UNIVERSITIES ACADEMIC PENSION PLAN

Highlights of the 2011 Annual Report

Communiqué

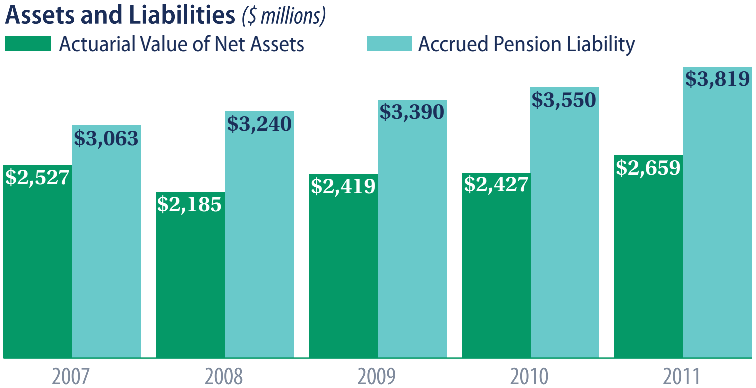
Spring 2012

Member and Pensioner Statistics

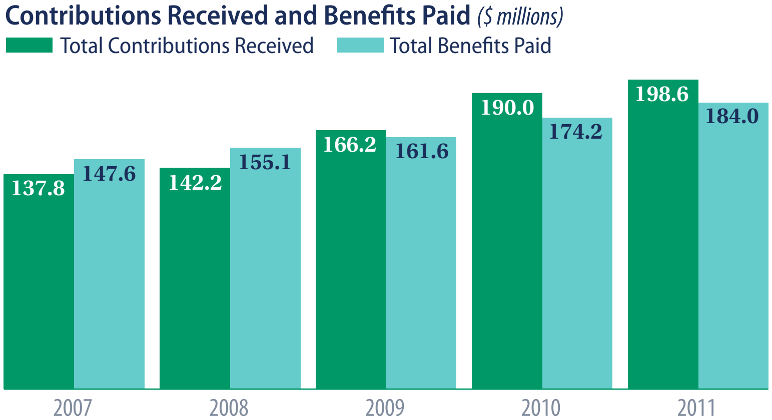
The UAPP's 2011 Annual Report

The UAPP's Annual Report for the year 2011 has been released and this issue of the Communiqué provides financial, statistical and other summary highlights of the Report. The full Annual Report is available on the UAPP website **www.uapp.ca** under Publications.

Assets and Liabilities *($ millions)*



Contributions Received and Benefits Paid *($ millions)*



Summary of Net Assets and Pension Liabilities *($ millions)*

As at December 31

	2011	2010
Investments	$2,610	$2,525
Net receivable	18	15
Net assets	2,628	2,540
Actuarial adjustment for fluctuation in fair value of net assets	31	(113)
Actuarial value of net assets	2,659	2,427
Actuarial deficiency	1,160	1,123
Accrued pension liability	$3,819	$3,550

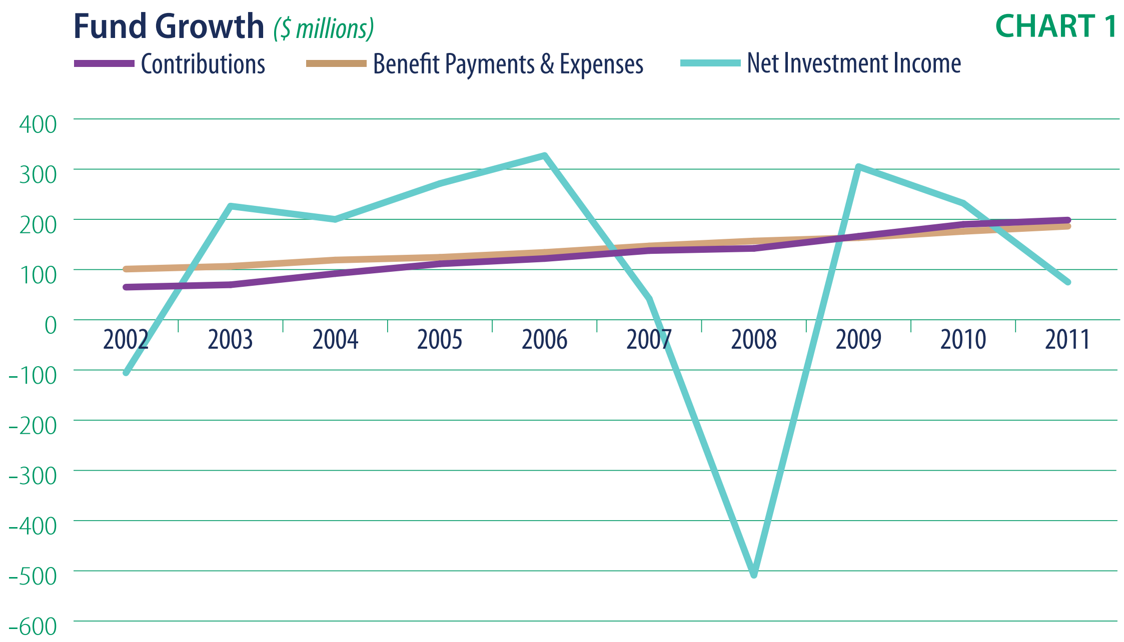
Financial Position of the Plan

The Plan's Assets

The market value of the UAPP Fund was $2,627.6 million at the end of 2011. This is an increase of $87.2 million from the $2,540.4 million market value of the Fund at the end of 2010.

The Plan's investment income net of investment costs was $74.6 million and the total contributions to the Plan exceeded benefits payments and administrative expenses by $12.6 million.

As can be seen from **Chart 1**, contributions to the Plan have historically been below the total of benefits payments and general expenses except for the last two years when they have been slightly above. Therefore, the growth in the Plan's assets has been largely dependent on the net investment income which has been highly volatile in the last decade - ranging from $327 million in 2006 to -$509 million in 2008. These year-to-year swings have mirrored the volatile performance of capital markets in general.



In order to reduce the impact of volatility in annual investment returns, the actuarial value of assets, instead of market value, is used in determining contribution requirements.The actuarial value is based on a 3-year average of the differences between the rates of return assumed in the actuarial valuation and the market rates of return as described in Note 14 of the Financial Statements.

This means that, in better-than-expected markets (2003-2006), a smoothing reserve (cushion) builds up, and in worse-than-expected markets, a deficit is accumulated.

In 2009 and 2010, investment returns were higher than the actuarially-assumed returns and, as a result, the Plan built up a cushion of $113.2 million at the end of 2010. Since the investment return in 2011 is lower than the actuarially-assumed return of 6.4%, the cushion of $113.2 million has been fully used and a negative reserve of $31 million has been set aside to be paid from future higher-than-assumed earnings. As shown in **Chart 2**, over the last 10 years, the smoothing reserve has averaged $2.4 million.

Smoothing Reserve over 10 Years **CHART 2**

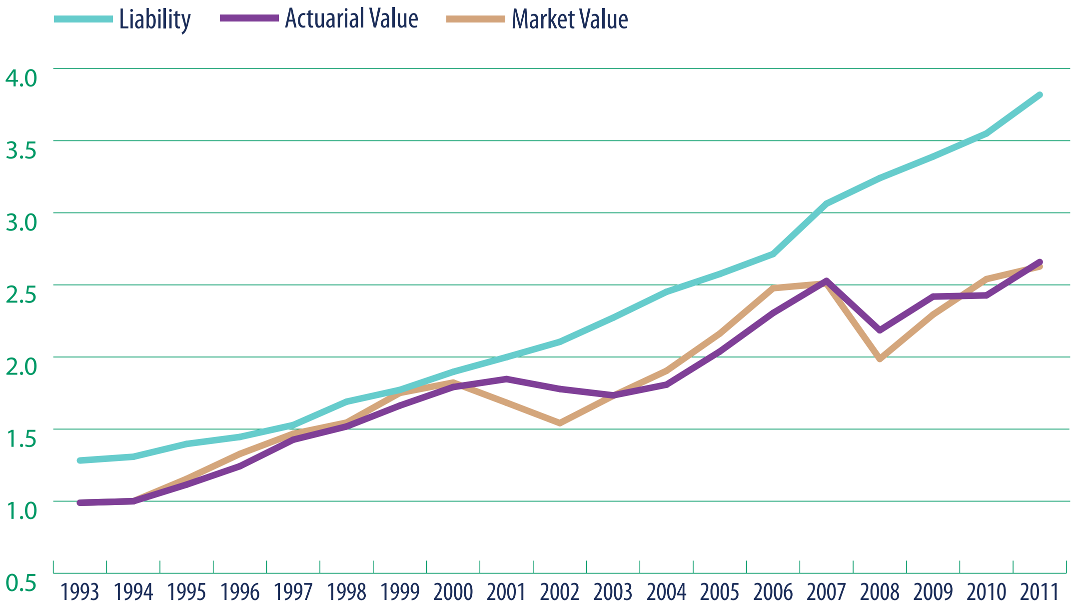
(Actuarial Adjustment) *($ millions)*

The Plan's Liabilities

The Plan's accrued liabilities as of December 31, 2011 are estimated to be $3,819.0 million, a growth of 7.6% over the $3,550.0 million liability reported in the 2010 financial statements. Of the $3,819.0 million, $1,599.9 million is for pre-1992 service and $2,219.1 million is for post-1991 service.

As indicated in the 2010 Annual Report, the Board undertook an actuarial valuation of the Plan as of December 31, 2010. The actuarial valuation, completed in 2011, showed that the Plan's accrued liability was $91.1 million higher than estimated at the time of last year's financial statements. This was mainly the result of lowering the discount rate from 6.7% to 6.4% and making minor changes in other assumptions. The accrued liabilities as of December 31, 2011 have been estimated by the actuary based on the 2010 actuarial valuation.

Assets and Liabilities *($ billions)* **CHART 3**

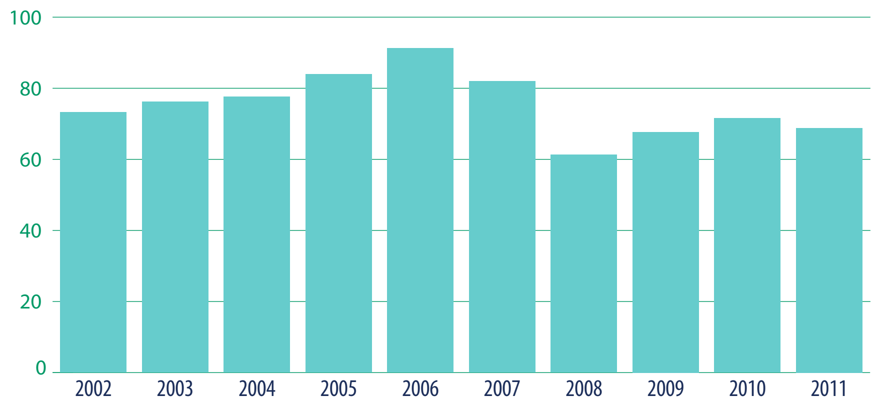


The Plan's Funded Ratio

Since the investment return in 2011 was below the rate assumed in the last actuarial valuation, the Plan's funded ratio on a market-value basis declined from 71.6% in 2010 to 68.8% at the end of 2011. The funded ratio on a smoothed asset-value basis was 70% because the actuarial value of assets was $31 million higher than the market value.

The unfunded liability for pre-1992 service is accounted for separately because the Alberta Government, in the early 1990s, set special rules for funding it. The rules require that it be amortized over a long period ending in 2043. The Alberta Government makes a fixed contribution equal to 1.25% of total salary towards this unfunded liability and the employers and employees share equally the balance of the required contribution as determined by actuarial valuations from time to time. The employer and employee contributions are adjusted after each actuarial valuation as necessary to amortize the unfunded liability by the end of 2043.

Total Plan's Funded Status CHART 4
based on Market Value of Assets *(percentage funded)*



Funded Status on the Pre-1992 and Post-1991 Service CHART 5
based on Market Value of Assets *(percentage funded)*

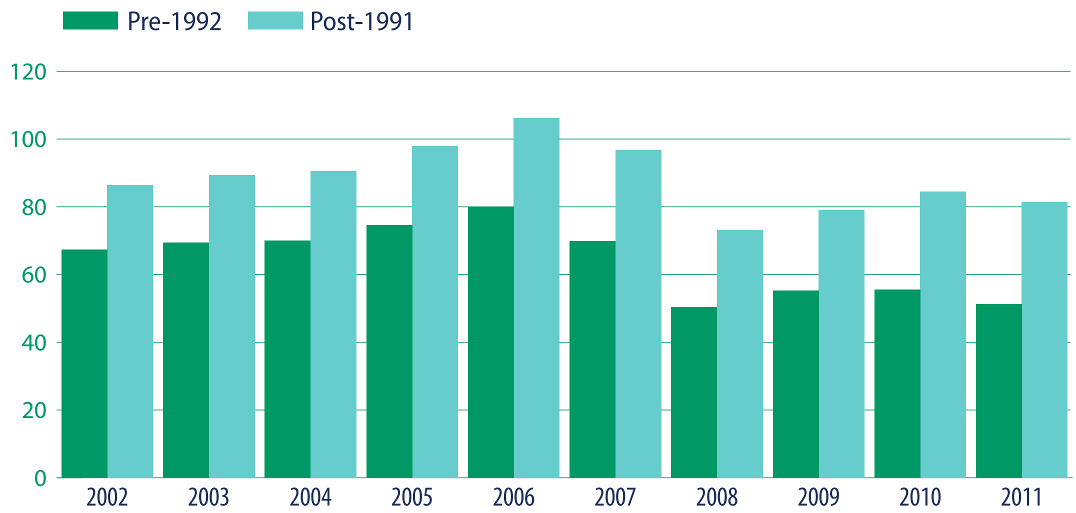
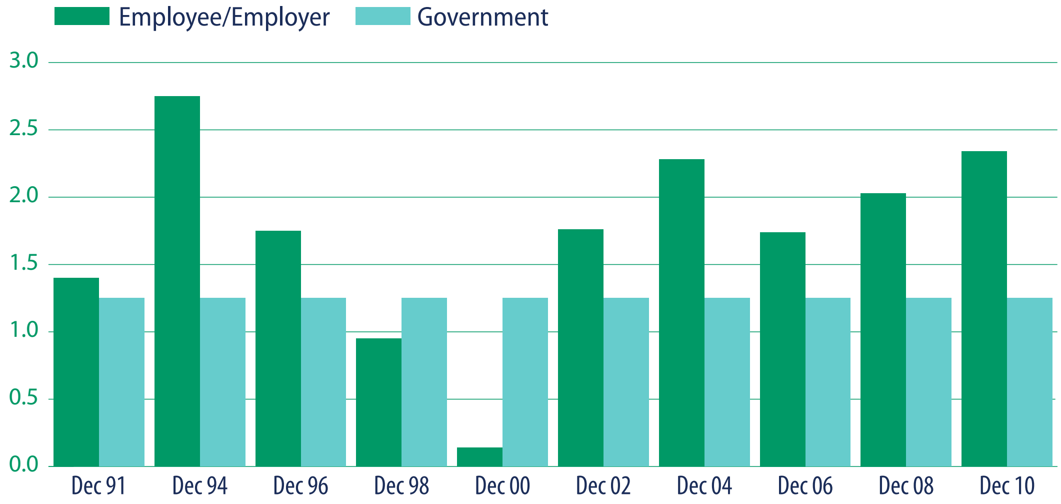


CHART 6

Contribution Rates toward Pre-1992 Unfunded Liability *(percentage of salary)*



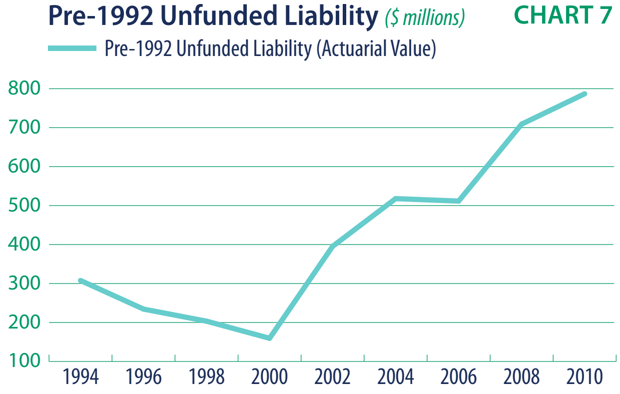
The unfunded liability for pre-1992 service has grown from $193 million at the end of 2001 to $772 million at the end of 2011.

The Alberta Government's share of the payments towards the pre-1992 deficit started at about 50% when the cost-sharing was first imposed in the early 1990s. It now stands at only 35% of the total payments towards the unfunded liability.

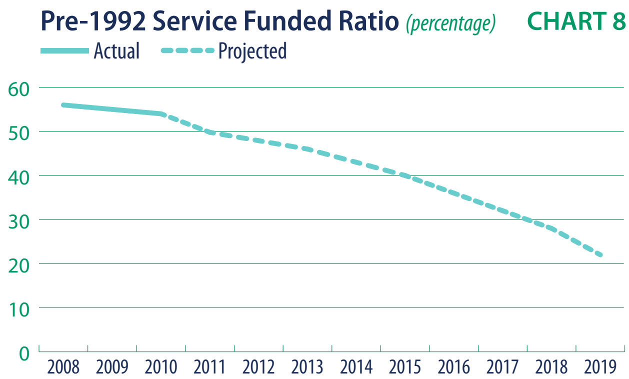
The legacy of the large pre-1992 unfunded liability resulting from severe underfunding while the Alberta government was responsible for setting the Plan's contribution rates and the very long and back-end-loaded payment schedule exacerbates intergenerational equity, exposes the UAPP to unique risks and makes it difficult for Plan Sponsors to undertake a major reform of the Plan.

Pre-1992 Unfunded Liability *($ millions)*

CHART 7



The asset/liability modelling study completed in 2010 showed that in the base case, the pre-1992 assets will be exhausted around the mid-2020s. The number of active members who have pre-1992 service continues to decline and is about 14% as of the end of 2011.



The last decade has not been kind to defined-benefit pension plans. Like most other final-average-salary defined-benefit pension plans, the UAPP's financial position has been buffeted by volatile markets and the financial crisis of 2008 on one side and rock-bottom bond yields, improving life expectancy and continued early retirements on the other side.

This experience of the last decade has been very different from the conditions prevailing and the assumptions made when the Plan was first established. The first actuarial valuation done in 1981 after the Plan had been set up assumed an investment return of 10.5% per annum, and, in contrast, the latest valuation assumes a return of 6.4% per annum.

As discussed in previous Reports, both the asset and liability sides have put pressure on the Plan's financial position. In a typical pension plan, in the past, a rule of thumb used to be that investment earnings are expected to pay for about 75 to 80 cents of each dollar of pension. But the capital markets' performance have not lived up to this expectation.

TABLE 1
Average Life Expectancy in Years at Age 65

	Females	Males
1996	18	14
2006	22	20
2050	25	23

In terms of life expectancy, much of the increase in life expectancy now comes from a reduction in mortality at senior ages. This is expected to continue. Studies by the Office of the Chief Actuary for the CPP/OAS also show that, on the average, males who have part of their OAS clawed back live about 4.5 years longer than those whose benefits are not clawed back. The corresponding number for females is 3.4 years. **Table 1** shows the projections of life expectancy with built-in mortality improvements done by the Office of the Chief Actuary.

However, the UAPP is not alone in facing these challenges. Mercer's (a benefits consulting firm) pension index that reports on the health of defined benefit plans in general, stood at 68% in 2011 against a desirable level of 100%. The UAPP has managed these challenges by gradually lowering the discount rate used in actuarial valuations, upping the life expectancy assumptions and shifting the Fund's asset mix to include higher allocation to alternative asset classes, doing an actuarial valuation every two years and adjusting contributions as necessary. Since the asset returns have not kept pace with the increases in liabilities, the UAPP has increased contributions to meet the Plan's funding requirements. Combined employee and employer contributions are scheduled to be 25.68% of salary as of July 1, 2012.

Looking Forward

Looking to the future, it seems that the near term will continue to be a challenging one. Much as the Board has gradually lowered the discount rate to 6.4% and increased contributions accordingly to pay for current service and the accumulated unfunded liability, healthy investment returns remain critical to the Plan's future.

The sensitivity analysis done with the last actuarial valuation shows that keeping all other assumptions constant, lowering the discount rate by 1% will increase the liability by $550 million (or 14%) and the current service cost by 3.8% of payroll. Given an environment of high sovereign debts, the stretched fiscal position of governments, aging populations, de-leveraging by corporations, low productivity growth and an uncertain economic outlook, many analysts believe that capital market returns will be in the range of mid-single-digit numbers over the near future.

These tough times have forced many plan sponsors to re-think plan design. Some have not only increased contributions but also have cut back on benefits such as early retirement and ancillary benefits, and a few universities have even closed their defined-benefit plan to new employees.

While the Board will continue to monitor the Plan's performance and adjust, as the opportunity presents, the asset allocation towards lower volatile asset classes and take other actions as necessary, the UAPP's Plan Sponsors will have to carefully assess the risks associated with the current Plan design and ensure that the design continues to meet employee and employer retirement goals and is sustainable for the very long term.

TABLE 2
Maturity of the Plan

	Ratio of Pensioners' Liabilities to Total Liabilities	Number of Active Employees for Each Pensioner
1981	6%	15.75
1984	12%	10.09
1991	33%	3.94
2002	51%	2.14
2010	50%	1.97

Keep Your Contact Information Current

It is important that you keep your contact information current. Active members should notify their employer about any changes to their address.

It is particularly vital that pensioners and other terminated members ensure that the UAPP has their current contact information in case the UAPP needs to contact them about their pension. Pensioners or their agents should contact CIBC Mellon directly by telephone at 1.800.565.0479 ext 2125 or by e-mail at **Trista_Jackson@CIBCMellon.com** to update their information. Other terminated members should contact Buck Consultants at 1.866.709.2092 in this regard.

Keep your Beneficiary Information updated

If you leave employment and leave your funds with the UAPP, keep your ***Designation of Beneficiary*** and the addresses of your beneficiaries up-to-date with the UAPP. Doing so will help expedite payment to your beneficiaries. Make sure your family or your executor knows you are entitled to a benefit from the UAPP.

Questions About the Retirement Planner? Call Buck Consultants at 1.866.709.2092 if you need help accessing the Retirement Planner, or for login or password inquiries. Your Member Statement can be accessed through the Retirement Planner.

Questions About Your Pension? Call Buck Consultants at 1.866.709.2092, the Human Resources Department at your institution, or the UAPP Trustees' Office at 780.415.8868.

Questions About Purchasing Prior Service or Periods of Leaves of Absence? Call the Human Resources Department at your institution, or the UAPP Trustees' Office at 780.415.8868.

Comments? If you recently used the services of any group (Buck Consultants/Human Resources Department or your institution/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 www.uapp.ca and click on ***Feedback***.

The Board of Trustees • Universities Academic Pension Plan
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