

Communiqué

Fall 2019

Second Quarter 2019 Returns

The UAPP Fund experienced a gain of 2.16% in the second quarter of 2019, resulting in a year-to-date return of 8.8%.

Summary of Investments as at June 30, 2019 Total Market Value \$5,220.5 Million

Market Value and Asset Mix	30-Jun-19		31-Dec-18	
	(\$million)	Actual Mix (%)	(\$million)	Actual Mix (%)
Cash & Short-term	13.8	0.3	17.8	0.4
Universe Bonds & Mortgages	829.3	15.9	840.4	17.5
Real Return Bonds	366.9	7.0	336.5	7.0
Long Bonds	594.6	11.3	531.6	11.1
Total Cash & Fixed Income	1,804.6	34.5	1,726.3	35.9
Canadian Equities	626.9	12.0	544.4	11.3
Global Equities	1,839.9	35.3	1,762.8	36.7
Total Equities	2,466.8	47.3	2,307.2	48.0
Real Estate	431.4	8.3	424.9	8.8
Infrastructure & Private Equity	431.7	8.3	263.8	5.5
Timberland & Other Alternatives	86.0	1.6	85.8	1.8
Total Alternative Investments	949.1	18.2	774.5	16.1
Total Investments	5,220.5	100.0	4,808.0	100.0

Note: The numbers in the columns may not add up exactly due to rounding

Investment Performance of the Fund	Quarter ending	One Year ending	Four Year ending
	30-Jun-19	30-Jun-19	30-Jun-19
Cash and Short-term	0.5	2.0	1.3
<i>FTSE Canada 91-Day T-Bill Index</i>	0.4	1.6	0.9
Fixed Income	3.3	8.4	4.3
<i>Fixed Income Investments Indices</i>	3.4	8.4	4.2
Canadian Equity	2.1	1.6	6.0
<i>S&P/TSX Capped Composite Index</i>	2.6	3.9	6.2
Global Equity	0.6	2.4	8.5
<i>MSCI World & Emerging Markets Indices</i>	1.1	4.7	8.6
Real Estate	1.3	10.7	7.7
<i>IPD Large Institutional All Property Index</i>	1.3	6.6	7.2
Alternative Investments	2.5	11.8	8.9
<i>Alternative Investments Indices</i>	2.1	7.5	7.4
Total Investment Return	2.2	5.6	7.2
<i>Policy Benchmark Return</i>	2.3	6.4	6.7

Contribution Rate Change

An actuarial valuation for UAPP was recently filed and, effective July 1, 2020, the contribution rates are changing slightly with no net change though individual members will notice small differences.

See page 3 of this Communiqué for more information...

Missing Plan Members

When members of pension plans like the Universities Academic Pension Plan (UAPP) terminate employment, one of the options is to leave the accrued pension benefits behind. After all, many members are far too young to retire and feel secure in leaving their funds with the plan until such time as they decide to retire. They avoid the investment risk associated with withdrawing their funds and investing them on their own. Oftentimes, however, a significant period of time may pass and they may forget they have pension benefits left behind. Some members may assume that they have already received their benefit when, in fact, they have not. Since these members have left employment with their employer, they are likely to move to carry on with their careers. These moves are often done without notifying their previous pension plan that they have a new address and contact is lost.

As pension plans age, so too do these members with benefits left behind. In effect, the plan considers these members “missing” because they no longer reside at the last address that the plan has on file. UAPP has a growing number of these missing members. The plan's administrators regularly search for these members online, but this search can be comparable to looking for a needle in a haystack, particularly if the person missing is named John Smith!

If you know of a former colleague who may not have either withdrawn their pension funds or commenced their monthly pension, please get them to contact the UAPP Administration Centre by one of the following means:

- Mail - 201 City Centre Drive, Suite 1000, Mississauga, ON L5B 4E4
- Phone - 1.866.709.2092 (toll-free)
- Email - uapp.pensions@buck.com

Once the identity of the caller is confirmed, the Administration Centre would be pleased to confirm whether a pension is still owed and get the ball rolling for processing the newly found member's options.

2018 Actuarial Valuation Results

To review the financial position of the UAPP, the Board arranged for an actuarial valuation of the Plan as at December 31, 2018. The table below provides the results of the recently completed valuation compared to the results of the previous valuation performed as at December 31, 2016.

(\$millions)	December 31, 2018			December 31, 2016		
	Pre-92 Service	Post-91 Service	Total Service	Pre-92 Service	Post-91 Service	Total Service
Market Value of Assets	655.8	4,175.1	4,830.9	750.4	3,598.9	4,349.3
Actuarial Adjustment	11.8	102.0	113.8	(12.0)	(37.2)	(49.2)
Actuarial Value of Assets	667.6	4,277.1	4,944.7	738.4	3,561.7	4,300.1
Accrued Liability	1,536.9	4,412.6	5,949.5	1,603.4	3,800.0	5,403.4
Actuarial Deficiency	(869.3)	(135.5)	(1,004.8)	(865.0)	(238.3)	(1,103.3)
Funded Ratio	43.4%	96.9%	83.1%	46.1%	93.7%	79.6%

Plan Assets

The Plan experienced a (0.5)% market rate of return for 2018 and 11.1% for 2017, resulting in an increase in the actuarial value of assets of the Plan with the rate of return averaging 6.9% per annum over this 2-year period versus the 2016 valuation assumption of 5.6% per annum.

The market value of the assets is adjusted by a smoothing method to determine the actuarial value of assets. Smoothing is used to reduce the impact on contribution rates of the volatility in the market value of assets due to short-term fluctuations in the markets. Due to the negative return in 2018, the market value of assets is lower than the actuarial value used for valuation purposes. The use of the smoothing method softens the impact of both negative and positive markets on the actuarial position of the Plan.

Based on the December 31, 2018 valuation results, the Plan's funded status has improved from 79.6% to 83.1%. The pre-1992 funded status continues to erode mainly due to the lengthy amortization of the pre-1992 unfunded liability to the end of 2043. The post-1991 funded status has improved due to the positive aggregate investment returns and the post-1991 unfunded liability being amortized over only 15 years.

Plan Liabilities

The Board, in consultation with the actuary, reviewed the assumptions used to determine the liabilities and contribution requirements of the Plan and made a few changes for the 2018 valuation. The discount rate used to value Plan liabilities was reduced from 5.60% per annum to 5.46% per annum due to the more conservative rates of return expected to be earned in the market over the long-term. The net impact of this change can be seen in increases in the present value of the accrued pension liability and current service cost.

New Contribution Rates Effective July 1, 2020

To secure the benefits of Plan members and comply with the funding requirements of the *Employment Pension Plans Act* (Alberta), the Board, on the advice of its actuary, is maintaining total contribution rates at roughly the same level with some slight shifting of the required rates for the different salary portions. The current and new (effective July 1, 2020) contribution rates are as follows:

Institution	CURRENT RATE (% of salary)						NEW RATE (% of salary) Effective July 1, 2020					
	Employee			Employer			Employee			Employer		
	A	B	C	A	B	C	A	B	C	A	B	C
Alberta, Calgary & Lethbridge	12.46	16.23	1.45	12.46	16.23	1.45	12.37	16.32	1.52	12.37	16.32	1.52
Athabasca & Banff	11.96	15.73	1.45	12.96	16.73	1.45	11.87	15.82	1.52	12.87	16.82	1.52

Note:

'A' applies on salary up to YMPE, or CPP earnings cap of \$58,700 for 2020

'B' applies on salary above the YMPE and up to the pensionable salary cap of \$172,221.11 for 2020

'C' applies on salary above the pensionable salary cap

Impact on Members

The new contribution rates will take effect until July 1, 2020. Based on the 2020 YMPE and pensionable salary cap, the estimated monthly change in employee contributions to the UAPP would be as follows:

Monthly Salary	Monthly Change ¹	After-tax Monthly Change ²
\$4,000	(\$3.60)	(\$2.30)
\$6,000	(\$3.41)	(\$2.18)
\$8,000	(\$1.61)	(\$1.03)
\$10,000	\$0.19	\$0.12
\$12,000	\$1.99	\$1.28
\$14,000	\$3.79	\$2.43
\$16,000	\$5.27	\$3.37

¹ This amount includes the impact of changes in the UAPP contribution rates.

² This amount has been calculated assuming a marginal income tax rate of 36%. The actual after-tax amount will vary depending on a member's marginal tax rate.

Feature on UAPP Website

Actuarial valuation reports prepared for the UAPP are posted on our website at www.uapp.ca/publications/actuarial-valuation/. The plan is required by legislation to complete an actuarial valuation on a regular basis. For UAPP, this is generally at least once every two years. The Board of Trustees must hire a qualified actuary to perform the valuation and to file the report and its associated documentation on behalf of the Board

The purposes of the valuation report include i) determining the financial position of the plan on a going concern basis, ii) determining the financial position of the plan on a solvency basis, iii) determining the funding requirements of the plan, and iv) providing the necessary actuarial certification required under the Employment Pension Plans Act (Alberta) and the Income Tax Act. To take effect, the report must be filed with both the provincial and federal regulators.

The past few valuation reports are posted on the website so readers can see how the financial position, assumptions, contribution rates, etc. have changed over the years.

UAPP And AIMCo

During Fall 2019, there have been multiple media reports that refer to the Alberta Investment Management Corporation (AIMCo) resulting from legislative work by the provincial government with respect to the managing of investments for several public sector pension plans in Alberta. These reports have generated some questions from UAPP members about this plan's relationship with AIMCo.

AIMCo has been one of UAPP's investment managers since the crown corporation was first established in 2008. In fact, prior to 2013, all UAPP investments were managed by AIMCo. In that year, some fixed income assets were transferred to two other investment managers, Beutel Goodman and Fiera Capital. Today, about 78% of UAPP's fund is invested through AIMCo with the other two managers sharing the remaining 22% about evenly.

The performance of all three managers is monitored by the Board of Trustees on an ongoing basis. UAPP continues to be a proud partner with all three firms as the plan strives to achieve its investment goals on behalf of all plan members.

Questions About Your Pension or the Retirement Planner?

Call the UAPP Administration Centre toll-free at 1.866.709.2092.



New to the UAPP?

We encourage you to spend some time reviewing our website, www.uapp.ca. You will find lots of information in the “Publications” section, including our Member Handbook and a New Member Basics Information Sheet. Questions about UAPP can be directed to the UAPP Trustees’ Office at 780.415.8868.

Thinking About Retirement?

You can run an unlimited number of estimates on the Retirement Planner, adjusting for important details like retirement dates and future salary adjustments. Also, read the Information Sheet “Preparing for Retirement”, available at www.uapp.ca under “Publications”.

Keep Your Address and Beneficiary Information Updated

If you leave employment and leave your funds with the UAPP, it will be important to ensure the UAPP has your most up-to-date address and beneficiary information. Use the UAPP Designation of Spouse and Non-Spouse Beneficiary form, available at www.uapp.ca under “Forms”. Doing so will help expedite any required payment to your beneficiaries. Make sure your family and your executor know you are entitled to a benefit from the UAPP.



Comments?

If you recently used the services of any group (the UAPP Administration Centre, CIBC Mellon, the Human Resources Department at your institution, or the UAPP Trustees’ Office) on a matter related to the UAPP and would like to comment on the service you received, please feel free to write to us at board@uapp.ca. Other contact information is available on our website, www.uapp.ca, under “Contact Us”.



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