Highlights of the 2012 Annual Report

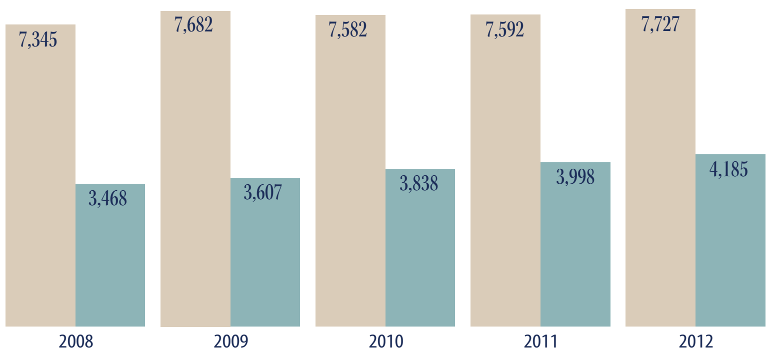
Communiqué

Spring 2013

UNIVERSITIES ACADEMIC PENSION PLAN

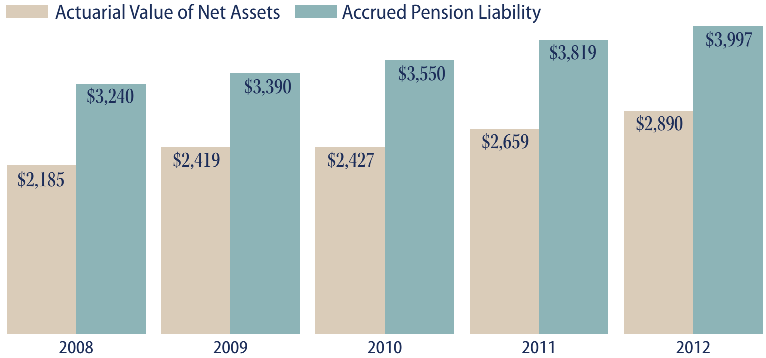
Member and Pensioner Statistics

Active Members · Pensioners



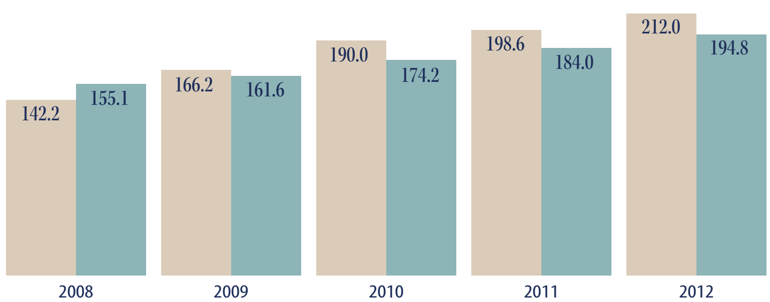
Assets and Liabilities *($ millions)*

Actuarial Value of Net Assets · Accrued Pension Liability



Contributions Received and Benefits Paid *($ millions)*

Total Contributions Received · Total Benefits Paid



The UAPP's 2012 Annual Report

The UAPP's Annual Report for the year 2012 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.

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

As at December 31

	2012	2011
Investments	$2,933	$2,610
Net receivable	19	18
Net assets	2,952	2,628
Actuarial adjustment for fluctuation in fair value of net assets	(62)	31
Actuarial value of net assets	2,890	2,659
Actuarial deficiency	1,107	1,160
Accrued pension liability	$3,997	$3,819

Financial Position of the Plan

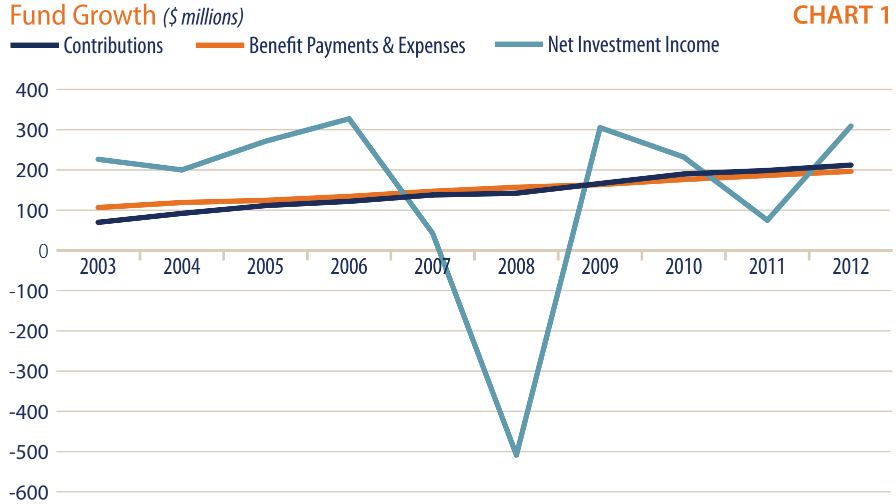
The Plan's Assets

The market value of the UAPP Fund's net assets was $2,952.0 million at the end of 2012. This is an increase of $324.4 million from the $2,627.6 million market value of the Fund at the end of 2011. The increase is mainly due to the investment return of 11.60% in 2012. The Plan's investment income net of investment costs was $309.0 million and the total contributions to the Plan exceeded benefit payments and administrative expenses by $15.5 million.

Prior to 2009, benefit payments and administrative expenses historically exceeded the contributions to the Plan annually. As a result of contribution increases since 2009, contributions have exceeded benefit payments and administrative expenses annually. As indicated in **Chart 1**, the growth in the Plan's assets has been mainly dependent on the net investment income which has been highly volatile in the last decade. The volatility in the growth of the Fund directly mirrors the volatile performance of the capital markets.

($ millions)	December 31, 2012			December 31, 2011		
	Pre-1992 Service	Post-1991 Service	Total Service	Pre-1992 Service	Post-1991 Service	Total Service
Fair Value of Net Assets	819.5	2,132.5	2,952.0	821.1	1,806.5	2,627.6
Actuarial Adjustment	(20.1)	(41.7)	(61.8)	6.5	24.8	31.3
Actuarial Value of Net Assets	799.4	2,090.8	2,890.2	827.6	1,831.3	2,658.9
Accrued Pension Liability	1,566.7	2,429.8	3,996.5	1,599.9	2,219.1	3,819.0
Actuarial Surplus (Deficiency)	(767.3)	(339.0)	(1,106.3)	(772.3)	(387.8)	(1,160.1)
Funded Ratio	51.0%	86.0%	72.3%	51.7%	82.5%	69.6%

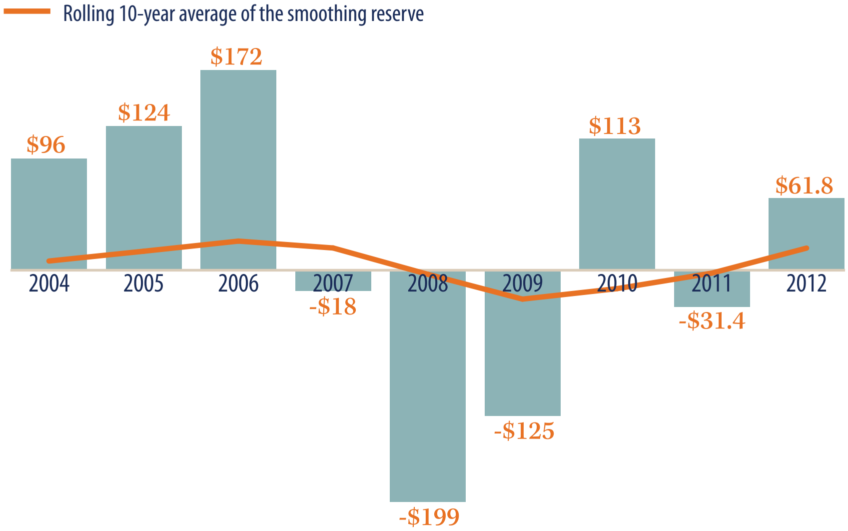
Fund Growth *($ millions)* **CHART 1**



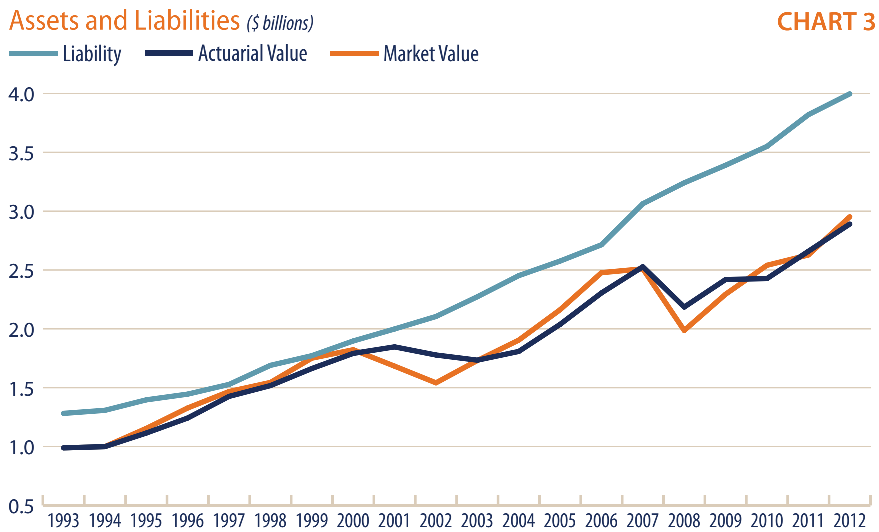
Smoothing Reserve

CHART 2

(Actuarial Adjustment) *($ millions)*



For actuarial valuation purposes, the market value is averaged in order to reduce the impact of volatility of the Fund's annual investment returns on required contribution rates. The actuarial value smooths investment gains or losses above or below the assumed valuation rate of return (currently 6.4% per annum) over a 3-year period, as described in Note 14 of the Financial Statements. This results in a smoothing reserve (cushion) being established after better-than-expected markets, or a smoothing deficit (charge against future investment earnings) after worse-than-expected markets. In 2011, the investment return was lower than the actuarially-assumed return and, as a result, the Plan had a smoothing deficit of $31.4 million at the end of 2011. Since the investment return in 2012 is higher than the actuarially-assumed return of 6.4%, the deficit of $31.4 million has been eliminated and a smoothing reserve of $61.8 million has been established to offset future lower-than-expected returns. As noted in **Chart 2**, even though the smoothing reserve has fluctuated from $172 million to -$199 million, it averaged $19.2 million over the last 10 years.



The Plan's Liabilities

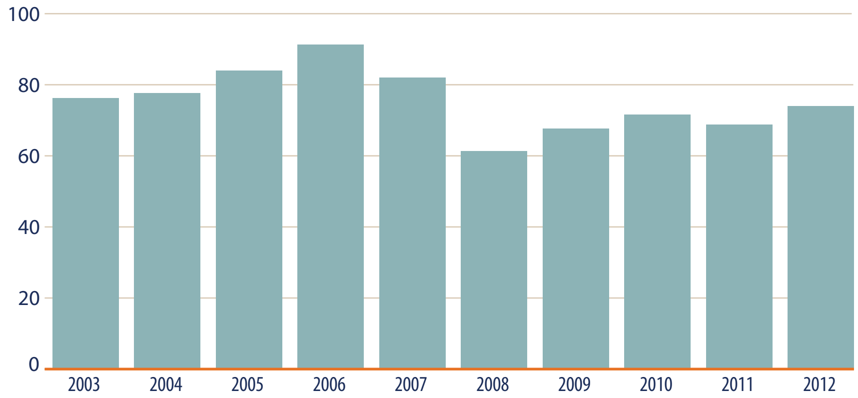
The Plan's accrued liabilities as of December 31, 2012 are estimated to be $3,996.5 million, a growth of 4.6% over the $3,819.0 million liability reported in the 2011 Financial Statements. Of the $3,996.5 million, $1,566.7 million is for pre-1992 service and $2,429.8 million is for post-1991 service.

The liability for pre-1992 service in relation to that for the post-1991 service continues to decline.

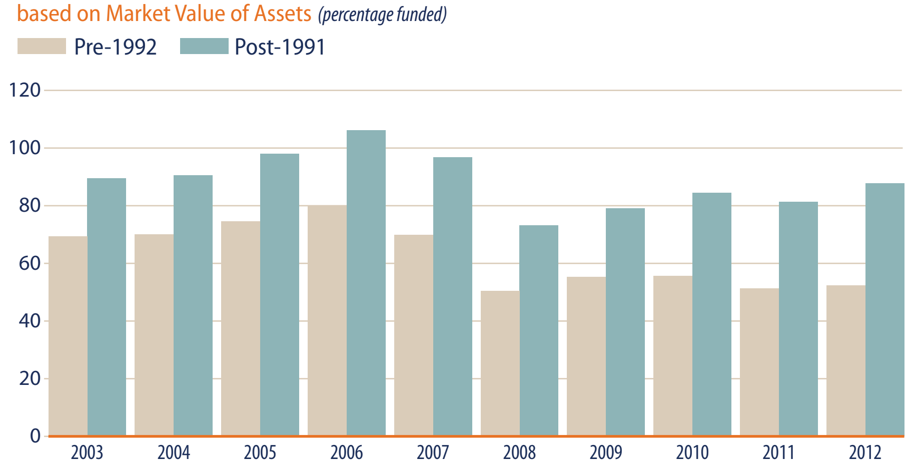
The Plan's Funded Ratio

Due to the investment return in 2012 exceeding the growth in the liability, the Plan's funded ratio on a market-value basis increased from 68.8% in 2011 to 73.9% at the end of 2012. The funded ratio on an actuarial value basis was 72.3% since the actuarial value of assets was $61.8 million lower than the market value.

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



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



On the actuarial value basis, the funded ratio for pre-1992 service is 51.0% while the funded ratio for post-1991 service is 86.0%. The unfunded liability for pre-1992 service is accounted for separately from the rest of the Plan because, under the rules set by the Alberta Government, it is to be eliminated by the end of 2043. The Alberta Government pays 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. The employer and employee contributions are adjusted at each actuarial valuation as necessary to amortize the unfunded liability over a period ending in 2043.

As can be seen in **Chart 5**, the unfunded liability for post-1991 service has been fully funded in the past and is expected to be fully funded after good market returns. Any unfunded liability related to this service is amortized over 15 years in accordance with legislation and contributions are shared equally between employers and employees.

The Alberta Government's share of the contributions towards the pre-1992 deficit was approximately 50% when the cost-sharing was first established in the early 1990s. It now stands at less than 35% of the total contributions towards the unfunded liability. This contributes to intergenerational inequity as the number of active members who have pre-1992 service continues to decline and is approximately 13% at the end of 2012.

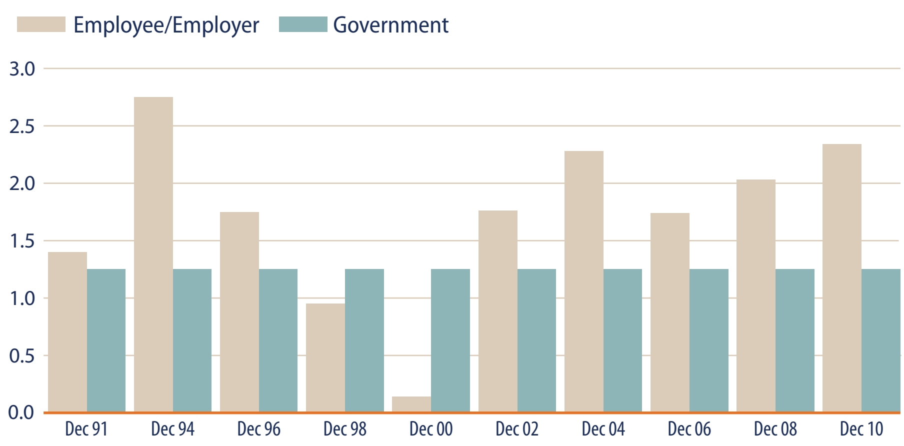
Looking Forward

The UAPP benefit is based on highest average salary and the pensions are indexed each year based on 60% of Alberta's inflation rate. The liabilities of the Plan are impacted by a number of factors including inflation, salary increases, timing of retirement, life expectancy, and the discount rate or investment return assumed to be earned each year by the Fund. The discount rate is influenced by prevailing long bond rates which have continued to remain at historic lows. Any reduction in the discount rate used by the UAPP will result in not only an increase in the amount of funds required to be set aside for the benefits already earned, but an increase in the contributions required from members and employers to pay for the benefits in the future. The Board reviews the assumptions closely at every actuarial valuation and makes adjustments to them as necessary. By ensuring that the assumptions are adjusted regularly to reflect the actual experience of the Plan, the chances of passing on the cost of today's benefits to future generations is greatly reduced.

The goal of defined benefit pension plans, like the UAPP, is to provide members with a guaranteed income in retirement, at an affordable cost. The UAPP, like most defined benefit pension plans in Canada, continues to face many challenges in fulfilling this goal. The low interest rate environment, tight Alberta labour market with strong wage growth, and improvements in life expectancy will ensure the Plan's liabilities continue to grow at a steady pace.

The UAPP, like most other defined benefit pension plans, relies heavily on healthy investment returns to help pay for the benefits. Both the funding position and the future cost of the Plan are significantly impacted by the investment returns that are earned each year. In order to achieve the necessary returns, the Plan has to invest a portion in equities, as they are expected to provide the highest return of all asset classes, over the long-term. However, equity investments generally are higher risk and their returns tend to be more volatile. While the UAPP invests for the long term, volatility in the short term has a direct impact on the funding position and contribution requirements of the Plan. In order to mitigate some of this risk, and dampen some of the volatility, the UAPP also invests in other asset classes such as fixed income, real estate, and infrastructure. It is hoped that by instituting a multi-manager investment approach, further diversification will be achieved.

Contribution Rates towards Pre-1992 Unfunded Liability **CHART 6**
(percentage of salary)



The Board continues to monitor the investments on an ongoing basis and look for further diversification opportunities that may add incremental return. The funding position of the Plan will continue to be monitored closely to enable the Board to take the necessary steps to secure the benefits.

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 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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