estimated increase in salary related benefits (Pension, LTD and Group Life) (excludes stipend rates)			***$2,342***
		Sub Total - Salary (including increase to salary related benefits costs)			***$24,921***

4) Pensions

i) (a) All retirees to receive augmentation of their pensions in an amount equal to full inflation catch-up as of July 1, 2005. This applies to pensions from UofT, OISE/UT and SRA.

	Pension Plans	SRA	Total	
Increase in Accrued Liability:	$ 4,206	$ 392	**$ 4,598**	
Annual Special Payment:	$ 434	$ 41	**$ 475**	***$475***

Sub Total Pension Plan Improvements	***$475***

B **Benefits**

Medical and Dental Benefits

Total Estimated Cost to Provide all Health and Dental Plan improvements for Active and Retired faculty members and librarian plan members and their dependants

i)	Add Optometrists AND increase cap to $1,000	*	***$557***
ii)	Add Orthodontics @50% - $3,500/per lifetime	*	***$273***
iii)	Full benefits for pre 1981 retirees	*	***$156***
	Sub Total Benefit Improvements		***$987***

C ***Other Issues***

(i) Expense Reimbursement

Expense Reimbursement to increase from $775 to $1000 for full-time faculty and librarians	*	***$560***

(ii) Librarian Research and Study Leave increased from 5 to 20 days

Each Librarian entitled to 20 days per year for professional development	*	***$543***

Sub Total Other Issues		***$1,103***
Relevant Base- salary and non-statutory benefits	**322,557**	
TOTAL COST OF ALL PROPOSALS		***$27,486***

VI SUBMISSIONS ON SALARY PROPOSALS

MATTERS NOT IN DISPUTE
Effective July 1, 2005 the minimum salary for Librarian III and IV to be increased to $62,500 and $75,700 respectively
Effective July 1, 2005 the salary ceiling for Librarian II to be eliminated
Effective July 1, 2005 The minimum salary for Lecturers to be increased to $60,000
Effective July 1, 2005 the minimum per course stipend rate payable to part-time non-sessional appointments represented by UTFA and faculty embers teaching on overload to be increased to $12,500

PROPOSALS – SALARY	
University Proposal	**UTFA Proposal**
2.5 % ATB increase effective July 1, 2005 Normal PTR (2.1%) Distribute a special one time PTR allotment July 1, 2005 calculated on the basis of $500 per FTE for Professoriate and prorated amounts for Lecturers and Librarians. Ten percent of the additional amount will be set aside to be added to Provostial and Decanal merit pools.	4.0% ATB increase effective July 1, 2005 Each PTR pool shall be increased by 1.0% of total salary in that pool, effective July 1, 2005. An amount of 0.5% of total salary shall be set aside for the purpose of addressing salary inversion and anomalies. Allocation shall be retroactive to July 1, 2005. The senior salary category for faculty and librarians shall be abolished, effective June 30, 2006.

Faculty and Librarian Rank Structure and Compensation

The academic ranks at the University are: Professor, Associate Professor, Assistant Professor, Lecturer/Sr. Lecturer. Each rank is associated with a nominal minimum salary which is not reflected in actual hiring rates.

Outside the Faculty of Medicine, Professors are generally tenured. For librarians, the ranks are Librarian I-IV. Each librarian rank is associated with a minimum salary and a maximum (ceiling) salary but, again, hiring is done above the floor and the ceiling can be exceeded.

Most librarians in the Librarian III and IV category (by far the most populous category) are permanent status employees. Librarians I and II are contractually limited or probationary. Occasionally, Librarians III and IV are appointed on a contractually limited basis.

Contractually limited term appointments (CLTA's) are appointments not to exceed five years in total. CLTA's normally hold one of the professorial ranks detailed above. Others, for example, visiting professors and clinical appointments in the Faculty of Medicine, have contractual appointments and hold professorial rank.

Senior Salary Group

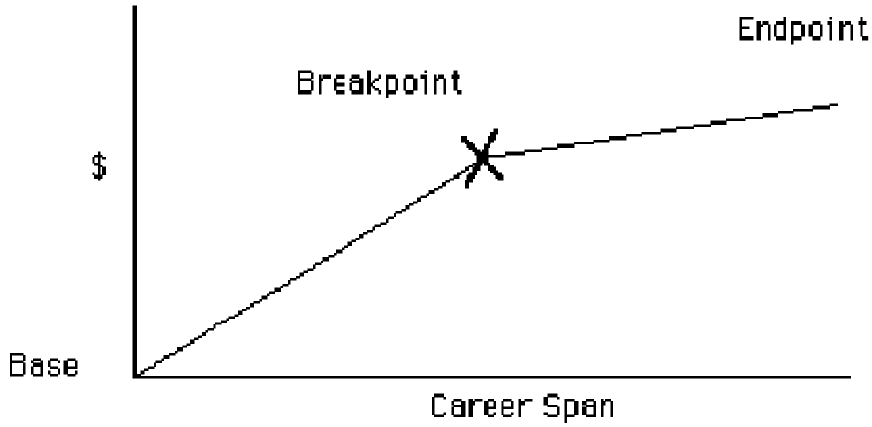
The senior salary group is composed of all professors whose salaries in 2004-05 are in excess of $139,550. For 2005-06 there will be approximately 350 professors in this category.

Faculty and Librarian Compensation

a) PTR/Merit

As part of the salary structure, there has traditionally been a career progress or merit fund created to be distributed to faculty members and librarians. This is known as the progress-through-the-ranks (PTR) scheme. Pursuant to the commitment of the University to rewarding merit, the current PTR plan was first introduced at the University of Toronto in 1973-74 to apply to tenured and tenure stream faculty who held the rank of Assistant Professor, Associate Professor and Full Professor excluding those in the senior salary category. Lecturers and librarians are also covered by PTR schemes.

The PTR Plan is based on three reference points: a base, a breakpoint and an end point. These points determine the rate of opportunity for career progress provided by the Plan as illustrated below:



The plan itself operates on a model which outlines general career opportunity and determines the size of the pool of funds available for recognition of merit from year to year. The rate of increase between the base and the breakpoint is greater than between the breakpoint and the endpoint. In this way, the plan recognizes the need for accelerated salary progress in the early years of a career.

The plans operate as models which determine the increments for merit available to individuals from year to year. While no individual faculty member has an automatic entitlement to a PTR increase for the professoriate, the size of the PTR fund assumes that $2,655 is available per staff member below the breakpoint and $1,515 above. The breakpoint is $119,950. It should be noted that under the existing scheme a specific fund is made available for PTR purposes and the University spends all of that sum on merit payments. The following table includes the corresponding amounts for Lecturers and Librarians who also participate in the PTR scheme. It should be noted that these amounts do not include the additional 5% Dean's Merit Pool.

The following table shows the level of PTR funding. With PTR funding at this level, the average annual PTR increase for UTFA members is approximately 2.1%.

PROFESSORIAL SENIOR SALARY CATEGORY		$139,550
PROFESSORIAL BREAKPOINT		$119,950
Amount in fund per FTE above Breakpoint	$1,515*	
Amount in fund per FTE below Breakpoint	$2,655*	
LECTURER/SENIOR LECTURER and/or **TUTOR/SENIOR TUTOR SENIOR SALARY CATEGORY**		$106,450
LECTURER/SENIOR LECTURER and/or **TUTOR/SENIOR TUTOR BREAKPOINT**		$93,950
Amount in fund per FTE above Breakpoint	$1,165*	
Amount in fund per FTE below Breakpoint	$2,030*	
LIBRARIAN SENIOR SALARY CATEGORY		$108,750
LIBRARIAN BREAKPOINT		$90,900
Amount in fund per FTE above Breakpoint	$1,040*	
Amount in fund per FTE below Breakpoint	$2,080*	
*This amount excludes 5% set aside for allocation through the “5% merit pool.”		

Five per cent of the PTR pool is placed in a special merit pool. Funds from the 5% merit pool are awarded by Deans, the Provost in single department divisions or the Chief Librarian, on the basis of outstanding performance. A 5% merit pool award is in addition to normal PTR. Awards from both funds are added to base salary and accordingly received throughout the recipient’s career.

b) Across-the-Board Increases

In addition to the merit/career progression increases which form part of the salary of faculty and librarians, the University has in the past negotiated across-the-board increases to all faculty and librarians.

c) Senior Salary Category

Increases for senior salary faculty are entirely discretionary and based on demonstrated performance. The increases are paid from the senior salary pool of funds. The pool is calculated on the basis of the individual across-the-board increase plus one above breakpoint PTR increment for each member of the pool. As a result, PTR funds continue to attach to even the highest salary levels in the University. The Senior Salary threshold is $139,550.

The Role of Merit

The University of Toronto shares with many universities in North America a commitment to the advancement and rewarding of merit. This focus applies equally to the students whose academic work is subject to evaluation, as well as to the career and salary decisions of the staff.

The very nature of work at a university leads to differential performance and the need to recognize such performance. In the area of research or creative professional activity, the mission to increase knowledge is a very demanding one. In the majority of fields, staff members are subject to peer review, for example, in applying for grants, or in submitting papers or monographs for publication. Rewarding success in research and teaching enhances the climate of excellence that attracts and retains the best scholars. In the area of teaching, the university has a major responsibility to provide the best possible undergraduate and graduate education. The evaluation of teaching is done both by students and peers. The University is committed to the importance of ensuring that these evaluations are reflected in merit awards.

The role of merit, as a consequence, has been recognized in our policies. The University of Toronto has in the past had a practice of recognizing merit in career decisions. In 1967 when the first written policy and procedures for academic appointments were enacted, it was explicitly stated that tenure would only be granted on the basis of merit. Promotion through the ranks is also based on demonstrated individual achievement. Subsequent policies have continued the principle. The importance of recognizing merit has been endorsed by the Faculty Association through the PTR scheme, as well as by inclusion of the above policies in Article 2 of the Memorandum of Agreement.

The merit scheme is a central element in the compensation structure at the University and its continued existence is essential to the University's mission. The University is committed to a compensation scheme which recognizes meritorious performance.

Assessing the salary proposals

First and foremost, the University submits that the Panel should assess the real value of the parties' salary proposals.

Historically during the bargaining process, UTFA has compared the University's *ATB proposal alone* to the ATB settlements at other Canadian Universities and to CPI increases. An ATB-only analysis is inconsistent with the concept of total compensation and ignores the real impact of the University's PTR scheme. The University's PTR proposal represents a further increase of approximately 2.6% to UTFA members' salaries – 2.1% normal PTR plus the one-time $500 increase per FTE to the PTR pool (which represents an average salary increase of approximately 0.5%). Although the pool is increased for only one year, the PTR awards which are paid to the faculty members and librarians are incorporated into their base salaries.

Although the distribution of PTR increases is based on merit, the total amount of PTR funds spent on salary increases *is not discretionary*. Every dollar contributed to the PTR pool is allocated to UTFA members in the form of salary increases. A PTR based increase costs the University the same as an ATB increase and provides the same benefit to an UTFA member as an ATB increase. The only difference is that a PTR increase must be earned on the basis of merit. The separation of ATB and PTR is not only artificial, it strikes at the heart of the University's PTR merit scheme, which has been accepted by the parties as essential to its mission for over 30 years.

The University submits that it is committed to its salary proposal of 2.5% ATB plus an enhanced PTR – 2.1% plus 0.5% PTR enhancement – because:

- it is fiscally prudent and supportive of the PTR scheme;
- it provides a real wage increase;
- it supports real growth in faculty salaries;
- it maintains superior faculty and librarian compensation;
- it is comparable with significant broader public sector settlements; and,

- it is comparable with other settlements at the University.

a. Fiscally prudent and supportive of PTR

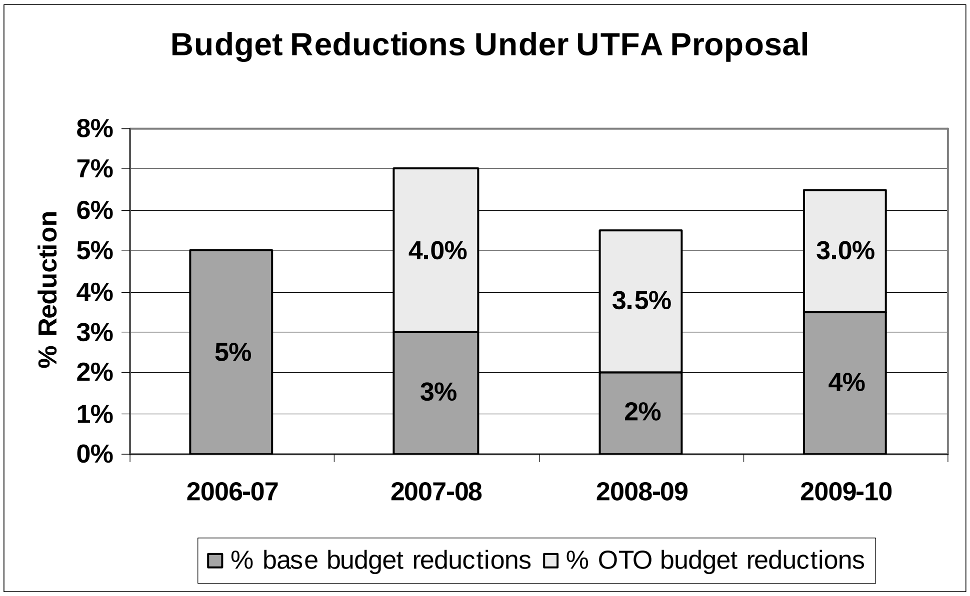
As explained above, the University must exercise fiscal prudence in light of the significant demands on its operating budget and budget outlook.

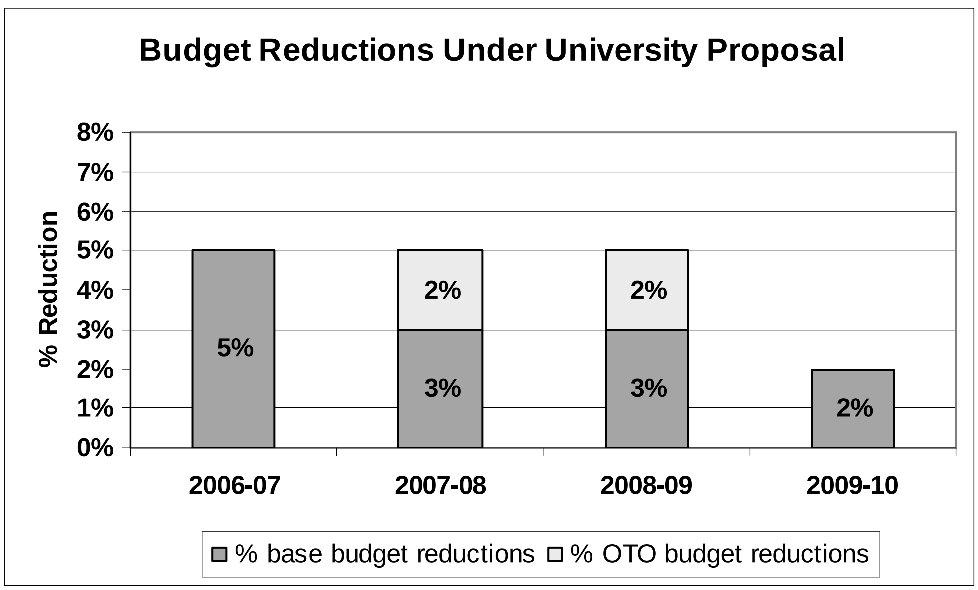
As also explained above, since the University has planned for an accumulated budget deficit equal to the maximum allowed under Governing Council policy, any expenditure which is not included in the budget model will need to be funded through further expense reductions in the planning period unless it can be covered by unplanned and uncommitted revenue. In other words, what is given to faculty and librarians will result in expenditure reductions elsewhere, particularly limiting the divisions' ability to appoint additional faculty and make other expenditures necessary to address its academic objectives.

We are not suggesting that modelling compensation assumptions ought to be determinative of a compensation award; however, the budget model is the tool to assess the impact to the University of the UTFA proposal.

UTFA's proposal of a 4% increase plus increasing the PTR Pool by 1% would result In additional $76 million to the University's accumulated deficit and would require additional base budget reductions of 2.5% and OTO reductions of 7.5% over the remaining period of the current long range budget guidelines. The University proposal requires additional base budget reductions of 1% and OTO reductions of 1% over the remaining period of the budget.

Another way of looking at the significance of these expenditure reductions is that for each 1% of faculty compensation increase the University requires a decrease of approximately 19 senior faculty members or 29 new faculty members not being hired.





Although UTFA may point to new money promised by the province as reason to discount the impact of its members' salary increase on other University initiatives; as discussed above, only the $16 million quality envelope is not specifically targeted elsewhere and that funding is already subsumed in the current budget model.

Consistent with the historical priority of merit-based increases, its current plans and the province's new expectations, the University has proposed that part of the salary increase for 2005-06 be granted as a one time only increase to the PTR pool. With respect to UTFA's proposal, it must be recognized that in addition to the usual ongoing funding impact of each year's PTR award becoming part of the recipients' base salary, if the PTR pool itself is increased by 1%, the University must also find new dollars to fund that increase to the pool each and every year. This is equivalent to increasing the compensation base by an additional 1% every year forever.

PTR is new base money added to faculty librarian salaries each year. While the amount each individual receives is based on merit, the total PTR dollars delivered each year is based on a funding formula per member, as discussed earlier in this brief. The University's PTR proposal would provide for a one year additional merit amount at an additional base cost of approximately $1.1 million. UTFA's proposal would provide for an additional PTR amount each and every year equivalent to 1% of the salary base, with a first year cost of approximately $2.6 million, and a further $2.6 million added each and every year. The cumulative impact over five years increases the amount spent on compensation by more than $13 million for the entire faculty and librarian PTR scheme as illustrated by Table A and Table B below.

A) Tenure Stream Faculty PTR Only

The following chart illustrates the effect of the UTFA PTR proposals on the PTR costs for the Tenure Stream Professoriate only, over a five year period, using the current salary base and PTR model

Salary Base of Tenure Stream - 2005/06 **$201,564,599**

		UTFA	UofT
Year	Current Model PTR Cost	Cost of Proposed PTR	Cost of Proposed PTR
2005	3,910,998	5,913,843	4,762,346
2006	3,854,739	5,874,477	3,828,405
2007	3,870,300	5,870,832	3,834,390
2008	3,893,043	5,867,916	3,849,951
2009	3,901,422	5,862,813	3,843,966
Total	**19,430,502**	**29,389,881**	**20,119,058**
Cumulative Difference from Current PTR over 5 years		**9,959,379**	**688,556**

Difference between UTFA proposal and U of T Proposal over the 5 years **9,270,823**

Note: PTR Model -Tenure Stream assumes normal retirement dates and replacement hires at assistant professor

B) Entire Faculty and Librarian PTR program

The following chart illustrates the effect of the UTFA PTR proposals on all faculty, librarians and teaching stream PTR over a five year period, and is based on the current PTR cost with no modelling of retirements or replacement salaries.

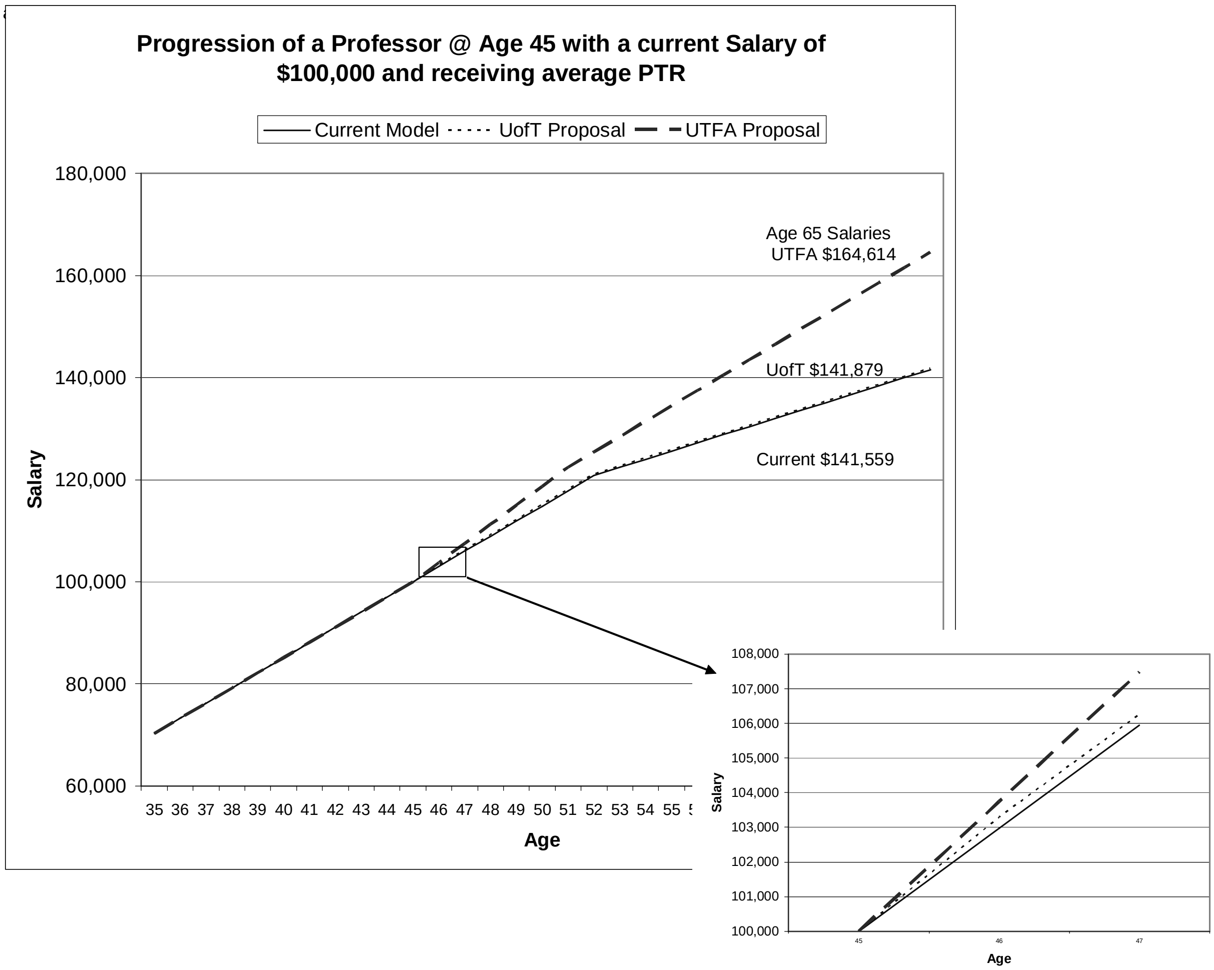
Salary Base of faculty and librarians, excluding teaching stipends - 2005/06 **$265,000,000**

		UTFA	Uof T
Year	Current PTR Cost	Cost of Proposed PTR	Cost of Proposed PTR
2005	5,655,000	8,305,000	6,826,000
2006	5,655,000	8,305,000	5,655,000
2007	5,655,000	8,305,000	5,655,000
2008	5,655,000	8,305,000	5,655,000
2009	5,655,000	8,305,000	5,655,000
CumulativeTotal	28,275,000	41,525,000	29,446,000
Cumulative Difference from Current PTR over 5 years		**13,250,000**	**1,171,000**

Difference between UTFA proposal and U of T Proposal over the 5 years **12,079,000**

Effect of PTR Proposals on the PTR Model

The following chart illustrates the effect the proposals will have on the salary model
for a Professor currently at a salary of $100,000 and age 45
The chart does not include ATB increases.



b. Provides a real wage increase

A 2.5% ATB plus enhanced PTR (2.6%) provides academic staff with a real wage increase.

Tab 15 of the Exhibit Book includes a summary table with monthly all-items CPI for Canada, Ontario and Toronto, as calculated by Statistics Canada. The tables show the following CPI increases for June 2004 to June 2005:

Annual CPI Increase		
Canada	**Ontario**	**Toronto**
1.7%	1.9%	1.6%

The University submits that Toronto inflation rates are most relevant and that any inflation data after the start date of the agreement (June 2005) is irrelevant. Should UTFA wish to rely on CPI data subsequent to June 2005 which captures the recent spike in energy costs, it must acknowledge that energy-related inflation has an equally strong impact on the University. The chart at Tab 16 shows the expected impact of rising energy costs on the University's budget. It shows approximately $10 million in unplanned (and unfunded) utilities costs over the budget planning period.

The University also notes that CPI (which does not account for the impact of price changes on purchasing trends over the short-run) tends to over state inflation. This has been recognized by the Bank of Canada and other economic commentators.

> Because of the difficulties of measuring price changes due to changes in quality of products as well as other variables, the CPI may contain a certain measurement bias that prevents it from giving a completely accurate picture of inflation. Recent studies of this bias suggest that the CPI may overstate inflation by about half a percentage point. (Bank of Canada, Tab 17)
>
> Presumably, household spending would shift toward goods whose prices rise more slowly than average and away from those whose prices rise more rapidly than average. Because the BLS does not adjust the market basket of goods and services to account for these cost savings, the change recorded by the CPI tends to overstate the true change in the average person's cost of living. In economists' language, if we were to compensate the average person on the basis of CPI changes, he or she would most likely be better off than before. Thus, the dilemma caused by using the CPI to adjust government expenditures like Social Security payments is that the adjustment will tend to exceed the actual rise in recipients' cost of living and so will make them better off, when the purpose of the adjustment was just to prevent their standard of living from falling. (Economic Commentary, Tab 18)

Although the University rejects CPI as determinative of wage increases, in any event its proposal of 2.5% plus enhanced PTR significantly exceeds CPI as a measure of inflation.

c. Supports real growth in real salaries (PTR is Part of Total Compensation)

Firstly, as Arbitrator Shime stated in *Re McMaster University and McMaster University Faculty Association* (1990), 13 L.A.C. (4th) 199 (at page 201), "There is no law of economics that says any particular group is to have a lock-step relationship with a particular group or a given economic index such as the Consumer Price Index."

The *McMaster University* decision also stresses that comparisons with CPI, if they are made at all, should be made on a total compensation basis. PTR is a critical component of the University's compensation system and is part of total compensation. Any assertion that UTFA members' purchasing power has eroded because ATB increases have not kept pace with inflation ignores the reality that a significant portion of the faculty's compensation growth is derived from merit-based increases. The following table dramatically illustrates the growth in average salaries based on the actual salaries of tenure-stream faculty who have been employed since 1992. This real growth has exceeded CPI increases by over 42%.

Average Salary Comparison for Tenure Stream Faculty Employed in March 1992 And Still Employed at the University in March 2005

	Count	1991-1992 Average Salary	2004-2005 Average Salary	% Increase	% Increase Above CPI	
					Toronto	Canada
All	**763**	**$75,887**	**$128,495**	**69.30%**	**42.20%**	**42.70%**
Humanities	169	$69,060	$117,564	70.20%	43.10%	43.60%
Social Science	192	$78,067	$132,720	70.00%	42.90%	43.40%
Life Science	203	$76,666	$125,161	63.30%	36.10%	36.60%
Physical Science	199	$78,785	$137,103	74.00%	46.90%	47.40%

CPI	Jul-91	Jul-04	% Increase
Toronto	99.5	126.5	27.10%
Canada	98.7	125	26.60%

ATB	100	121.8	21.80%

Notes
-Faculty groups as per Planning & Budget
-CPI was calculated using 1992 as 100% base
-Projected average salaries are produced by applying ATB and average above or below the breakpoint PTR as required to each individual for all years in study
-This time period includes the Social Contract years where increases were restricted
-Excludes faculty currently holding senior academic administrative positions
-Excludes 0.615% ATB increase negotiated for January 2005

It is important to note that the Memorandum of Agreement provides that the salary and benefits negotiated or arbitrated pursuant to Article 6 are minimum terms and conditions. In order to assess the real growth in faculty salaries, it is important to look at the actual salary experience of faculty members.

d. Salaries are the highest of any university in Canada

The University of Toronto faculty and librarians receive the highest academic salaries of any university in Canada.

1361 faculty members and librarians are reported as earning more than $100,000 in the 2004 Public Sector Salary Disclosure Report.

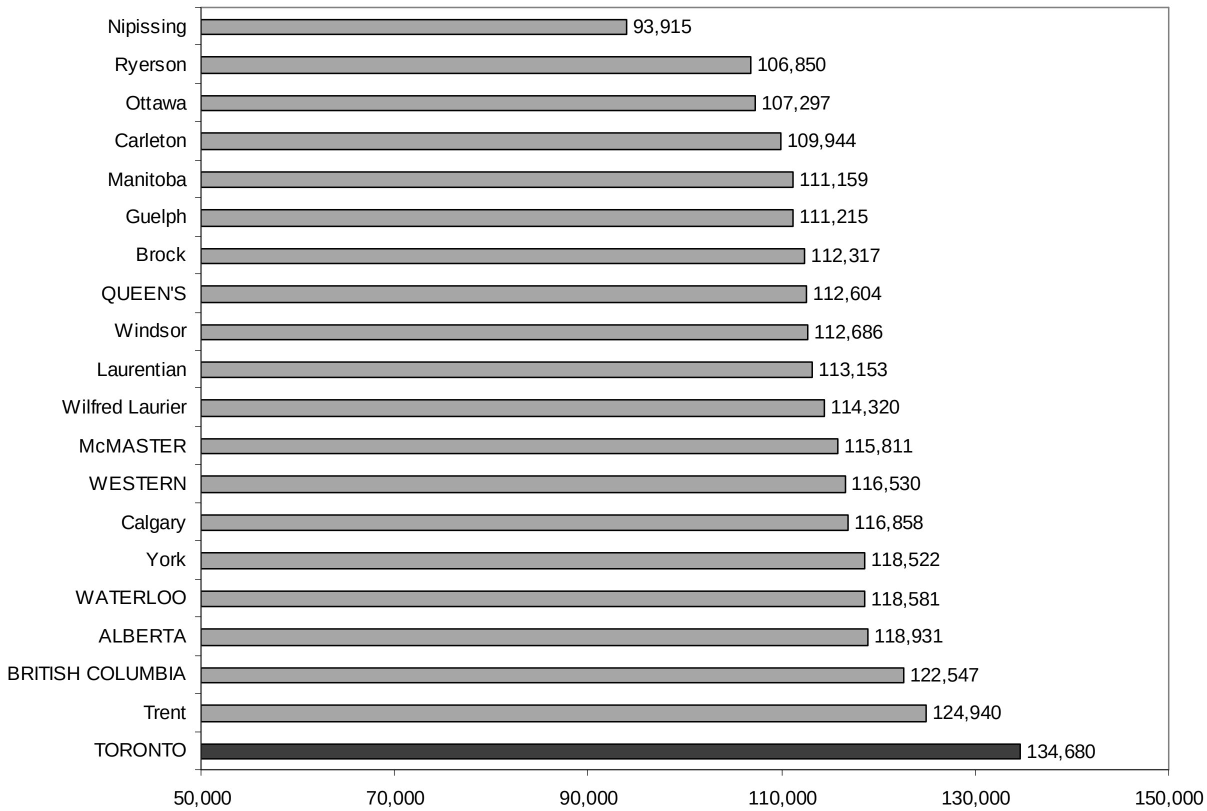
Tables from Statistics Canada's survey of university and college academic staff for the 2004-05 academic year are included at Tab 19 of the Exhibit Book. On the following pages graphs are included from the "UCASS" Statistics Canada survey comparing the average salaries of all ranks, full-time professors, associate professors and assistant professors at the 17 Ontario institutions together with the four outside Ontario who participate in the study. The Statistics Canada records show the following:

- The average salaries of the University's full professors, associates professors and assistant professors are more than their peers at other Canadian universities.

- The average salary of University of Toronto's full professors exceeds the mean by 16.8%, that of associate by 13.1% and assistant by 19.7%.

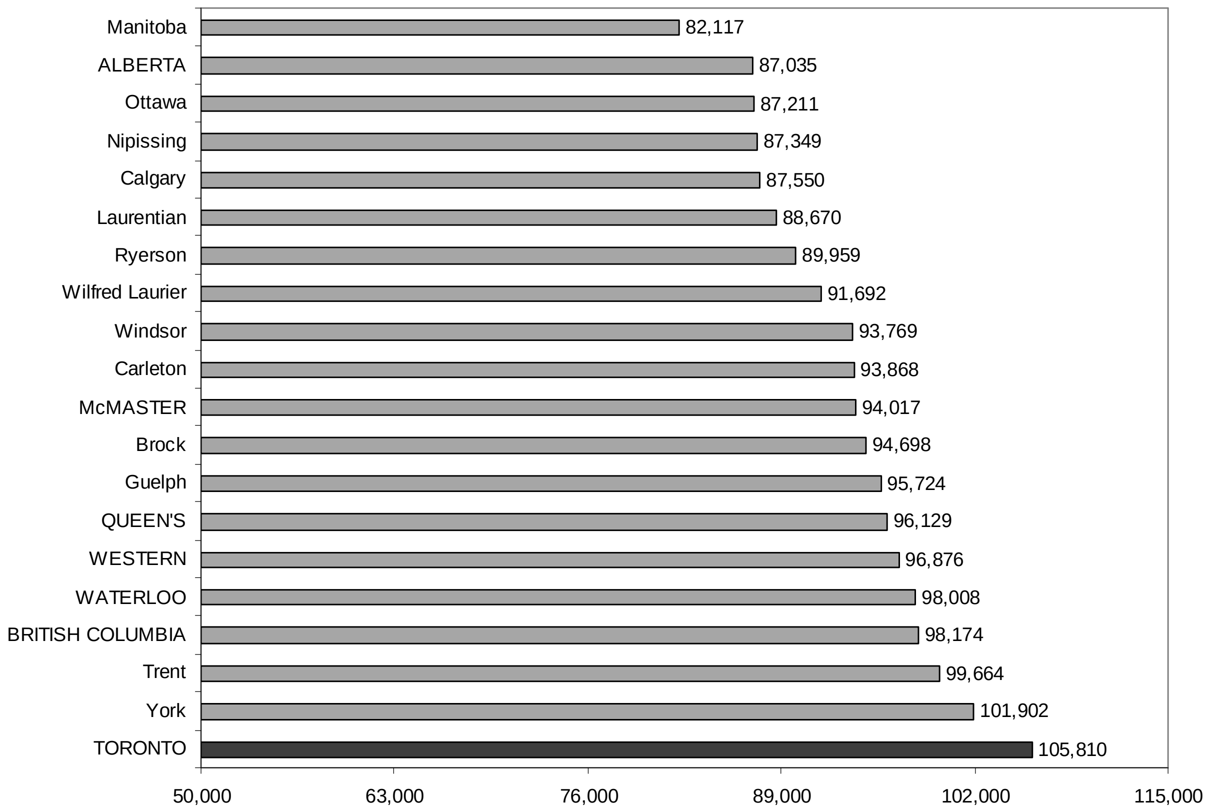
- Average salaries of full professors are 7.8% more than their comparators at the next highest paid university in Canada, associate professors 3.8% more than their comparators at the next highest paid university in Canada, and assistant professors 6.5% more than their comparators at the next highest paid university in Canada and 8.1% more than their comparators at the next highest paid university in Ontario.

Average Salary at Canadian Universities Fall 2004
Fulltime Tenured/Tenure Stream and Non-Tenure Stream
Professor



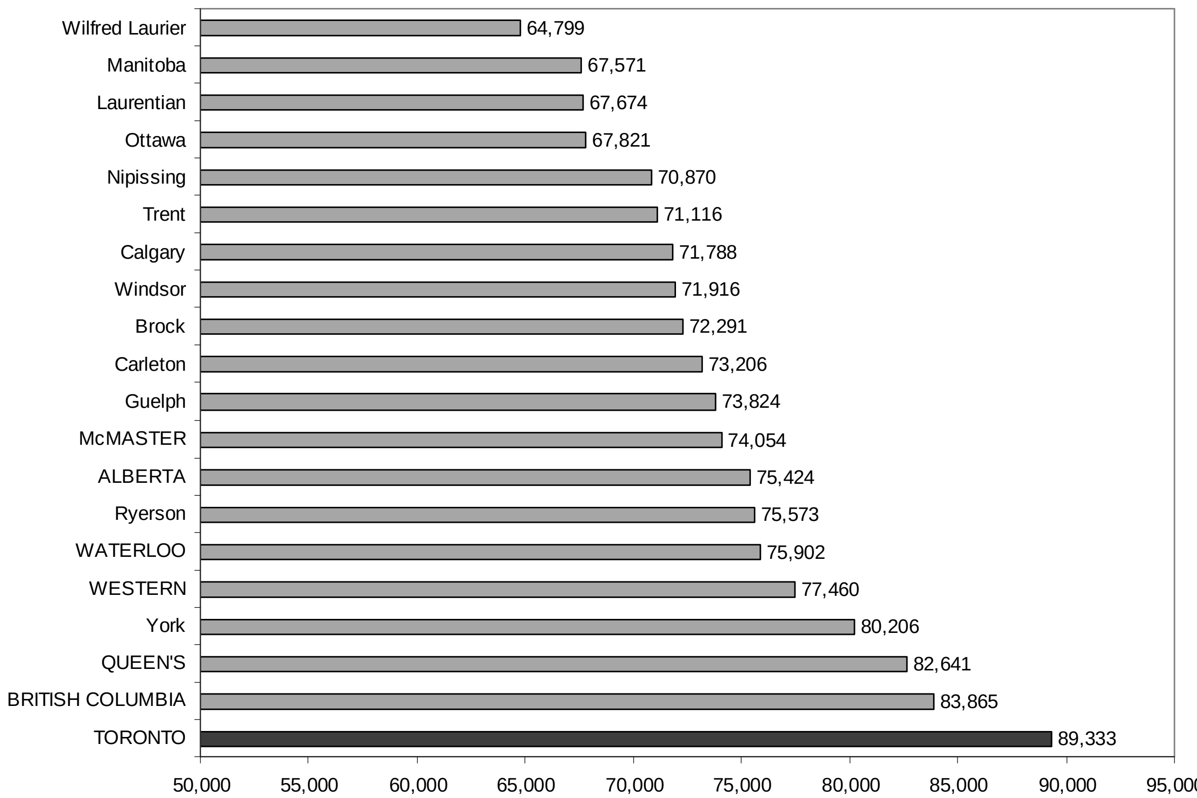
Source: UCASS Fall04 Faculty Salary Survey. G10 institutions are shown in capital letters. Excludes faculty in Medicine and Dentistry, and faculty members with senior administrative positions.

Average Salary at Canadian Universities Fall 2004
Fulltime Tenured/Tenure Stream and Non-Tenure Stream
Associate Professor



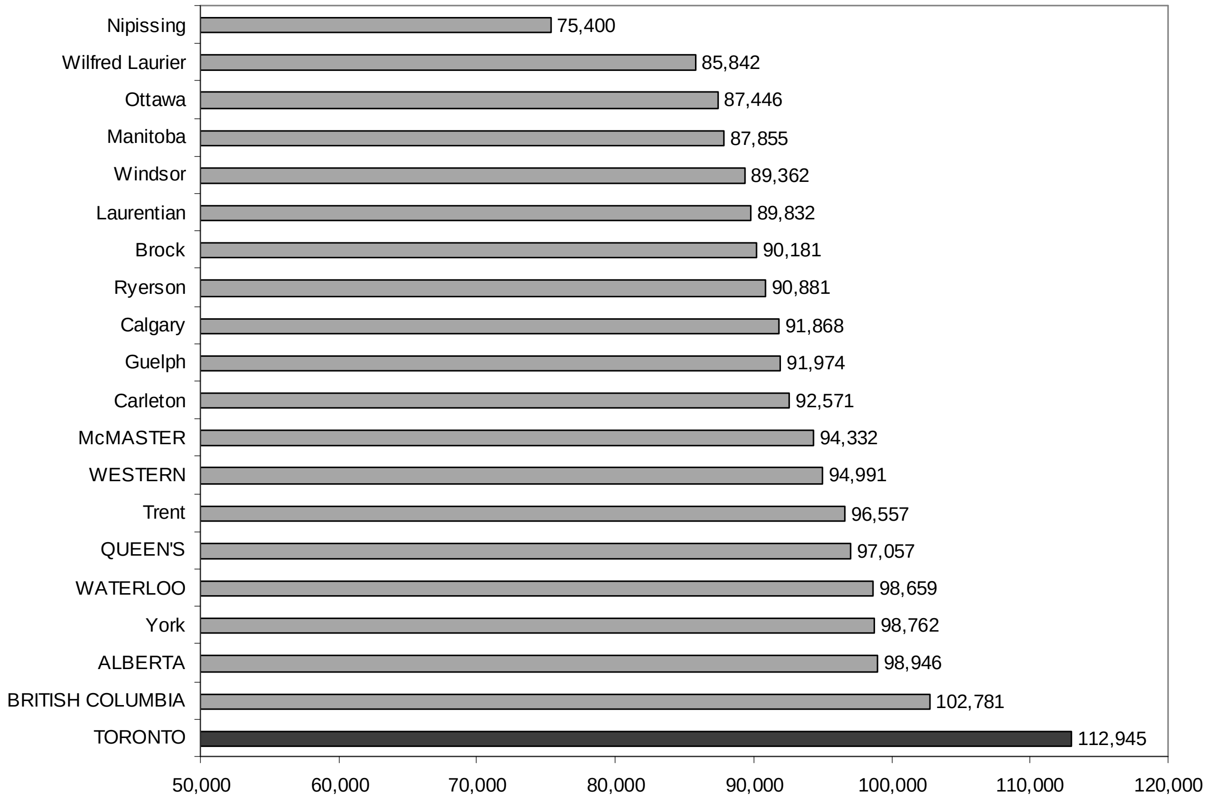
Source: UCASS Fall04 Faculty Salary Survey. G10 institutions are shown in capital letters. Excludes faculty in Medicine and Dentistry, and faculty members with senior administrative positions.

Average Salary at Canadian Universities Fall 2004
Fulltime Tenured/Tenure Stream and Non-Tenure Stream
Assistant Professor



Source: UCASS Fall04 Faculty Salary Survey. G10 institutions are shown in capital letters. Excludes faculty in Medicine and Dentistry, and faculty members with senior administrative positions.

Average Salary at Canadian Universities Fall 2004
Fulltime Tenured/Tenure Stream and Non-Tenure Stream
All Professorial Ranks



Source: UCASS Fall04 Faculty Salary Survey. G10 institutions are shown in capital letters. Excludes faculty in Medicine and Dentistry, and faculty members with senior administrative positions.

Statistics comparing the average salaries at the 10 research intensive universities in Canada are included in the following pages because Quebec universities do not participate in the Statistics Canada Survey. Only 2003 data was available from these universities. These tables also demonstrate that at all ranks, University of Toronto professors have the highest average salaries.

Full Professors – 2003

Incumbents				Salary			
University	**Count**	**Average Age**	**Average Yrs Since Highest Degree**	**Minimum**	**Maximum**	**Median**	**Mean**
A	532	53.7	22.8	$77,790	$266,189	$109,522	$112,653
B	190	54.1	24.7	$85,729	$153,785	$111,850	$110,459
C	221	55.7	26.5	$84,732	$198,419	$106,353	$111,419
D	204	53.8	24.6	$79,695	$219,999	$107,273	$108,916
E	612	53.4	22.0	$74,785	$94,853	$94,853	$92,108
F	252	53.4	24.3	$83,796	$149,260	$111,524	$111,548
G	277	57.8	28.2	$75,000	$207,600	$106,524	$109,773
H	475	55.0	26.0	$87,891	$218,467	$112,914	$119,062
I	694	54.6	24.1	$76,846	$170,128	$97,270	$101,830
Toronto	611	55.1	26.0	$88,496	$237,925	$123,496	$127,986

Associate Professors – 2003

Incumbents				Salary			
University	Count	Average Age	Average Yrs Since Highest Degree	Minimum	Maximum	Median	Mean
A	345	45.6	12.1	$61,130	$150,531	$83,012	$83,584
B	166	48.2	16.1	$64,167	$119,341	$90,295	$90,798
C	289	48.7	16.4	$63,817	$235,226	$87,403	$93,800
D	205	46.8	14.7	$69,305	$197,584	$89,545	$92,135
E	267	47.3	14.6	$62,314	$91,203	$80,964	$80,346
F	235	47.3	16.0	$62,516	$130,212	$92,453	$93,506
G	311	49.7	18.1	$65,000	$151,022	$84,707	$87,073
H	378	47.9	16.3	$76,248	$205,822	$91,945	$95,391
I	440	48.3	15.6	$65,476	$127,756	$83,901	$83,315
Toronto	483	47.7	15.5	$73,478	$171,000	$99,172	$101,317

Assistant Professors - 2003

Incumbents				Salary			
University	Count	Average Age	Average Yrs Since Highest Degree	Minimum	Maximum	Median	Mean
A	271	38.7	5.6	$49,188	$144,328	$67,098	$71,682
B	142	37.0	5.2	$51,999	$111,799	$73,101	$75,213
C	216	38.4	5.5	$54,369	$191,925	$68,335	$78,284
D	160	38.2	5.9	$56,180	$209,924	$79,003	$81,332
E	212	38.9	6.6	$47,815	$80,511	$65,402	$66,117
F	137	37.6	6.1	$53,254	$164,332	$73,721	$75,140
G	227	36.7	4.9	$55,000	$145,763	$69,978	$74,377
H	360	38.7	6.3	$62,000	$128,969	$77,595	$81,766
I	355	38.2	6.3	$53,000	$125,000	$66,970	$67,250
Toronto	361	36.8	4.8	$62,000	$165,225	$81,104	$88,220

Source: G10DE Fall 2003.

Notes: Tenured and Tenure Stream only; Medicine and Dentistry excluded; unpaid leaves excluded; faculty with senior administrative positions excluded. G10DE includes UBC, Alberta, Western, Waterloo, McMaster, Toronto, Queens, Montreal, McGill, Laval.

It is the position of the University that the salary increases sought by the Faculty Association are not justified by an assessment of comparator institutions, nor are the demands supported by recent settlements of other universities.

Further, comparison with other settlements should not be made without recognition that multi-year agreements can be presumed to include a premium paid for stability and certainty. The table below shows that Ontario academic settlements governing salary and benefits for the academic year 2004-05 are almost all part of multi-year agreements.

In addition, it must be noted that several universities have express goals to improve their position within the system. It is submitted that settlements must be considered in the context of each university's position in the system and its stated goals in bargaining. Several have positioned themselves to attain the median of the system which, even excluding the University of Toronto from the mean calculator, is 16.8% below the average salaries at the University of Toronto.

Academic Settlements

		ATB Increases						
Institution	Settlement Date	2002	2003	2004	2005	2006	2007	Avg Salary Full Prof Fall 2004
U of Western Ontario	2003 May	3.5%	3.0%	3.0%	3.0%			$116,530
York U	2003 June		3.0%	3.0%	3.0%[2]			$118,522
U of Waterloo	2003 June			3.3%	3.3%			$118,581
Brock U	2003 August		3.0%	3.0%	3.0%			$112,317
Nipissing U	2003 August		3.0%	3.0%	3.0%			$93,915
Carleton U	2003 October		5.0%	3.0%	3.0%			$109,944
Ontario College of Art & Design	n/a		3.0%[4]	3.0%[4]	1.5%			n/a
U of British Columbia[1]	2004 April			0.0%	0.0%			$122,547
U of Calgary	2004 Spring			4.0%	3.0%	3.0%		$116,858
U of Windsor	2004 August			3.0%	3.0%	3.0%	4.5%	$112,686
McMaster U	2005 March				3.0%			$115,811
U of Alberta	2005 May				3.5%	3.5%	3.9%	$118,931
U of Guelph	2005 May				2.5%	3.5%		$111,215
Queen's U	2005 May				3.0%	3.0%	3.05%	$112,604
Ryerson U	2005 Aug/Sept				3.0%	3.0%	3.25%	$106,850
Lakehead U	2005[3] October		3.0%	3.0%	3.0%	3.0%[3]	3.0%[3]	n/a
Laurentian U	2005 October				3.3%	3.3%	3.3%	$113,153
Wilfrid Laurier U	2005 November				3.5%	3.5%	3.5%	n/a

1. UBC - no ATB increase as legislated by government.
2. York U - additional ATB of 0.5% in September/05
3. Lakehead - Oct 2005 agreement at Lakehead to extend the current collective agreement for two years, July 1/06 to June 30/08
4. OCAD - Tenured/Tenure Stream also receive an additional 1.25% ATB on September 1st 2003 and 2004.

e. Comparable with public sector settlements

The University submits that its proposal is comparable with the following settlements in the broader public sector.

Relevant Public Sector Settlements

Parties	Unit Size (approx.)	Settlement Date	Agreement
ONA and Participating Hospital (Nurses)	51,000	Sept. '05 (arbitrated)	2-year agreement expiring March 31, 2006 •3% ATB on April 1, 2004 •3% ATB on April 1, 2005
OPSEU and Participating Hospitals (Med. Professionals)	6,500	June '05 (arbitrated)	2-year agreement expiring March 31, 2006 •3% ATB on April 1, 2004 •3% ATB on April 1, 2005
OMA and Ontario (Doctors)	24,000	March '05	4-year agreement expiring on March 31, 2008 •2.5% general fee increase on April 1, 2004 (family practice fees) •2.0% general fee increase on April 1, 2004 (specialist fees) •1.0% general fee increase on April 1, 2005 (technical fees[12])
ETFO and Ontario[13]	6,500	April '05	4-year framework agreement expiring August 31, 2008 •2% ATB on July 1, 2004 •2% ATB on July 1, 2005 •2.5% ATB on July 1, 2006 •3% ATB on July 1, 2007
AMAPCEO and Ontario (Managers and Supervisors)	8,000	May '05	2-year agreement expiring March 31, 2006 •2% ATB on April 1, 2004 •2% ATB on April 1, 2005
OPSEU and Ontario (Public Service Staff)	45,000	June '05	4-year agreement expirinfg December 31, 2008 •2% ATB on January 1, 2005 •2% ATB on January 1, 2006 •2.5% ATB on January 1, 2007 •3% ATB on January 1, 2008
OPSEU and CCAC (College Support Staff)	N/A	Sept. '05	3-year agreement expires on August 31, 2008 •2% ATB on September 1, 2005, 1% ATB on April 1, 2006 •2% ATB on September 1, 2006, 1% ATB on April 1, 2007 •2% ATB on September 1, 2007, 1% ATB on April 1, 2008

The normative increase for 2005-2006 in the above settlements, which cover over 240,000 provincial public sector employees, is below 3%. The University also submits that the Panel should compare the University's proposal with the above settlements in light of the following factors.

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[12] Technical fees are paid for conducting diagnostic procedures and are made for the purpose of covering depreciation cost on medical equipment.

[13] The government did not succeed in reaching a framework agreement with the OSSTF.

- The settlements are all for multi-year agreements and can be presumed to include a premium paid for stability and certainty. In the public school teachers' negotiations, in particular, the government passed legislation to encourage the bargaining of stable long-term agreements (Tab 20).

- Of the agreements settled above, only the government's agreement with AMAPCEO includes a merit pay component, and the AMAPCEO agreement does not increase merit pay.

- In awarding a salary increase for nurses, Arbitrator Keller noted that the wage increase awarded was at "the high end" of increases to health care employees for 2004 and 2005, but held a 3% increase in each of the two years was nonetheless justified by the proven difficulties currently faced by Ontario Hospitals in recruiting and retaining nurses.

- In the interest arbitration for medical professionals, the employer acknowledged a problem in recruiting medical professionals.

- The settlement for the community colleges' support staff provides for staged increases, such that the compounded increase to wages over the period of the agreement is lower than it would have been if a 3% wage increase was granted in each year of the agreement.

The government's agreement with the Ontario Medical Association is of particular significance. The agreement was shaped in response to the problems with the health care system identified by the Commission of the Future of Health Care in Canada in 2004 (the "Romanow Report"), and in particular, the shortage of primary care physicians. Instead of putting new money into general fee increases in the hope of attracting new physicians and improving quality of care, the government and the OMA agreed to limit general increases and put money into various incentives that were consistent with improving the quality of care, including:

- incentives to encourage doctors to enter into group practice with health care teams comprised of doctors and other health care professionals;

- incentives to provide preventative care (e.g. stopping smoking) and reduce the need for acute care; and,

- incentives to encourage early discharge of hospital patients, with continuity of follow-on care.

While the details of the OMA agreement are not relevant, the similarities between the health care and the post-secondary education systems must have led the province to set similar bargaining objectives in its negotiation with the OMA as the University has set in this matter. Both systems, as recognized in important public reports, are suffering from quality of service deficiencies that are a result of years of under-funding. This University, like the province, sees the importance of using new and existing funding in a manner that is most likely to improve the quality of its service. As explained above, allocating funding to unnecessary ATB increases does not help the University accomplish its goals.

f. Comparable with settlements with other University bargaining units

The table below summarizes settlements with the University's other bargaining units. The University submits:

- the normative 2005-2006 ATB increase received by members of the University's other bargaining units is less than 3%;

- the settlements are all for multi-year agreements and can be presumed to include a premium paid for stability and certainty; and,

- none of these agreements feature merit pay, nor do these settlements include increases that are equivalent to the University's proposal to augment salaries by contributing more money to the PTR scheme.

CURRENT SETTLEMENTS – UNIVERSITY BARGAINING UNITS								
UNION	REPRESENTING	# of Ees	Expires	Settlement date	04/05 ATB	05/06 ATB	06/07 ATB	07/08 ATB
OPSEU 578	OISE Research Assoc. & Officers	21	30-Jun-2002	*in bargaining*				
CUPE 2484	Day Care Workers	40	31-Dec-2003	23-Jun-05	5.0%			
C.A.W.*	Op. Engineers	73	30-Apr-2004	31-May-04	3.0%	2.0%		
Carpenters	Carpenters	11	30-Apr-2004	*in conciliation*				
I.B.E.W.*	Electricians	24	30-Apr-2004	10-Jun-05	3.0%	2.5%	2.5%	
Machinists*	Machinists & locksmiths	12	30-Apr-2004	Sept-04	3.0%	2.0%		
Painters	Painters	0	30-Apr-2004	Nov-04	0	0	0	
Plumbers/St.	Plumbers & Steamfitters	15	30-Apr-2004	16/09/2005	3.0%	2.5%	2.5%	
Sheet Metal W.	Sheet Metal Workers (Tin Shop)	2	30-Apr-2004	June, 2005	3.0%	2.5%	2.5%	
CUPE 3261	Full Time Service Workers	575	30-Jun-2004	01-Dec-04	3.0%	2.0%		
CUPE 3261	P.T. & Casual (seasonal) Service Workers	257	30-Jun-2004	Apr-05	3.0%	2.0%		
OPSEU 519	Campus Police	44	30-Jun-2004	Jul-05	3.0%	2.5%	2.5%	
CUPE 3907	OISE Grad Stu. - Grad Ass'ts (research)	195	31-Aug-2004	10-Feb-05	3.0%	2.0%		
IATSE	Hart House Theatre	1	31-Aug-2004	Mar-05	3.0%	2.0%		
CUPE 3902	Student - T.A.s & Instructors	4000	30-Apr-2005	*in bargaining*				
CUPE 1230	Full Time Library Techs.	186	30-Jun-2005	Nov-05		3.0%	3.0%	3.0%
CUPE 1230	P.T. & Casuals (most casuals, students)	222	30-Jun-2005	*in bargaining*		"	"	"
USW*	(Steel) Admin. Staff	3,103	30-Jun-2005	12-Sep-05		3.0%	3.0%	3.0%
USW	(Steel) Admin casuals	1,124	30-Jun-2005	*in bargaining*				

Notes
*The USW Admin Staff ATB increase and the CUPE 1230 increase are also staged, with 3% effective July 1, 2005, 2.5% July 1, 2006, 0.5% January 1, 2007, 2.5% July 1, 2007 and 0.5% January 1, 2008.

VII SUBMISSION ON PENSION BENEFIT PROPOSALS

PROPOSALS – PENSION BENEFIT	
University Proposal	**UTFA Proposal**
Status quo	All retirees shall receive augmentation to their pensions in an amount equal to full inflation catch-up as of July 1, 2005. This applies to all pensions from RPP, OISE and SRA. At the time of retirement, individual faculty and librarians shall have the option of receiving a monthly pension or a lump-sum payment equal to the commuted value of the individual's pension. Those who opt to receive the lump-sum payment shall be eligible to receive benefits on the same basis as those receiving a monthly pension

Submissions on Pension Augmentation

The University submits that UTFA's augmentation proposal must be rejected because:

- it will cause the unfunded status of the Plan to deteriorate further;
- in the current funding environment, the Plan's obligations to deliver promised benefits is paramount to plan improvements of any kind;
- the Plan contains automatic indexing equal to 75% of CPI which is made even more generous by the Plan's "head start" provision;
- in any event, augmentation has only historically been agreed to when the Plan is in a surplus position, which it is currently not;
- the Plan is comparable with other similar pension plans and there is no demonstrated need for a Plan improvement.

a. Augmentation will cause the unfunded status of the Plan to deteriorate further

The University of Toronto Pension Plan (the “University Plan” or “Plan”) is a defined benefit plan that covers all staff groups at the University. The benefit formula provides for an accrual of 1.5% of average salary up to the CPP (Canada Pension Plan) Wage Base and 2% of average salary over the CPP Wage Base. Average Salary means the best 36 months of salary. There is also a supplemental retirement arrangement to deliver pension benefits in excess of the maximum pension under the *Income Tax Act*.

The most recent actuarial valuation of the Plan was prepared as of July 1, 2005. The results of the valuation are shown below.

Going Concern Valuation		
Past Service		
Actuarial Value of Assets	$	2,289,792,000
Less: Accrued Liability		2,407,005,000
Surplus (Deficit)	$	(117,213,000)
Deferred Asset Gain (Loss)	$	30,857,000
Current Service		
Total Current Service Cost	$	78,274,000
Less: Required Participant Contributions		26,663,000
University Current Service Cost	$	51,641,000
As a % of Participant Salary Base		10.10%

Solvency Valuation (Without Indexation)			
Market Value of Assets	$	2,319,649,000	
Less: Solvency Liabilities		2,330,186,000	
Surplus (Deficit)	$	(10,537,000)	

Wind Up Valuation (With Indexation)		
Market Value of Assets	$ 2,319,649,000	
Less: Wind Up Liabilities	3,020,738,000	
Surplus (Deficit)	$ (701,089,000)	

The Agreement between the University and UTFA on Retirement Matters dated March 14, 2005 introduced an unreduced early retirement provision at age 60 with 10 years of pensionable service for retirements on and after June 30, 2006. This provision has not been reflected in the solvency valuation as of July 1, 2005; however, once this provision is reflected in the July 1, 2006 solvency valuation, it will increase the solvency liabilities (without indexation) by approximately $76 million thereby increasing the solvency deficit as well.

UTFA's augmentation proposal would increase the accrued liability under the Plan by $4.6 million. The University would be required to fund this liability by annual special payments (over a fifteen year period) equal to $475,000. Since, as of July 1, 2005, the University Plan has a solvency deficit, the amortization period for this improvement could in the future be reduced to 5 years (approximately $1.1 million over 5 years).

With each successive augmentation, the argument becomes that this was granted in the previous agreements. However, augmentations each agreement essentially mean the University Pension Plan is indexed at 100% of CPI. If the Plan was valued as of July 1, 2005 with a 100% of CPI indexing provision for faculty and librarians (active and retired members) instead of the 75% of CPI indexation provision, the increase in the accrued liability would be approximately $110 million (requiring an annual special payment of $11 million over 15 years) and the increase in current service cost would be approximately $3 million. A continuation of augmentations is essentially committing to that cost.

b. Obligation to deliver promised benefits paramount

The current pension environment is characterized by significant funding deficits in defined benefit plans, driven by negative asset returns from mid-2000 to mid-2003 and by the decrease in interest rates over the last few years which increases the liabilities of defined benefit plans. Plan sponsors are addressing this through increased contributions from both the Plan sponsor and members, and in some cases by reducing future benefits.

For example, the Hospitals of Ontario Pension Plan eliminated its 75% of CPI indexation provision on pension benefits earned after 2005 and the Ontario Teachers Pension Plan has been assessing plan changes to address its massive deficit.

Plan sponsors must focus on securing the pension promises already made, rather than on improving benefits. An article entitled “The Pension Plan Crisis: Canada’s CFO’s Are Worried – With Good Reason” which reports on the results of a CFO Survey and appeared in a recent issue of Corporate Finance and Risk Management (July 2005) published by The Conference Board of Canada, article produced on behalf of the Conference Board of Canada (July 2005) addresses exactly this issue and states:

> Underfunded pension plans have an impact on employees, retirees and their sponsor companies. For employees and retirees, an underfunded pension plan means uncertainty over future benefits. And for companies, it means that they may have to inject significant sums of money into the plans …this new persistent cost can undermine long-term corporate health. And, corporate health is vital to the maintenance of fully funded pension plans; after all, a company that goes bust will leave former employees with pension IOUs on which they may not be able to fully collect.

The University is keenly aware of the need to ensure for appropriate funding of the pension promise. For this reason, the Business Board of the Governing Council has approved a funding strategy under which the University is making special payments of $25.6 million to fund the Plan deficit, in addition to the University Current Service Cost ($51.6 million for the Plan year starting July 1, 2005).

Under the Ontario *Pension Benefits Act*, the minimum required special payment to extinguish the funding deficit over time is $12.4 million per year for 15 years. The University is making a higher level of special payments to:

- Enable the University to manage the volatility of special payments resulting from the volatility of investment returns. If, for example, in any one year, the rate of return was 3.5% instead of the assumed rate of return of 6.5%, that difference would add $70 million to the deficit.

- Mitigate the risk of increased special payments triggered by the solvency valuation, since solvency deficits have to be funded over five years in which case the annual "special payment" amounts could significantly increase.

The above funding steps are prudent in the current funding environment and are consistent with sound pension governance principles. The current environment also demands fiscal restraint regarding the making of Plan improvements. Indeed, the CFO Survey referred to above sought input from CFO's respecting the recent consultation initiated by the Office of the Superintendent of Financial Institutions. One of the questions asked in the consultation paper deals precisely with the issue of Plan improvements under the current funding environment:

> "SHOULD PLANS IN SEVERE DEFICIT BE RESTRICTED FROM MAKING BENEFIT IMPROVEMENTS?"
>
> While pension regulation require that pension plans make special payments to close a solvency deficiency, they do not restrict underfunded plans from making plan improvements – such as increases in benefits – that would further weaken the plan's financial health.
>
> The government asks whether this situation should be changed. We suggest that the answer is yes, in order to reduce the risk that the underfunding of DB plans could lead to less than the full payout of promised benefits. There are legitimate concerns about a fragile firm with an underfunded pension essentially mortgaging its pension's future by attempting to maintain current worker loyalty with unfunded new promises."

A related issue is the need to balance the interests of active members (who are currently contributing to the Plan) and pensioners (who are no longer contributing to the Plan). This is not a situation where retired members have been disadvantaged relative to active members and/or a "catch up" requirement exists. On the contrary:

- Each time augmentation has been provided over and above indexing in the Plan, it has been provided at no cost to the pensioners. Their contributions as active Plan members were based on the current 75% of CPI inflation protection and, for pre July 1, 1992 retirees, inflation protection equal to 60% of CPI.

- When inflation protection was increased from 60% to 75% of CPI in 1992, this was extended to existing pensioners at no cost (the contribution rate for active members was at that time increased to reflect the higher level of inflation protection).

- Effective July 1, 2002, the pension benefits for pensioners who retired prior to July 1, 1996, were increased by retroactively increasing the accrual rate used to calculate their pension on salary up to the CPP Wage Base from 1.0% to 1.3%. This improved formula increased the Plan's liabilities (based on pensioners across all staff groups) by $49 million.

- Pensioners are currently provided with generous lifetime retiree health care benefits. The liability associated with these benefits must be recognized for accounting purposes and is a significant unfunded liability of the University.

Participant contributions pay part of the cost of Plan. Those contributions are based on a partially-indexed pension. Providing augmentations after retirement is changing the cost structure of a pension plan. There is no way of going back to pensioners/beneficiaries to collect the contributions that should have been made for a pension plan that is indexed at 100% of CPI. As of July 1, 2005, the liability for pensioners and beneficiaries under the Plan (all staff groups) is $1.2 billion, representing half of the Plan's liabilities.

With the Plan now in a deficit, augmentation is a retroactive improvement that has to be borne by the active members of the Plan and the University, a daunting cost given the size of the retiree liability.

c. Plan has automatic indexing at 75% of CPI and "head start" provision

To fully appreciate UTFA's augmentation proposal, it is important to understand the existing indexing provisions of the Pension Plan. UTFA's proposal is for an increase over and above these existing indexing provisions through "augmentation".

Indexing is Automatic – 75% of CPI

The Pension Plan contains a provision that provides for an *automatic* increase in pension payments for retirees, their surviving spouses or beneficiaries each year. The increase is equal to 75% of the increase in the Consumer Price Index. The increase is effective on July 1 of each calendar year and, by way of example, the July 1, 2005 indexation increased each retiree's pension by 1.58%. A similar (possibly higher) increase will come into effect on July 1, 2006, depending, of course, on the increase in the CPI over the course of the year.

In addition to the fact that indexing in the Pension Plan is automatic (as opposed to the *ad hoc* or year by year approach followed by many employers), there are two other features of the Plan's indexing provisions that are necessary to a complete understanding of this issue. These features are first, the "head start" feature; and second, the fact that indexing applies not only to retirees but also to those who leave the University before retirement. Both are explained below.

Plan Provides a Head Start on Inflation Protection

Typically, where a pension plan contains an automatic indexing provision, the first increase in a retired member's pension occurs *one year after* they retire. For example, if someone retires on June 30 of a calendar year, in a typical indexed plan, their first increase due to increases in the CPI would occur on the July 1 of the next calendar year. This means that a pension that commences on July 1, 2005 would not typically be "increased" to reflect indexing until July 1, 2006. This is logical given that the purpose of the indexing in the pension plan is to recognize that the value of a pensioner's payments may erode over time as the cost of living increases.

However, unlike the typical indexing provision described above, the University of Toronto Plan provides the *first* pension increase immediately. For example, a faculty member who retired on June 30, 2005 received the first pension payment on July 1, 2005. That payment was calculated in accordance with the Plan formula – and then increased – by 75% of CPI (which was1.58%) - effective with the very first payment on July 1, 2005. This feature of the Plan provides a "head start" on inflation.

The head start is very valuable to Plan members. Compare the following:

(a) The University's head start formula: An annual increase equal to 75% of CPI with a head start increase effective in the first year of payment; against

(b) An indexing formula equal to 100% of CPI without a head start.

At current levels of inflation, it takes approximately five years before the monthly pension payments in (b) above (100% CPI with no head start) catch up to the monthly pension payments in (a) above (75% CPI with head start). It takes approximately seven years before the cumulative pension payments in (b) catch up to the cumulative pension payments in (a).

Therefore, even without "augmentation" over and above the 75% of CPI indexing in the Plan currently, the University's indexing provision provides better than a full CPI indexing provision for approximately seven years after retirement.

Indexing Applies to Deferred Vested Members

In many pension plans, indexing of pensions occurs only for those members who retire and receive a pension immediately under the plan. Under the University of Toronto Plan, indexing of pensions applies even to those faculty members who leave the University and do not commence their pensions immediately. During the "deferral" period (the period after the faculty member has left his or her employment with the University and before he or she actually starts to receive a pension from the Plan), the "deferred pension" is indexed on the same basis as the immediate pensions.

d. Augmentation has only been agreed to when the Plan is in a surplus position

Since the inception of the permanent indexing provisions in 1982 augmentation has been agreed to **only** when the Plan is in a surplus position.

During approximately half of the years from 1986 to 2002, the University was not permitted to make contributions to the Pension Plan as a result of the provisions of the *Income Tax Act.*

Further, during a number of the years noted above in which there were augmentation increases **and** during which the Plan was in an excess surplus position such that contributions were prohibited by law, the University also implemented partial or full contribution holidays for Plan members. In particular, between July 1997 and June 30, 2002, member contribution holidays for all staff groups totalled $82 million ($90 million over the period from 1986 to 2002)

UTFA has taken the position that monies that would have been contributed to the fund but for past contribution holidays have been diverted elsewhere thus contributing to the current deficit. UTFA overlooks several factors in making this assertion: For example, between 1997 and 2002, $84.5 million of contributions that would have otherwise been directed to the Pension Plan were directed to the fund established in respect of the Supplemental Retirement Arrangement, as per the agreement with the UTFA. As well, during the period from 1986 – 2002:

- $104 million was directed to the Endowed Adjustment Fund to be used for matching programs;

- $77 million was directed to the Infrastructure Investment Fund;

- The University agreed to amend the Pension Plan to make numerous pension improvements. These improvements increased the University's funding obligations under the Pension Plan, including its current service cost each year. Plan improvements have included the introduction of the Supplement Retirement Arrangement, increases in the Plan formula, improvements to the indexing formula, as well as the retroactive increase in pension formula for retirees referred to earlier in this section. Absent a surplus in the Pension Plan, all such increases would have been charged against the cost of the agreements giving rise to those improvements. Because there was a surplus, however, it was anticipated that the surplus would be applied to defray the additional current service costs. There is no surplus remaining in the Pension Plan. However, the University must continue to meet its full funding obligations, including the higher current service costs which resulted from the bargained improvements, and which will continue into the future. The present value of the increase in future University current service costs is substantial (in excess of $100 million);

Finally, $44.6 million of contribution holiday was taken during the social contract period in the mid-1990's to mitigate the impact of the social contract, with the specific agreement of the staff groups including the Faculty Association.

e. Plan is comparable with other similar pension plans

The Plan provides a very competitive level of benefits (based on the combination of the Plan formula, the average earnings formula, indexation, the existence of the SRA, subsidized surviving spouse benefits and a relatively low level of member contributions). As well, as noted earlier, the University provide retiree health care and life insurance benefits not offered at all other universities and, if offered, typically available at a reduced level to that available at the University.

As the following chart indicates, the Plan provides benefits which are comparable to those of other University and public sector plans. Respecting the indexing provisions of the comparator plans:

- The University's Plan is the only Plan in the comparator group that contains a head start on inflation protection
- Despite the fact that the Plan contains a generous indexing formula at 75% of CPI, ad hoc augmentation has supplemented the existing inflation protection by covering 100% of CPI up to July 1, 2004.
- The Plans with higher indexation have higher levels of member contributions.

	University of Toronto	McMaster University	University of Ottawa	University of Waterloo	Trent University	UAPP
Averaging Period for Earnings	3 years	4 years	5 years	3 years	3 years	5 years
Benefit Rate	1.5%/2.0%	1.4%/2.0%	1.3%/2.0%	1.4%/2.0%	2.0%	1.4%/2.0% (max. 35 years)
Subsidized Form of Payment	60% J&S	50% J&S	60% J&S	Life, with 10-year guarantee	60% J&S	66.7% J&S
Automatic Indexation	75% of CPI (with first year indexation)	Excess interest only	CPI – 1% (100% if CPI increase below 2%)	100% of CPI	Excess interest only	60% of CPI
Unreduced Early Retirement	Age 60 + 10 years	80 Points	Age 60 or 90 points	Age 62	Age 65	Age 60 or 80 points
Bridge Benefit	No	Partial	No	No	No	Yes
Employee Contributions	4.5%/6.0%	3.5%/5.0%	4.25%/6.55%	4.55%/6.5%	6.0%	8.015%/10.415%

	University of Toronto	Dalhousie University	HOOPP	OTPP	OMERS	PSPP
Averaging Period for Earnings	3 years	3 years	5 years	5 years	5 years	5 years
Benefit Rate	1.5%/2.0%	2.0%	1.5%/2.0%	1.55%/2.0%	1.325%/2.0%	1.3%/2.0%
Subsidized Form of Payment	60% J&S	Life, with 7 year guarantee	60% J&S	50% J&S	66.7% J&S	60% J&S
Automatic Indexation	75% of CPI (with first year indexation)	Excess interest only (separate retiree fund)	75% of CPI for pre-1/1/2006 pension; no automatic indexation for post-1/1/2006 pension	100% of CPI	100% of CPI	100% of CPI
Unreduced Early Retirement	Age 60 + 10 years	Age 65	Age 60 or age 55 + 30 years	85 age-plus-service points	90 points or 30 years	90 points or age 60 + 20 years
Bridge Benefit	No	No	Yes	Yes	Yes	Yes
Employee Contributions	4.5%/6.0%	6.15% (4.65% below $5,000)	6.0%/9.2%	7.3%/8.9%	6.5%/9.6%	8.0%/6.2%/8.0%

Submissions on Commuted Value Payment at Retirement

The University's position is that it is inconsistent with the definition of "retirement" to allow employees who have reached the normal retirement date to transfer the commuted value of their pension out of the Plan. Conversely, if the commuted value transfer option is desirable, providing this option on retirement is inconsistent with the idea of treating the individual as a termination. As well, this is not a cost-free option and if there were expanded use of the commuted value option, there could be significant costs to the Pension Plan for the following reasons:

- An actuarial loss now results from members who elected commuted values on early retirement. Under the actuarial valuation, liabilities for pensions in payment are discounted based on a 4% real rate of return, (this rate of return reflects the equity risk premium). However, commuted value payments are currently based on real rates of return of 2.0% to 2.25% (these are prescribed rates of return, which do not reflect any equity risk premium). For an individual retiring with a liability under the valuation of $800,000, the commuted value payment would be $1,000,000 resulting in a $200,000 loss to the Pension Plan for that one individual.

- If the commuted value option was extended under the Pension Plan to normal or postponed retirements, there would have to be some recognition of the cost of this provision in the actuarial valuation of the Pension Plan. If the actuarial valuation reflected that 5 out of 100 Faculty/Librarian retirements elected the commuted value, the accrued liability would increase by approximately $9 million and the current service cost would increase by approximately $500,000 or 0.2% of the participant salary base for Faculty and Librarians. If the election rate was 10%, the increase in accrued liability would be approximately $18 million and the increase in current service cost would be approximately $1 million or 0.4% of the participant salary base.

- Allowing commuted value transfers on retirement also exposes the Pension Plan to anti-selection risk by retiring members (i.e., members in poorer health are more likely to elect a commuted value transfer, leaving the Pension Plan with retirees having higher expected longevity). This becomes more and more of a risk with later retirements resulting from the elimination of mandatory retirement.

- In an indexed plan such as the University of Toronto Pension Plan, the commuted value includes the value of the 75% of CPI indexation. The commuted value is in effect providing the value of indexation to the member in one lump sum up-front, whereas indexation is in place to protect the pension's buying power over the long term.

VIII SUBMISSIONS ON MEDICAL BENEFIT PROPOSALS

PROPOSALS - MEDICAL BENEFITS	
University Proposal	**UTFA Proposal**
A Health Care Spending Account ("HCSA") will be introduced effective July 1, 2006 as an alternative vehicle for funds available under the Professional Expense Reimbursement. Prior to July 1st of each University Year (the period from July 1st to June 30th), Faculty members and Librarians entitled to the PER will be able to elect the following allocation of the PER funds for that University Year: 100% to the PER (default election); 50% to the PER and 50% to the HCSA; 100% to the HCSA. The timing and form of the election will be as prescribed by the University, subject to consultation with the Faculty Association, and the election will be irrevocable.	The current benefit for massage therapy, physiotherapy, and chiropractic care shall be increased to $1000 maximum annually and shall be extended to include the services of a licensed optometrist. Orthodontics: Expenses shall be covered with the employer paying 50% of orthodontic expense costs up to $3,500 per person per lifetime for active and retired faculty and librarians and their dependent children. The long-term disability plan shall be modified to enable disability pension recipients to return to work on a part-time basis for indefinite periods of time without financial penalty. Faculty and librarians who retired before 1981 shall have the same benefits as those who retired during and after 1981, effective January 1, 2006. A new premium rate structure shall be introduced to provide the following options: Member; Member plus 1; Member plus 2 or more. UTFA shall receive full and complete access to the rules, regulations, and guidelines that Green Shield follows in determining whether or not to pay claims made through the medical and dental insurance plans.

a. Faculty members and Librarians have comprehensive and competitive benefits

The University of Toronto's Health Benefits Plan is very competitive with other universities. The University does not believe that any of the improvements proposed by UTFA are warranted.

Green Shield Medical Coverage

Three Green Shield plans (extended health, dental care, and semi-private hospital) are available to full time and part-time employees with appointments of at least 25% of a full load. Pensioners under the University of Toronto Pension Plans who retired after May 1981 have identical coverage, both in terms of level of benefits and cost sharing (retirees pay 20% or 25% of the premium for these benefits and the University pays the balance of the cost).

Medical Benefits Summary

Plan	**Contributions and Costs**	**Benefits Include**
Extended Health (optional)	University pays 75% of monthly premiums (and a pro-rated amount for eligible part-time staff) Participants pay a $25 deductible every twelve month period starting on the day the first claim is made.	-Most prescription drugs (no co-pay, dispensing fee capped at $6.50) -Ambulance services -Private duty nursing services (when medically required) -Paramedical care (including massage therapy, physiotherapy, and chiropractic care) to a combined maximum of $500 per person per plan year -Psychologist services to $2,000 per person, per plan year -Out of Province/Country emergency coverage (no maximums)
Dental (mandatory)	University pays 80% of monthly premiums (and a pro-rated amount for eligible part-time staff)	-9 month recall for adults and 6 month recall for children under 19 -Basic services at 100% of the current ODA schedule -Major restorative services at 80% of the current ODA schedule (to a maximum of $2,500 per person, per plan year)
Semi-Private Hospital (optional)	University pays 75% of monthly premiums (and a pro-rated amount for eligible part-time staff)	-Pays or the difference in cost between standard ward accommodation provided by OHIP coverage and semi-private hospital accommodation (two to four beds in a room)

Pensioners retiring before June 1981 (and eligible surviving spouses) do not participate in the three Green Shield plans, but have received Health Care Spending Account ("HCSA") contributions since January 1, 2004. The University deposits $1,000 each year to an eligible pensioner's HCSA, $1,500 if the individual has a spouse. If an eligible pensioner dies, his or her spouse is entitled to receive a $1,000 annual deposit for the remainder of his or her lifetime. Each year's deposit must be spent within two years or is forfeited.

HCSA funds may be spent on a wide-range of medical expenses that qualify for medical expense tax credits under the *Income Tax Act*. Expenditures on prescription eyeglasses, dental services, medical devices and supplies, prescription drugs, and services of paramedical and nursing practitioners are all reimbursable on a tax-free basis.

LTD Coverage

Full time and part-time employees with appointments of at least 25% are also required to participate in an LTD plan administered by Sun Life. The University pays 80% of the total monthly cost for full-time staff and part-time staff

The LTD plan provides individuals who qualify with income protection at 70% of pre-LTD earnings (with a maximum insurable salary of $125,000 per annum).

Fifty per cent of earnings received under a rehabilitation or return-to-work program are subtracted from disability benefits, provided total earnings do not exceed 100% of pre-disability earnings. If an employee's total salary exceeds 100% of pre-disability earnings, the LTD benefit is further reduced so that total earnings equals 100% of pre-disability earnings. Individuals are not eligible for LTD benefits if rehabilitation or return-to-work earnings equal 75% or more of pre-disability earnings.

b. UTFA must show a strong demonstrated need

UTFA has the burden of demonstrating a need to change the current benefit program. This burden should be given particular attention by the Panel in making its recommendation because its recommendation is only for a one year period. Should there be *any need at all* for a change to the *status quo*, the parties will soon be entering a negotiation to resolve that need themselves.

c. Any need can be met by a Health Care Spending Account (HCSA)

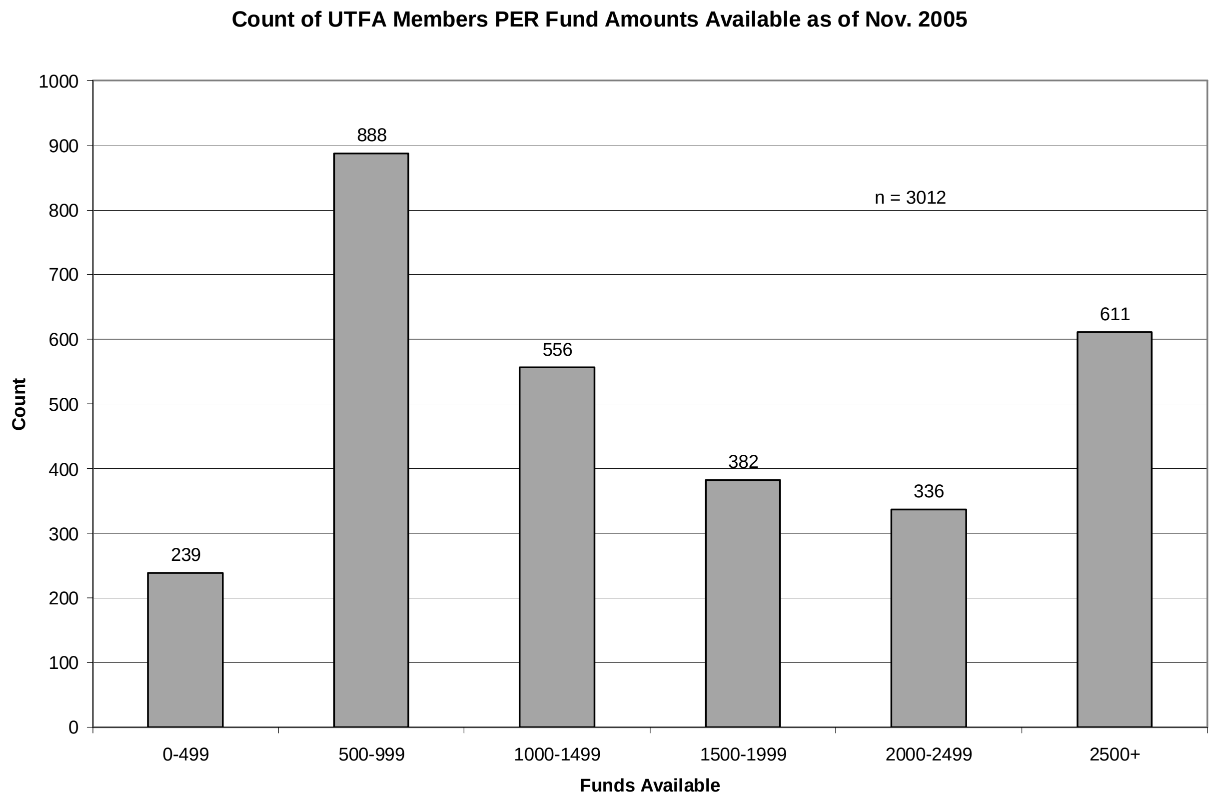
The University has proposed that a HCSA be established as an alternative vehicle for spending professional expense reimbursement (PER) funds. The University provides

$775 per year for reimbursement such as memberships, books, journal subscriptions and other expenses related to scholarship.

Under the University's proposal, members could choose to allocate all, half or none of their $775 annual professional expense reimbursement ("PER") allowance to a health care spending account, from which a wide-range of medical expenses could be reimbursed on a tax-free basis. UTFA has proposed an increase in coverage for massage therapy, physiotherapy, chiropractic care , and has proposed the addition of an orthodontics benefit. All of these types of expenses could be reimbursed from the proposed HCSA.

This proposal is a means of helping faculty members and librarians derive a greater benefit and flexibility from their PER allowance, which is not being utilized.

For reasons which are described in part "IX" below, the PER benefit is underutilized and will likely continue to be underutilized. There is currently $4.66 million accumulated, unused, in PER accounts. Only 46% of the total amount granted under the PER program has been spent since its inception in 1999. The table below shows that more than 62% of eligible faculty members and librarians have PER expense accounts with balances greater than $1000 and over 31% of faculty members and librarians have PER expense accounts with balances greater than $2000.



Based on the above figures, it is reasonable to assume that the average faculty member and librarian has a significant proportion of his or her annual PER allowance available for other uses. Should a HCSA be introduced, elections could be made to allocate a portion of PER funds to a HCSA in order to pay for uninsured annual medical expenses without restricting the faculty member's ability to meet necessary professional expenses. Since PER funds which have accumulated in prior years cannot be allocated to a HSCA due to tax rules, faculty members and librarians with past PER balances will be able to use past balances for professional expenses and elect to use their full annual allowance for uninsured annual medical expenses through an HCSA.

d. Benefit cost containment is necessary

While the University has established its general need for fiscal prudence, it also states that it has a specific need to contain benefit costs.

The university has a large unfunded liability in respect of retiree benefits

The University continues to offer the same level of group benefit coverage to retired faculty and librarians and it is one of the few institutions to offer comprehensive benefits to retirees.

Accounting standards require the University to report the unfunded liability for retiree benefits on its balance sheet (for both current retirees and the "accrued" portion for active members who will become future retirees). As of April 30, 2005, this liability was $271.3 million.

To illustrate the nature of this liability, the University currently pays approximately $3,000 per year to insure a retiree who elects family coverage. This is no different than providing a pension of $3,000 per year. Yet while pension benefits are pre-funded during active service, there is no requirement to pre-fund other retiree benefits. Hence, liability accrues.

The liability for retiree benefits is growing rapidly and the question of funding is now an issue. For pensions, the wisdom of fully funding the pension obligation by the time an individual retires is universally accepted: it is only sensible to set aside assets during the working career of an individual to provide for their pensions, so that the rapidly growing retiree population does not burden future generations of students, faculty, and taxpayers. The logic is no different for retiree benefits: if they are not funded during the working lifetimes of employees, then they become an rapidly increasing burden on future generations.

Benefit costs are rising faster than inflation

The following chart shows that the cost of active faculty and librarian claims paid rose significantly from 2003 – 04 to 2004 – 05.[14] While CPI increased by 1.6% from June 2004 to June 2005[15], the total cost of claims paid over the same period increased by 12.5%.

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[14] Comparative data for retired faculty and librarians is unavailable.

[15] Toronto CPI; these months correspond with the end of the 2003-04 and 2004-05 plan years.

Active Faculty and Librarians - Claims 2003/04 versus 2004/05							
	2003/04			2004/05			%Change
Category of Claim	#		Paid	#		Paid	Paid
Dental Claims	42,100	$	2,997,387	44,140	$	3,245,430	8.3%
Drug Claims	33,623	$	2,621,747	36,523	$	2,899,123	10.6%
EHS	6,711	$	734,555	9,421	$	1,018,807	38.7%
Hospital Room	245	$	159,889	259	$	165,601	3.6%
Total	**82,679**	**$**	**6,513,578**	**90,343**	**$**	**7,328,961**	**12.5%**
EHC only (EHS + Drugs)	40,334	$	3,356,302	45,944	$	3,917,930	16.7%
Source - Green Shield Claims reports - Active Faculty and Librarians Hospital Room - includes both Private and Semi-Private room claims							

This cost increase was driven largely by improvements to the extended health care plan that took place on July 1, 2004, when the massage therapy benefit was expanded to provide coverage for physiotherapy and chiropractic treatment, and the Ontario Health Insurance Plan removed coverage for physiotherapy and chiropractic coverage. The University expected the improvement to cost $111,000 in 2004 – 05. This improvement, combined with the rising costs in other paramedical professional claims in 2004-05 over 2003-04, resulted in a 38.7% in one year. It is apparent that the actual impact of this improvement has been much greater than expected. This cost increase will be predominantly borne by the University, which is responsible for paying 75% of extended health care premiums.

The one-year increases noted above in the extended health services portion of the Extended Health Care Plan combined with increase in drug claims to result in an overall increase in EHC claims this year of 16.7 %. for active faculty and librarians – well above the average annual increases experienced in the three plan years between 2001 – 02 and 2003 – 04, as shown in the table below:

Average Annual Increase in $ Value of Paid Claims Per Active Member 2001-02 to 2003-04	
	% Increase
Medical (Extended Health Care and Hospital Combined)	8.60%
Extended Health Care	9.10%
Hospital	-1.90%
Dental	3.90%
Source: Hewitt Associates, 2004	

Notably, the average annual increase in CPI over the same period was 2.4%.[16]

The UTFA benefits proposal will have a significant financial impact

The University has costed UTFA's benefit proposal as follows.

Orthodontia increases	$273,000
Paramedical increases	$557,000
Pensioners retiring before 1981 to have full insured benefits	$156,000
Total	$986,000

These costs represent the expected increase in 2005 – 06 employer contributions for active and retired benefit plan members to cover the expected increase in claims resulting from these changes. While this cost is significant on its own, it does not reflect the total cost of UTFA's benefit proposal. In this regard, the University notes:

- UTFA's proposals would result in a significant increase in unfunded liability for future retiree benefit costs. The orthodontia proposal, for example, would increase the unfunded liability for retiree benefits by approximately $750,000. Likewise, the paramedical proposal would increase the unfunded liability for retiree benefits by approximately $3.1 million.

- The $156,000 cost of granting full benefits to pre-1981 retirees does not reflect the significant costs that would likely be borne over the long-term as a result of changes in claims experience. Contribution rates would likely rise based on the claims impact of insuring this older population. Given that the current plan does not have any maximums with respect to hospitalization, nursing care, or drug benefits, this cost is expected to be significant, but cannot be readily predicted.

- In increasing insurance benefits, there is always a risk that claims assumptions are understated. This risk is well-illustrated by the University's recent experience in improving the massage therapy benefit. As discussed above, the claims impact of this July 1, 2004 change has been greater than expected. The

[16] Toronto CPI, average 12-month increase for July 2002, July 2003, July 2004.

University submits that this risk should be considered by the Panel in assessing UTFA's benefit proposal.

e. A HCSA is a fiscally prudent way to provide additional benefits

This cost trend has led the University to support the introduction and funding of HCSAs as a means of containing benefit costs. HCSAs give the University better control over benefit costs because the University's contribution is defined. As noted above, a HCSA was introduced in 2004 as a means of providing medical benefits to pensioners retiring before June 1981. Also, in August 2005 the University agreed with CUPE, Local 3902 – Unit 3 to provide Sessional Lecturers with per-course HCSA contributions.

IX SUBMISSION ON "PER" PROPOSALS

PROPOSALS – PER ALLOWANCE	
University Proposal	**UTFA Proposal**
A Health Care Spending Account ("HCSA") will be introduced effective July 1, 2006 as an alternative vehicle for funds available under the Professional Expense Reimbursement. Prior to July 1st of each University Year (the period from July 1st to June 30th), Faculty members and Librarians entitled to the PER will be able to elect the following allocation of the PER funds for that University Year: 100% to the PER (default election); 50% to the PER and 50% to the HCSA; 100% to the HCSA. The timing and form of the election will be as prescribed by the University, subject to consultation with the Faculty Association, and the election will be irrevocable.	The PERA shall be increased from $775 to $1000 per year effective July 1, 2005. All part-time faculty represented by UTFA shall receive expense reimbursement pro-rated at 33% per full-course equivalent of the PERA rate effective July 1, 2005.

The practice of providing a professional expense reimbursement ("PER") has become commonplace at Ontario universities. It was first introduced at the University in 1999 at $250 per year, and the amount of the annual allowance has been increased over the years to $775. The PER benefit enables UTFA members to claim reimbursement for professional memberships, books, journal subscriptions, materials, equipment, conference fees, travel, computer hardware and software and other expenses related to their scholarship. The allowance is granted annually and is allowed to accumulate indefinitely.

Full time and part-time faculty and librarians participate in the PER program. Part-time employees who have greater than or equal to 50% but less than 100% of a full-time workload receive 80% of the annual PER allowance ($620) and part-time employees who have greater than 25% but less than 50% of a full-time workload receive 50% of the annual allowance ($387.50).

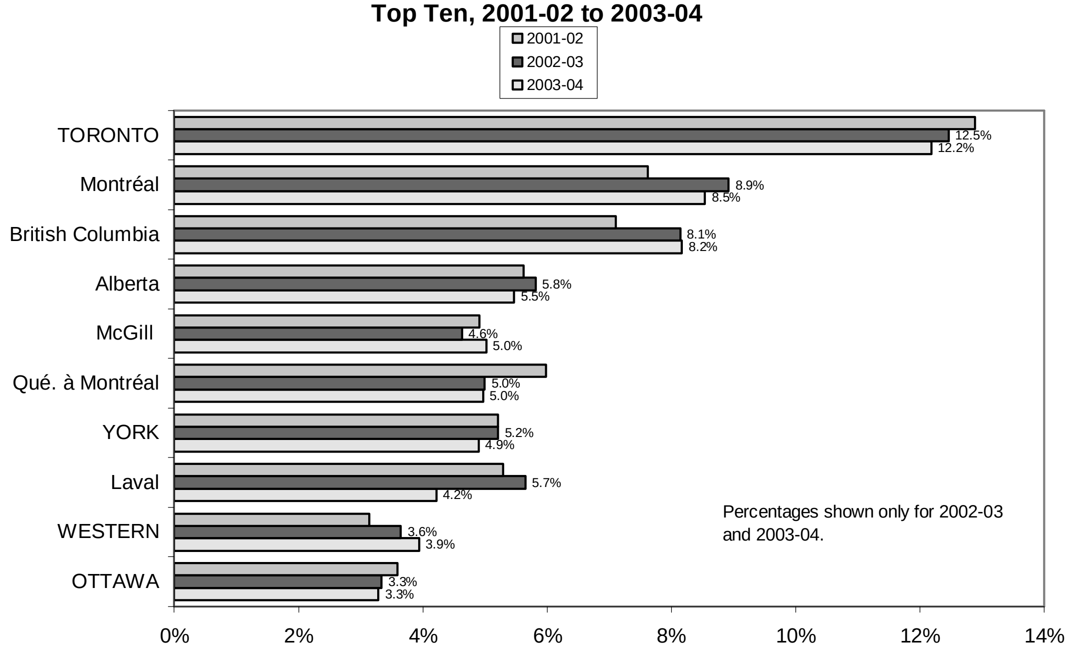
a. Professional expense reimbursement is a benefit with limited value

The University submits that a professional expense reimbursement is more beneficial at universities that are less research-intensive than the University of Toronto. Faculty members at the University have access to a range of resources that support their scholarship and teaching activity.

First and foremost, faculty members have an excellent track record in attracting funds from external sources. The three federal granting councils – the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council and the Canadian Institutes for Health Research – are the major source of peer-reviewed funding in Canada. The University leads all universities in total funding from each of the councils (see tables below from Performance Indicators for Governance 2004, updated with 2003-04 data). The University also leads all Ontario universities in research infrastructure funding under Ontario government programs, receives the greatest amount of funding under the Canada Foundation for Innovation program (a federal infrastructure support program) and has the greatest number of Canada Research Chairs.

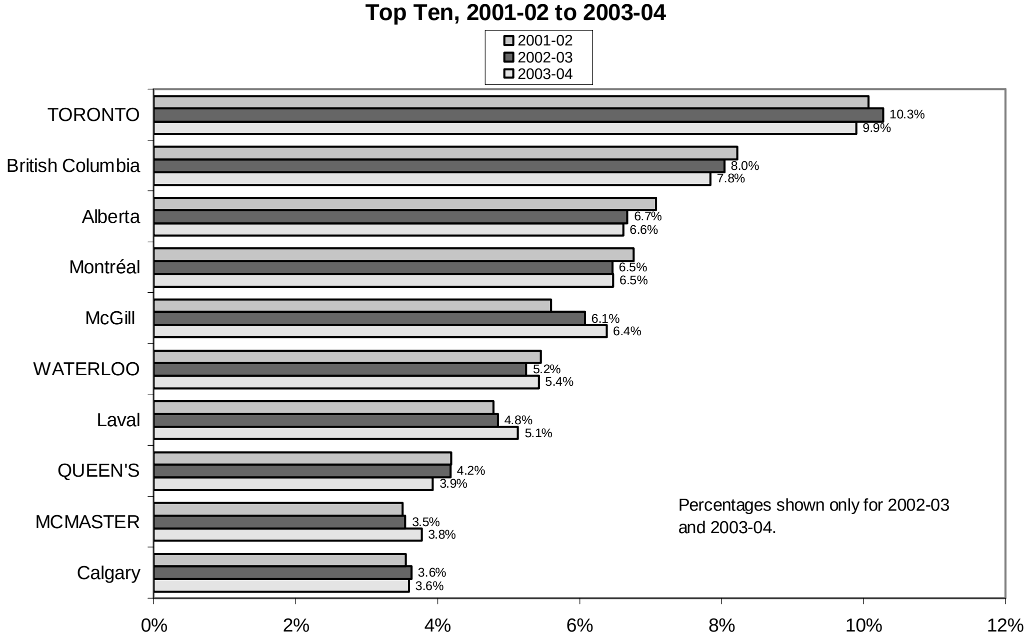
Note that faculty members and librarians who are unsuccessful in research grant competitions can apply to the University's Research Board to have a portion of their salary converted into a research grant from which they can deduct professional and research expenses.

SSHRC Funding to Canadian Universities
Top Ten, 2001-02 to 2003-04

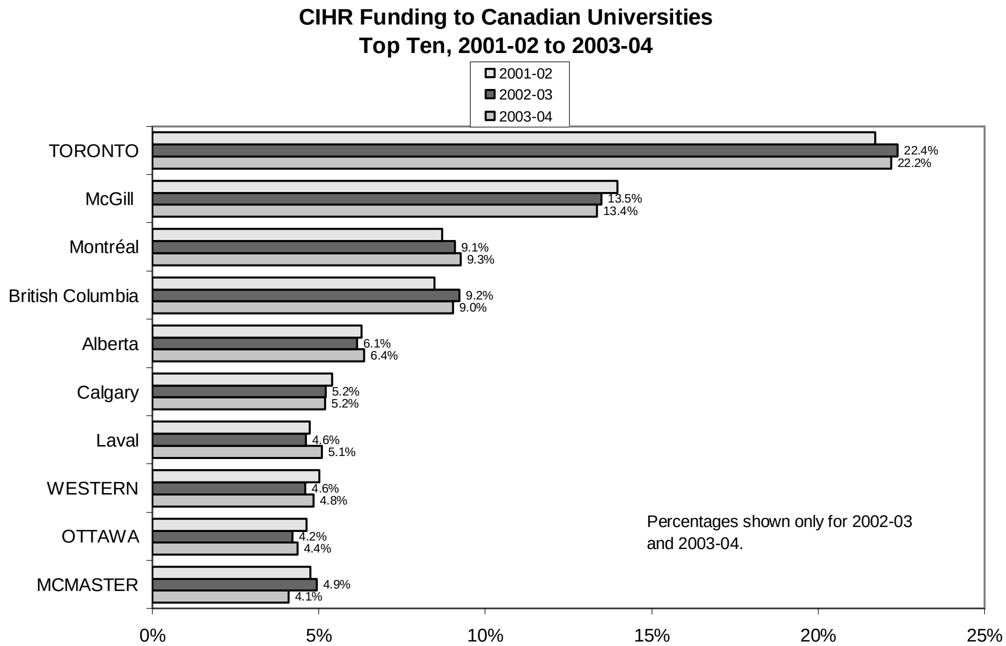


Source: SSHRC Program Statistics.
Percentages based on payments from SSHRC to Canadian universities and colleges (excluding payments to organizations others than universities and colleges, private individuals -- e.g. postdoctoral fellowships - and payments outside of Canada. Excludes Networks of Centres of Excellence and Canada Research Chairs. Ontario institutions are shown in capital letters.

NSERC Funding to Canadian Universities
Top Ten, 2001-02 to 2003-04



Source: NSERC Facts and Figures.
Percentages based on payments from NSERC to Canadian universities and colleges (excluding payments to other institutions and payments outside of Canada. Excludes Networks of Centres of Excellence and Canada Research Chairs. Ontario institutions are shown in capital letters.



Source: CIHR President's Report.
Percentages based on payments from CIHR to Canadian universities and colleges -- excluding organizations such as Arthritis Society, Alberta Cancer Brd. etc., and payments outside of Canada. Excludes Networks of Centres of Excellence and Canada Research Chairs. Ontario institutions are shown in capital letters.

The University also supports faculty members through a number of its own funding programs. For example:

- Every new tenure stream faculty member receives $10,000 from the University's Connaught Fund to assist the faculty member in meeting professional expenses, conference travel and so on. This is intended to immediately assist new faculty who have not yet established a research program capable of attracting external funding.

- It has become common practice for Deans and Department chairs to provide start-up funding packages to newly hired faculty members. For example, newly hired faculty members at OISE/UT are reimbursed for any travel and relocation expenses and are given a new computer. Other Divisions and Departments have similar support programs.

- The University provides a $10,000 annual research allowance to all faculty members that occupy an endowed chair or a Canada Research Chair.

Approximately 175 members of the University's faculty are in receipt of this annual allowance.

b. There is no demonstrated need for a PER increase

Given this level of research funding, it is not surprising that PER funds are accumulating. It is apparent that the PER is not necessary to the professional activity of faculty members and librarians. The poor utilization of these funds is a reflection of their limited value to faculty members and librarians and, accordingly, there is no demonstrated need for an increase to the annual PER allocation.

X SUBMISSIONS ON LIBRARIAN RESEARCH AND STUDY DAY PROPOSAL

PROPOSAL – LIBRARIAN RESEARCH AND STUDY DAYS	
University Proposal	**UTFA Proposal**
Status quo	The annual number of Research and Study Days for librarians shall be increased from 5 to 20.

In the previously expired agreement, the parties agreed to an annual professional development leave for librarians in the following language:

> For the period January 1, 2004 to June 30, 2004 each librarian shall be eligible for up to 2.5 days and thereafter 5 days annually, with the prior approval of the Chief Librarian or designate, to pursue research and/or professional development through activities including but not limited to attendance at conferences, courses or workshops. Unused days will not be accrued to a subsequent academic year.

a. No demonstrated need for more research and study days

UTFA has the burden of showing a demonstrated need for its proposal. While the University will address any specific assertion of need in its Reply, it states that five days of paid leave allows librarians to engage in a sufficient amount of annual professional development activity. Utilization of the five days appears to be low and the University is not aware of any requests for additional days to attend such professional development being turned down.

The proposal must also be assessed in light of librarians' current entitlement to long-term research and study leave. All together, the *current* allocation of annual research and study days and the current long-term research and study leave mean that the University's librarians have an excellent opportunity to take paid leave for professional development.

Research Leave

Permanent full-time librarians may take a research leave to engage in a research project that will benefit the librarian's continuing employment with the University. A twelve-month research leave at 82.5% of salary may be taken after six years of continuous service as a librarian at the University. Alternatively, a six-month research leave at full salary may be taken after six years of continuous service as a librarian at the University. After the initial research leave is taken, a six-month research leave at 82.5% of salary may be taken after every three additional years of service.

Study Leave

Permanent full-time librarians may take a study leave to engage in a formal program of studies, whether or not it leads to a degree, if the program of studies is of mutual benefit to the librarian and the Library. The amount of paid study leave (at 50% of salary) which may be granted is determined by length of continuous service, as follows:

After 3 years	6 months
4 years	8 months
5 years	10 months
After 6 years or more	12 months

b. Not fiscally prudent

The University has established its need for fiscal prudence. This additional 15 days amounts to 2250 days or 10 FTE librarians per year. Assuming full utilization, the cost of this proposal is approximately $540,000 every year. This cost being prohibitive, it is likely that acceptance of this proposal would result in a serious reduction in library services.

While the University does acknowledge the long-term benefit it receives by virtue of supporting librarian professional development, there is no need to increase the number of days provided for that purpose.