

Communiqué

Fall 2021



Second Quarter 2021 Returns

The UAPP Fund experienced a gain of 5.3% in the second quarter of 2021, resulting in a year-to-date return of 8.0%.

Summary of Investments as at June 30, 2021

Total Market Value \$6,204.2 Million

Market Value and Asset Mix	30-Jun-21		31-Dec-20	
	(\$million)	Actual Mix (%)	(\$million)	Actual Mix (%)
Cash & Short-term	48.0	0.8	12.6	0.2
Universe Bonds & Mortgages	842.7	13.6	880.3	15.3
Real Return Bonds	390.6	6.3	407.4	7.1
Long Bonds	616.6	9.9	664.9	11.6
Total Cash & Fixed Income	1,897.9	30.6	1,965.2	34.1
Canadian Equities	815.7	13.1	688.8	12.0
Global Equities	2,117.6	34.1	1,968.3	34.2
Total Equities	2,933.3	47.3	2,657.1	46.2
Real Estate	428.9	6.9	387.3	6.7
Infrastructure & Private Equity	893.9	14.4	692.0	12.0
Timberland & Other Alternatives	50.3	0.8	54.8	1.0
Total Alternative Investments	1,373.0	22.1	1,134.1	19.7
Total Investments	6,204.2	100.0	5,756.4	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-21	One Year ending 30-Jun-21	Four Year ending 30-Jun-21
Cash and Short-term	0.2	0.4	1.4
<i>FTSE Canada 91-Day T-Bill Index</i>	0.0	0.2	1.1
Fixed Income	2.7	-1.9	4.3
<i>Fixed Income Investments Indices</i>	2.6	-2.7	4.0
Canadian Equity	8.5	38.9	16.3
<i>S&P/TSX Capped Composite Index</i>	8.5	33.9	10.7
Global Equity	5.6	31.6	12.6
<i>MSCI World & Emerging Markets Indices</i>	5.6	27.0	12.0
Real Estate	2.2	-3.0	3.2
<i>MSCI/REALpac Cdn All Property Index</i>	2.2	0.3	3.9
Alternative Investments	9.4	26.0	12.2
<i>Alternative Investments Indices</i>	2.7	5.9	6.2
Total Investment Return	5.3	19.1	8.3
<i>Policy Benchmark Return</i>	4.3	12.7	7.9

Contribution Rate Change

An actuarial valuation for UAPP was recently filed and, effective July 1, 2022, the contribution rates are changing and individual members will notice a reduction in their required pension contributions.

See page 3 of this Communiqué for more information.

Actuarial Valuations

For defined benefit pension plans like the Universities Academic Pension Plan (UAPP), an actuarial valuation is a legislated governance requirement. An actuarial valuation includes the calculation of the minimum and maximum funding contributions required by pension standards. The purposes of the valuation are to determine the financial position of the plan on both a going concern (i.e. ongoing indefinitely) basis and a solvency (i.e. theoretical plan termination) basis. The valuation report provides both provincial and federal pension regulators with the necessary actuarial certification required under legislation. Contributions into a pension fund are not permitted unless a corresponding actuarial valuation report has been appropriately filed with these regulators. Normally, valuations are to be completed at least once every three years. However, the UAPP Board of Trustees has historically elected to complete a valuation every two years. As such, an actuarial valuation has been completed as at December 31, 2020 and the report is posted on our [website](#).

The Board approved the plan's Funding Policy which outlines the principles for guiding decision-making on actuarial valuations. To achieve intergenerational equity, the Policy requires that demographic and economic assumptions used in actuarial valuations are expediently adjusted to reflect actual experience and expectations. For the benefit of employers and members, a secondary objective is stable contribution rates. Lowering the discount rate used from 5.46% to 5.30% would put UAPP well within reach of both of these objectives. Updates to the termination and retirement rate assumptions should help achieve the intergenerational equity principle. Please see page 5 of this Communiqué for a breakdown of some of the most important assumptions used in this valuation.

On a total plan basis, the funded ratio has improved from 83.1% to 86.5% during the two-year inter-valuation period. Investment returns in recent years have contributed to improvement in the funded status on post-1991 service. Even though the discount rate is being lowered, the post-1991 funded ratio increases from 96.9% to 99.9%. With respect to pre-1992 service, the funded ratio continues to be significantly impacted by the long amortization of the unfunded liability. The Government of Alberta's contribution towards the unfunded liability is fixed at 1.25% with employers and members paying the balance of the cost. In this valuation, the combined employer and member contribution towards the pre-1992 unfunded liability is 3.57%, an increase from 3.04% at the last valuation. This increase is in part due to changes to the total payroll growth and headcount growth assumptions.

2020 Actuarial Valuation Results

The table below provides the results of the recently completed December 31, 2020 valuation compared to the results of the previous valuation performed as at December 31, 2018.

(\$millions)	December 31, 2020			December 31, 2018		
	Pre-92 Service	Post-91 Service	Total Service	Pre-92 Service	Post-91 Service	Total Service
Market Value of Assets	596.5	5,181.8	5,778.3	655.8	4,175.1	4,830.9
Actuarial Adjustment	(22.3)	(134.0)	(156.3)	11.8	102.0	113.8
Actuarial Value of Assets	574.2	5,047.8	5,622.0	667.6	4,277.1	4,944.7
Accrued Liability	1,444.4	5,052.2	6,496.6	1,536.9	4,412.6	5,949.5
Actuarial Deficiency	(870.2)	(4.4)	(874.6)	(869.3)	(135.5)	(1,004.8)
Funded Ratio	39.8%	99.9%	86.5%	43.4%	96.9%	83.1%

Plan Assets

The Plan experienced a 6.0% market rate of return for 2020 and 13.4% for 2019, 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 2018 valuation assumption of 5.46% 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 positive returns during 2019 and 2020, the market value of assets is greater 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, 2020 valuation results, the Plan's funded status has improved from 83.1% to 86.5%. 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 2020 valuation. The most significant assumption is the discount rate. The discount rate used to value Plan liabilities was reduced from 5.46% per annum to 5.30% 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, 2022

With the goals of securing the benefits of Plan members and complying with the funding requirements of the *Employment Pension Plans Act* (Alberta), the Board, on the advice of its actuary, is able to reduce the overall total contribution rates with lower required rates for the portion of salaries below the Year's Maximum Pensionable Earnings (YMPE) and between the YMPE and pensionable salary cap. The required rate above the pensionable salary cap will be increasing. The current and new (effective July 1, 2022) contribution rates are as follows:

Institution	CURRENT RATE (% of salary)						NEW RATE (% of salary) Effective July 1, 2022					
	Employee			Employer			Employee			Employer		
	A	B	C	A	B	C	A	B	C	A	B	C
Alberta, Calgary & Lethbridge	12.37	16.32	1.52	12.37	16.32	1.52	11.38	15.49	1.785	11.38	15.49	1.785
Athabasca & Banff	11.87	15.82	1.52	12.87	16.82	1.52	10.88	14.99	1.785	11.88	15.99	1.785

Note:

UAPP contribution rates vary based on the YMPE and the pensionable salary cap. These amounts are determined annually and are generally available in November of the previous year (i.e. the 2022 amounts are expected to be announced in November 2021). For the purposes of this Communiqué, our illustrations are based on the actual YMPE and pensionable salary cap for 2021. Please check the Contribution Rates section of our [website](#) in November 2021 for the 2022 values.

'A' applies on salary up to YMPE, or CPP base earnings cap (\$61,600 for 2021)

'B' applies on salary above the YMPE and up to the pensionable salary cap (\$180,757.78 for 2021)

'C' applies on salary above the pensionable salary cap

Impact on Members

The new contribution rates will take effect on July 1, 2022. Based on the 2021 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
\$6,000	(\$58.01)	(\$37.13)
\$8,000	(\$74.61)	(\$47.75)
\$10,000	(\$91.21)	(\$58.38)
\$12,000	(\$107.81)	(\$69.00)
\$14,000	(\$124.41)	(\$79.62)
\$16,000	(\$130.75)	(\$83.68)
\$18,000	(\$125.45)	(\$80.29)

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.

Actuarial Valuation Assumptions

One of the most important components of the actuarial valuation process is in the setting of the assumptions. UAPP pays pensions for the lifetime of its members so certain projections are required in the valuation to provide a reasonable picture of the financial position of the pension plan over the long-term. These assumptions are reviewed with the plan's actuary in advance of each actuarial valuation. Adjustments are made as needed. A list of some of the key assumptions at both the current and previous valuations follows:

- Discount Rate = 5.30% per year (decrease from 5.46% per year). Since pensions are paid well into the future, the value of those pensions must be discounted to the valuation date. The overall expected rate of return which factors in the pension fund's target asset mix is used to determine the discount rate.
- Inflation Rate = 2.25% per year (no change from previous valuation). UAPP pensions receive cost-of-living adjustments derived from 60% of Alberta Consumer Price Index so an inflation assumption is important.
- Pensionable Earnings Rate = 0.0% per year for two years and 2.75% per year thereafter (decrease from 1.0% per year for two years and 2.75% per year thereafter). The pension formula depends on a member's best average pensionable earnings at retirement, so a projection of earnings is another crucial valuation assumption.
- Retirement and Termination Rates = Custom table based on UAPP experience from 2010 to 2020 (update from custom table based on UAPP experience from 2009 to 2014). The timing of members leaving active employment in the plan determines when those members will either withdraw their UAPP pension funds in a lump sum or commence receipt of their monthly pension. Custom tables are used because each pension plan has unique termination and retirement experience and because UAPP plan membership is large enough to provide credible data for this purpose. Prior to this valuation, the plan's actuary performed an experience study to evaluate how past experience compared to the existing assumptions. The tables used to project rates of termination and retirement were subsequently adjusted for this valuation to better reflect anticipated future experience.

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

- **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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