

Communiqué

Fall 2020

Second Quarter 2020 Returns

The UAPP Fund experienced a gain of 9.7% in the second quarter of 2020, resulting in a year-to-date return of -3.3%.

Summary of Investments as at June 30, 2020 Total Market Value \$5,250.7 Million

Market Value and Asset Mix	30-Jun-20		31-Dec-19	
	(\$million)	Actual Mix (%)	(\$million)	Actual Mix (%)
Cash & Short-term	9.1	0.2	12.5	0.2
Universe Bonds & Mortgages	857.2	16.3	844.7	15.5
Real Return Bonds	384.3	7.3	364.5	6.7
Long Bonds	670.1	12.8	598.2	11.0
Total Cash & Fixed Income	1,920.7	36.6	1,819.9	33.4
Canadian Equities	573.1	10.9	660.2	12.1
Global Equities	1,670.1	31.8	1,970.4	36.1
Total Equities	2,243.2	42.7	2,630.6	48.2
Real Estate	398.8	7.6	429.5	7.9
Infrastructure & Private Equity	619.9	11.8	491.0	9.0
Timberland & Other Alternatives	68.1	1.3	82.7	1.5
Total Alternative Investments	1,086.8	20.7	1,003.2	18.4
Total Investments	5,250.7	100.0	5,453.7	100.0

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

Investment Performance of the Fund	Quarter ending 30-Jun-20	One Year ending 30-Jun-20	Four Year ending 30-Jun-20
Cash and Short-term	0.3	1.8	1.5
<i>FTSE Canada 91-Day T-Bill Index</i>	0.1	1.6	1.2
Fixed Income	8.3	9.4	4.9
<i>Fixed Income Investments Indices</i>	7.8	9.1	4.7
Canadian Equity	17.6	-12.4	2.4
<i>S&P/TSX Capped Composite Index</i>	17.0	-2.2	5.7
Global Equity	14.5	-4.5	7.6
<i>MSCI World & Emerging Markets Indices</i>	14.1	6.2	10.4
Real Estate	-0.9	-3.4	5.4
<i>IPD Large Institutional All Property Index</i>	-0.9	1.4	5.6
Alternative Investments	1.0	3.7	7.8
<i>Alternative Investments Indices</i>	0.0	3.8	6.5
Total Investment Return	9.7	-1.6	5.8
<i>Policy Benchmark Return</i>	10.5	5.7	7.4

Commutated Values

The basis upon which pension plans like UAPP calculate lump sum values (i.e. Commuted Values) is changing effective December 1, 2020. Commuted Values are calculated at certain points in time as described below in lieu of the monthly lifetime pension calculated under the plan's terms.

Commutated Values

Plan Definition

Commutated Value means, in relation to benefits that a person has a present or future entitlement to receive, a lump sum amount which is the actuarial present value of those benefits computed using rates of interest, the actuarial tables, and other assumptions as may be determined by the Board of Trustees on the recommendation of the Actuary, subject to the requirements of the Employment Pension Plans Act, the Income Tax Act and the recommendations of the Canadian Institute of Actuaries (CIA).

When is a Commuted Value calculated?

Commutated Values are generally determined in situations where a plan member has a pension entitlement in UAPP and:

- Terminates employment prior to age 55. These members will receive pension options where they can elect to transfer their Commuted Value out of the plan in lieu of electing to receive a deferred monthly lifetime pension from the plan.
- Dies while in active service in the plan. If the member was at least age 55 and had a spouse immediately prior to the date of death, the surviving spouse will receive a lifetime pension from the plan. In all other cases of a death while in active service in the plan, a Commuted Value may be payable to the spouse, if applicable, or the last-named beneficiary.
- Upon marriage breakdown. Pension entitlements are considered family property so if a plan member experiences a marriage breakdown, it may be necessary to calculate a Commuted Value.

What is happening to the calculation of Commuted Values?

Plan members in UAPP accrue a monthly lifetime pension according to the formula defined under the plan terms. In certain circumstances as described above, this pension is converted into a lump sum present value in lieu of a lifetime monthly pension. This value is formally referred to as the Commuted Value. The CIA released its new standard for pension Commuted Values to take effect December 1, 2020. Since the Commuted Value is the present value of an amount to be paid at some time in the future, certain assumptions are required.

The changes to the standard will specifically impact two key assumptions used in calculating UAPP Commuted Values:

- Retirement Age:
 - Currently, all members are assumed to retire on the date which maximizes the Commuted Value. For UAPP, this means members are assumed to retire at age 55.
 - Under the new standard, members will be assumed to commence their pension with 50% probability at the age which maximizes the Commuted Value and 50% probability at the age at which the member is eligible for an unreduced pension.
- Discount Rates:
 - Rates reference monthly Government of Canada bond yields plus what's called a liquidity spread to reflect the fact that Commuted Values are going to be invested in something with greater risk than government bonds. The current standard assumes a fixed liquidity spread of 0.9%.
 - The liquidity spread under the new standard will be 2/3 of the provincial bond spread plus 1/3 of the corporate bond spread for medium- and long-term bonds. Limits are placed on the spread such that it will not exceed 1.5% but also be no less than 0.0%.
 - There is also a minor change in how the discount rates are rounded for plans indexed to inflation, like UAPP.

What else is changing with the new standard?

- Additional information is now required to be disclosed to members receiving a Commuted Value calculation.

- The new standard takes effect December 1, 2020 but Commuted Values are recalculated if no election is made within 6 months of the calculation (termination) date. Therefore, some Commuted Values calculated under the current standard may need to be recalculated under the new rules if no election is made in time. Additional disclosures have been included in the options packages to ensure members are informed that a new standard could apply in the case of a recalculation and that the Commuted Value may be greater or less than the amount shown in the original statement.
- Plans must also disclose the discount rate assumption in the options package. This was previously not required.

What is the impact of the new standard?

The exact impact of the changes to a member's Commuted Value will depend on each member's unique situation regarding age and service as well as the market conditions at the time of the calculation. However, if these changes were in place today, the assumed retirement age change would likely result in lower Commuted Values for all members except those with 25 or more years of service. This change will not impact the calculations for those particular members as their assumed retirement age will be the same as under the current standard.

The change in the liquidity spread calculation and the rounding of the discount rates would currently lead to slightly lower Commuted Values due to the current environment for government bond yields and the position of provincial and corporate bond spreads. However, future Commuted Values could end up being higher or lower, depending how this environment changes over time.

The retirement age and discount rate changes are being made to better reflect experience. In most plans, including UAPP, members have consistently been found to retire at later ages than is being assumed in the current standard. Also, the liquidity spread change will better reflect market conditions than the current fixed amount.

It is very important to note that these changes have no impact whatsoever on the original pension calculation. Only the Commuted Value calculation is affected.

What happens now?

The Trustees' Office is working with the UAPP Administration Centre to update the UAPP system to ensure the new standard is used in all Commuted Value calculations beginning December 1, 2020. A note has been added to the pension options package to advise members of the consequences of a delayed return of the election as any recalculation required after December 1 will be prepared using the new basis.

COVID-19 Update

As with employees at most offices across Canada, the UAPP administration teams have primarily been working remotely since the middle of March. Remote work continues into September. There are no plans yet for a full return to the office but our team continues to ensure all plan duties remain fulfilled.

If you have questions about your pension benefits, you have several ways to connect with us:

- Access the [Retirement Planner](#).
- Email us at board@uapp.ca.
- Visit our [website](#).
- Call the UAPP Administration Centre toll-free at 1.866.709.2092. Pensioners can also call CIBC Mellon toll-free at 1.800.565.0479.

Feature on UAPP Website

Each year, the UAPP Board of Trustees prepares a three-year Business Plan, posted to the website under Publications at www.uapp.ca/publications/business-plan/.

The Business Plan summarizes the Board's Mission and Values as well as its Strategic Direction in four main areas of focus:

- Providing high quality, cost-effective pension benefits administration services,
- Optimizing long-term investment returns,
- Providing effective communications, and
- Practicing effective governance.

Within these areas of focus, the Business Plan summarizes the regular initiatives to achieve the Board's Strategic Direction to improve the delivery of pension benefit administration services, review and enhance investment strategies, enhance communication programs, and provide effective and efficient plan governance. In addition, several specific key tasks are planned to be undertaken over the coming three-year period.

If you are 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 Trustees' Office at board@uapp.ca.

If you would like to comment on the service you received 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, please feel free to write to us at board@uapp.ca. Other contact information is available on our website, www.uapp.ca/contact-us/.

If you are 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/publications/information-sheets/.

If you leave employment and leave your funds in UAPP, 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/forms/. Keeping current 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.

If you have questions about your pension or the Retirement Planner, call the UAPP Administration Centre toll-free at 1.866.709.2092.

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