FUNDING POLICY

Universities Academic Pension Plan

Effective December 6, 2021

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1.0 Introduction and Purpose

1.1 The Sponsorship and Trust Agreement authorizes the Board of Trustees (the “Board”) of the Universities Academic Pension Plan (“UAPP” and “Plan”) to set investment policy and manage the assets of the UAPP Trust Fund.

This Policy is subject to the provisions of the Sponsorship and Trust Agreement, sections of which are set out in Appendix A, and the UAPP Plan Text, sections of which are set out in Appendix B. This Policy is also subject to all applicable legislation, including the *Income Tax Act* (Canada) and the *Employment Pension Plans Act* of Alberta (“EPPA”).

1.2 The purpose of this Funding Policy is to outline principles that will guide the Board of the UAPP and its actuary in managing the financial position and funding requirements of the Plan.

1.3 This Funding Policy may be changed or modified at any time by the Board. It will be reviewed at least annually.

1.4 The Funding Policy will be available on the UAPP’s website.

2.0 Description of the UAPP

2.1 Effective January 1, 2001, the UAPP became a jointly sponsored registered pension plan subject to the EPPA. The Plan is established through a Sponsorship and Trust Agreement executed by the Plan Sponsors. Until December 31, 2000, the UAPP was established through a provincial statute with the Provincial Treasurer of Alberta as the trustee of the Plan.

2.2 The UAPP covers members of the academic and professional staff of four Alberta universities (Athabasca University, the University of Alberta, the University of Calgary, and the University of Lethbridge) and The Banff Centre. The employees of the Board and the professional staff at the University of Calgary Faculty Association, Athabasca University Faculty Association and the Association of Academic Staff University of Alberta also participate in the UAPP.

The UAPP is governed by the Board, made up of one person appointed by each of The Athabasca University Board of Governors, The Governors of the University of Alberta, The Governors of the University of Calgary, The Governors of the University of Lethbridge and the Governors of the Banff Centre; and one person appointed by each of the Athabasca University Faculty Association, the Association of Academic Staff University of Alberta, the University of Calgary Faculty Association, and the University of Lethbridge Faculty Association.

2.3 The UAPP is a defined-benefit plan and provides benefits based on highest average earnings. Cost-of-living adjustments are guaranteed (pre- and post-retirement) at a minimum of 60% of the annual increase in the Consumer Price Index (Alberta). Plan provisions include death-in-service benefits and disability pensions.

2.4 Contributions and investment earnings are expected to fund all benefits payable under the Plan. The costs for post-1991 service are met through employee and employer contributions. The actual split between employee and employer contributions can vary by institution. However, surpluses and deficits are equally shared between employees and employers. The Plan is exempt from funding solvency deficiencies in respect of all service.

2.5 Employees, employers and the Province of Alberta each pay additional contributions toward the pre-1992 unfunded liability. The Province of Alberta contributes 1.25% of salary and employees and employers split equally the remainder of the contributions required to eliminate the pre-1992 unfunded liability by the year 2043.

3.0 Funding Objectives

3.1 The Board's long-term goal is to ensure the provision of the pension benefits to members and their beneficiaries.

3.2 Since the cost of the Plan, including benefits and administrative and investment expenses, are primarily paid for by the employers and members, stable contribution rates is a key secondary objective. There is limited desire to fund sudden and large increases in contribution rates, and large decreases are also not desirable as they may lead to large contribution rate increases being required in the future.

3.3 Intergenerational equity is provided, to the extent possible, by expediently adjusting the demographic and economic assumptions used in actuarial valuations to reflect actual experience and expectations. The goal of this objective is to ensure that the current generation of contributors pay for, and only pay for, the benefits accruing to the current generation of active members.

3.4 The Funding Policy and Statement of Investment Policies and Goals ("SIP&G") are key tools available to the Board for the management of risk and the achievement of the Plan's goals. These two policies should be managed together through an integrated approach in order to increase the likelihood of the Plan meeting its objectives and to ensure that risk is properly managed. The SIP&G should support the objectives and principles underlying this Funding Policy, within the Board's tolerance for risk.

4.0 Key Risks and Management of the Risks

4.1 The Board has identified the following risks that could impact benefit security and increase contribution rate volatility:

(a) Investment returns below expected levels will require additional contributions to support the funding position of the Plan.

(b) Actual experience differing from the actuarial assumptions used for valuation purposes could, over time, increase the cost of the Plan and create unfunded liabilities which require additional funding.

(c) As the Plan matures, a greater proportion of the liabilities will be related to retired and inactive members leading to intergenerational inequity as deficits will have to be funded by a declining proportion of active members.

(d) If the cost of the Plan continues to rise, it may become more difficult for active members and employers to make the required contributions to the Plan.

(e) When assets related to pre-1992 service become depleted, post-1991 assets will need to be liquidated to pay benefits which will reduce the long term investment time horizon, may negatively impact investment returns, and increase the cost of the Plan.

4.2 The Board uses the following tools to manage these risks:

(a) The SIP&G is reviewed annually for changes to ensure the established investment policies for the management of the Plan's assets continues to reflect the Plan's investment time horizon and the Board's objectives and beliefs.

(b) The investment managers and their investment performance is monitored quarterly.

(c) An asset liability study is performed regularly to assist with the review of the Plan's asset mix policy to ensure it continues to reflect the Plan's risk tolerance.

(d) Actuarial valuations are performed at least triennially and actuarial extrapolations from the previous valuations are performed annually to assist in monitoring the funding position of the Plan.

(e) The assumptions adopted for each actuarial valuation are adjusted to reflect actual experience, expectations and projected improvements and contribution rates are adjusted accordingly.

5.0 Actuarial Methods and Assumptions

5.1 The going concern measurement basis uses the projected accrued benefit actuarial cost method to measure the Plan's assets, liabilities, and surplus or deficit.

5.2 Asset values and investment returns should be smoothed over a three year period when determining the required contribution rates, provided that the smoothed asset value is not more than 110%, nor less than 90%, of the actual market value.

5.3 Contribution rates will be set by the Board based on a going concern actuarial valuation, performed at least triennially. (Trust paragraph 4.1)

5.4 Contribution rates should reflect the cost of the benefits being accrued and shall comply with all applicable legislation. The calculation of special payments required to fund unfunded liabilities shall be based on the longest amortization periods allowed by applicable legislation. (Trust paragraph 4.3(a))

5.5 The Plan is currently exempt from the solvency requirements and therefore the solvency position of the Plan will not be taken into account in setting contribution rates.

5.6 Over the long term, actual experience versus the assumptions used for valuation purposes are not expected to generate a surplus or deficit. The valuation assumptions should reflect the long term return expectations of the investments, based on the target asset mix set out in the SIP&G. In the short term, deviations of experience versus the valuation assumptions are expected.

5.7 In light of the objective of contribution stability, assumptions should not be unduly influenced by current conditions and recent events, subject always to the objective of benefit security.

5.8 Assumptions are set by the Board based on recommendations from the actuary within the parameters of this Funding Policy.

6.0 Utilization of Funding Excess

6.1 The funding target for the Plan is to have a funded ratio of at least 100% on the going concern measurement basis. The Plan is considered to have a Funding Excess when an actuarial valuation reveals that the assets of the Plan exceed the liabilities of the Plan, as determined by the actuary.

6.2 If an actuarial valuation reveals a Funding Excess, the Board may use it to prevent any increase to the contribution rates that would otherwise be required. (Plan paragraph 6.06(1))

6.3 In the event a Funding Excess continues to exist after the application of Section 6.2, the Board shall provide the Plan Sponsors with recommendations (which are not binding on the Plan Sponsors) as to how the Funding Excess is to be utilized. After receiving the Board's recommendations, the Plan Sponsors shall direct that the Funding Excess is to be utilized by one or more of the following:

(a) Maintained in the Plan as a cushion against future adverse experience;

(b) Used to reduce future contribution rates;

(c) Reduced or eliminated by granting benefit improvements; or

(d) Used to accelerate the funding of unfunded liabilities or solvency deficiencies.

Upon receipt of direction from the Plan Sponsors, the Board shall implement the decision of the Plan Sponsors without undue delay. (Trust paragraph 4.7, Plan paragraph 6.06(2))

6.4 Should a Funding Excess, measured for the Plan as a whole, exceed the maximum amount permitted under the *Income Tax Act*, the Board shall direct that such portion of the Funding Excess as required by the *Income Tax Act* be used to equally reduce or eliminate employee and employer contribution obligations. (Plan paragraph 6.06(6))

Appendix A – Extracts from the Sponsorship and Trust Agreement

2.3 The Sponsors are responsible in accordance with paragraph 4.7 for determining the treatment of any surplus which is available for reduction of future contribution rates, and whether the unfunded liabilities and solvency deficiencies should be funded at a faster rate than referred to in paragraph 4.3(a).

PART 4

DECISIONS ABOUT FUNDING

Actuarial valuations

4.1 The Trustees may at any time have the Actuary provide any valuation, or other consulting services with respect to the Plan. At least once every three years, the Trustees must have the Actuary prepare an actuarial valuation of the Plan and an actuarial report which will be used for the purpose of setting contribution rates under paragraph 4.3 and filed with the Superintendent of Pensions.

Trustees to approve actuarial assumptions and methods

4.2 The Actuary shall prepare actuarial valuations using assumptions and methods acceptable to the Actuary and approved by the Trustees. These assumptions and methods may take account of the need to stabilize funding levels and contribution rates through periods of fluctuating Plan experience and investment volatility.

Trustees to set contribution rates

4.3 If an actuarial valuation is used for the purpose of determining contribution rates, the Trustees shall within a reasonable time after receiving the initial results of the valuation and related advice from the Actuary determine contribution rates that:

(a) comply with the applicable funding requirements of the *Employment Pension Plans Act* and any other applicable legislation, provided that, where there is a choice as to the period over which unfunded liabilities or solvency deficiencies are to be funded, the longest available period is chosen,

(b) comply with any registration requirements of the *Income Tax Act* that require the use of excess surplus to finance contributions,

(c) are shared by Employers and Employees as jointly specified by the Employer and the Academic Staff Association (if any) at each institution, as described in paragraph 4.9,

(d) satisfy the requirements of paragraph 4.10 relating to preservation of the Crown's obligation to make additional contributions and, for this purpose, the Trustees may apply the provisions of this Part 4 to contribution rates, surpluses, unfunded liabilities, and solvency deficiencies in respect of pre-

1992 and post-1991 service separately to the extent that they consider it appropriate to do so, and

(e) to the extent surplus is available, use it to prevent any increases in contribution rates that would otherwise be required.

Actuarial report

4.4 Within a reasonable time after the Trustees have made a determination about contribution rates pursuant to paragraph 4.3, the Actuary shall prepare the actuarial report and deliver it to the Trustees. The report shall:

(a) present the results of the valuation,

(b) identify and deal separately with pre-1992 and post-1991 service, pre-1992 and post-1991 assets, and pre-1992 and post-1991 liabilities,

(c) state the contribution rates set by the Trustees and the components of the contribution rates required for calculating Employer and Employee contribution shares under paragraph 4.9, and

(d) identify the extent to which the contribution rates may be further varied by application of any unallocated surplus or by acceleration of the funding of any unfunded liabilities or solvency deficiencies.

4.5 Upon receipt of the actuarial report, the Trustees shall cause any revisions to the contribution rates to be implemented without undue delay.

4.6 The Trustees shall arrange for the actuarial report to be filed on a timely basis with the applicable regulatory authorities and shall at or about the same time provide copies of the actuarial report to (a) the chief financial officer of each Employer and (b) the president of each Academic Staff Association.

Unallocated surplus and remaining funding decisions to be dealt with by the Sponsors

4.7 The Sponsors shall determine how any surplus which is available for reduction of future contribution rates, as described in the actuarial report in accordance with paragraph 4.4(d), is to be treated. The methods for dealing with such surplus may include carry-forward, reduction of future contribution rates, and provision of benefit improvements. The Sponsors may also determine that the funding of unfunded liabilities and solvency deficiencies should be accelerated, as described in the actuarial report in accordance with paragraph 4.4(d). These determinations shall be made:

(a) after having received the recommendations of the Trustees (which recommendations shall not be binding on the Sponsors),

(b) in accordance with the requirements of any applicable legislation,

(c) subject to the requirements of paragraph 4.10 relating to preservation of the Crown's obligation to make additional contributions, and

(d) with the consent of a majority of the Employers, which majority together employs at least 75% of the Employees who are Members of the Plan, as well as by all the Academic Staff Associations (if any) corresponding to those Employers.

4.8 Upon receipt of direction from the Sponsors based on determinations made under paragraph 4.7, the Trustees shall implement the decisions of the Sponsors without undue delay.

Appendix B – Extracts from the Plan Text

2.35 ***Funding Excess*** means, at any particular point in time, the excess of Plan assets over Plan liabilities, as determined by the Actuary. The assets and liabilities shall be as contained in the most recent going concern valuation report with respect to the determination of Funding Excess on a going concern basis or the Plan solvency valuation report with respect to the determination of Funding Excess on a wind-up basis, filed with and approved by the appropriate regulatory authorities.

2.67 ***Solvency Deficiency*** means a solvency deficiency as defined under the Employment Pension Plans Act.

2.75 ***Unfunded Liability*** means, at any particular point in time, the excess of Plan liabilities over Plan assets, as determined by the Actuary. The assets and liabilities shall be as contained in the most recent going concern valuation report with respect to the determination of Unfunded Liability on a going concern basis, filed with and approved by the appropriate regulatory authorities.

3.01 ***Minimum Compliance Funding Levels***

On the recommendation of the Actuary, the Board of Trustees shall establish the aggregate contribution rates for the Plan as a whole in order to comply with the funding requirements of the Employment Pension Plans Act and the funding levels permitted under the Income Tax Act. Such aggregate contribution rate shall recognize:

(1) the ongoing current service requirements of the Plan;
(2) the level of Additional Contributions required to eliminate the Plan's Unfunded Liability, if any, for pre 1992 service under the terms of the Statutory Plan;
(3) the level of special payments required to eliminate the Plan's Unfunded Liability, other than noted in Section 3.01(2), or Solvency Deficiency, if any, under the terms of the Employment Pension Plans Act;
(4) if any, the level of Funding Excess which exceeds the maximum amount permitted under the Income Tax Act; and
(5) any funding and surplus policies established by the Plan Sponsors pursuant to the Sponsorship and Trust Agreement.

6.06 ***Treatment of Funding Excess***

(1) If an actuarial valuation that is performed for the purpose of determining contribution rates reveals a Funding Excess, the Board of Trustees may, to the extent the Funding Excess is available, use the Funding Excess to prevent any increases in contribution rates that would otherwise be required. The Board of Trustees will, in this actuarial valuation, indicate the extent to which the

Funding Excess is allocated to prevent contribution increases, and will identify the extent to which the contribution rates may be further varied by application of any unallocated Funding Excess.

(2) Subject to the provisions of the Sponsorship and Trust Agreement, after receiving the information from the Board of Trustees and any recommendations thereto with respect to unallocated Funding Excess in clause (1), the Plan Sponsors, may direct that such Funding Excess, or any portion thereof, be used by Members and the Participating Employers to meet their contribution obligations under Section 6.01 or 6.03.

(3) Where the Funding Excess is to be used to reduce, but not eliminate, the contribution requirements of Section 6.01 or 6.03, then the contributions shall be reduced in accordance with the following:

(a) by the Contributing Members, based proportionately on each individual's Capped Salary For Post 1993 Service, in the aggregate amount of 50% of the total Funding Excess to be utilized;

(b) by the Participating Employers, based proportionately on the Capped Salaries For Post 1993 Service of all Members who are Employees of a particular Employer, in the aggregate amount of 50% of the total Funding Excess to be utilized;

(4) Where the Funding Excess is to be used to eliminate the contribution requirements of Section 6.01 or 6.03, then the Plan Sponsors shall establish the period over which all Participating Employers and Employees shall make no contributions to the Plan under Section 6.01 and 6.03;

(5) Once the Unfunded Liability for pre-1992 Pensionable Service described in Section 6.04(2) is eliminated, any Funding Excess for pre-1992 Pensionable Service may be combined with the Funding Excess for post-1991 Pensionable Service and may be used to meet contribution obligations in accordance with this Section 6.06;

(6) Should the Funding Excess, measured for the Plan as a whole, exceed the maximum amount permitted under the Income Tax Act, the Board of Trustees shall direct that such portion of the surplus assets as required by the Income Tax Act be used to make the Employee and Participating Employer contribution obligations in the manner described in Sections 6.06(3) and 6.06(4), as applicable.