
THE UNIVERSITY OF BRITISH COLUMBIA



Human Resources
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Date: September 20, 2006

To: Deans, Directors, and Department Heads

From: Lisa Castle, AVP, Human Resources

**CC: HR Advisory Services, Faculty Relations
Hubert Lai, University Counsel
Martin Pochurko, Budget Office**

Re: UBC's Income Replacement Plan

Important information about UBC's Income Replacement Plan (IRP) has recently materialized.

UBC's IRP provides non-taxable benefits to faculty and staff who qualify and who are experiencing a long term illness or injury that is not work related. The plan has been in place since 1984, and it is commonly referred to as a long term disability plan. The premiums for this plan are paid by employees. The IRP is self-insured, and the University has engaged the services of SunLife to adjudicate and manage IRP claims.

Part of the ongoing administration of the Plan involves ensuring that surplus funds are invested for the purpose of growing the fund. The fund must be sufficient to cover future liabilities of the plan (i.e., payments to disabled employees in future years). The University retains the services of consultants such as benefits experts and actuaries, on behalf of the plan, to provide advice and recommendations in this regard.

Until now, the investment income that has been earned by Plan assets (e.g., dividends, interest) has been understood by the University to be tax-free, because the University has tax-free status as a charitable organization. However, we have recently been advised by senior tax and trust legal counsel that, notwithstanding the absence of a formal trust agreement, the IRP assets are legally considered to be a "trust fund". The University's income tax exemption does not apply to income earned through a trust of which it is not the beneficiary.

The implications of this are twofold: (1) back taxes and related interest are owing to the Canada Revenue Agency (CRA); and (2) going forward, tax must be paid on investment income.

At the end of July 2006, under the guidance of senior tax and trust legal counsel, the University completed disclosure of this situation to the CRA under the Voluntary Disclosure Program (VDP). The CRA has advised that under the auspices of the VDP, the CRA will waive all penalties, forgive the income taxes that should have been paid for periods prior to January 1, 2000, forgive the interest that should have been paid on the back taxes that should have been paid prior to January 1, 2000, and reduce the interest rate on back taxes for the 2000 and 2001 taxation years by 4%.

We are satisfied with the outcome of the voluntary disclosure.

However, the IRP will have to pay outstanding income taxes that should have been paid since January 1, 2000. Action is underway to prepare the necessary income tax returns by October 20th, and to arrange payment of the back taxes.

The University is committed to taking whatever action it can to smooth the effects of this unexpected change, and to minimize adverse impact on employees including avoiding an increase in contribution rates paid by employees for IRP, if possible. We are also committed to ensuring a financially healthy Income Replacement Plan for UBC faculty and staff.

We are having ongoing discussions with employee group representatives, including the Faculty Association, about this matter as they have a number of questions and concerns.

For further information regarding this matter, please contact Michelle Berner by e-mail at michelle.berner@ubc.ca or by phone at 604-822-9177.