UNIVERSITIES ACADEMIC PENSION PLAN

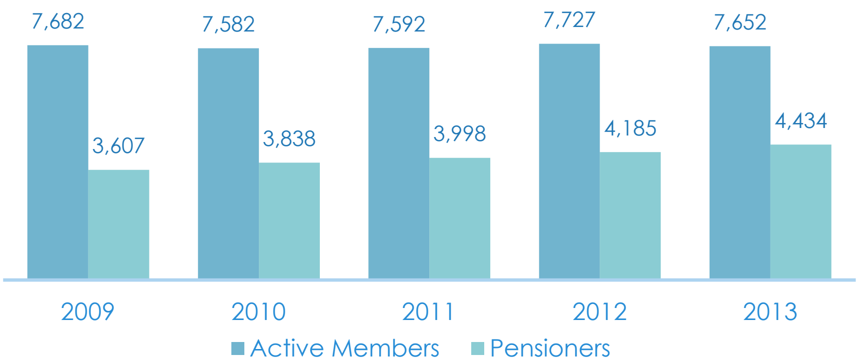
Communiqué

Spring 2014

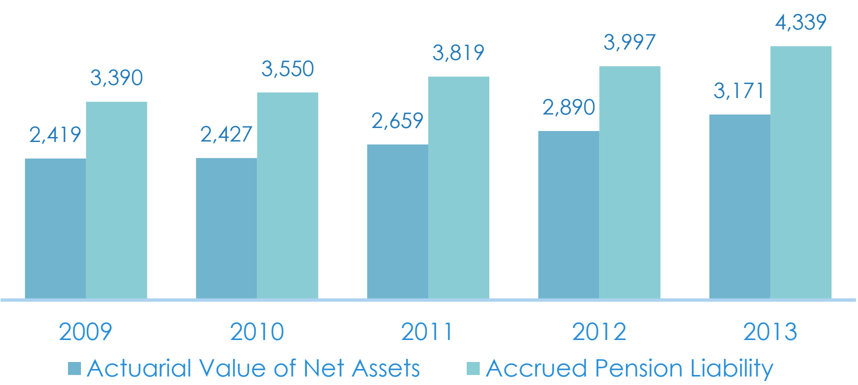
2013 Annual Report Highlights

UAPP's 2013 Annual Report is ready!

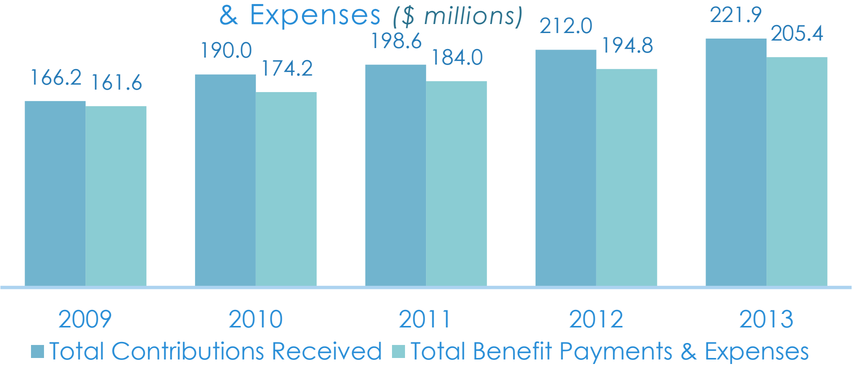
Member and Pensioner Statistics



Assets and Liabilities *($ millions)*



Contributions Received and Benefit Payments & Expenses *($ millions)*



2013 ANNUAL REPORT

This issue of the Communiqué is a brief summary of the key highlights from this year's Annual Report which is available on the UAPP website (www.uapp.ca).

Summary of Net Assets and Pension Liabilities*

As at December 31

	2013	2012
Investments	$3,339	$2,933
Net receivables	18	19
Net assets	3,357	2,952
Actuarial adjustment for fluctuation in fair value of net assets	(186)	(62)
Actuarial value of net assets	3,171	2,890
Actuarial deficiency	1,168	1,107
Accrued pension liability	$4,339	$3,997

*($millions)

FINANCIAL POSITION OF THE PLAN

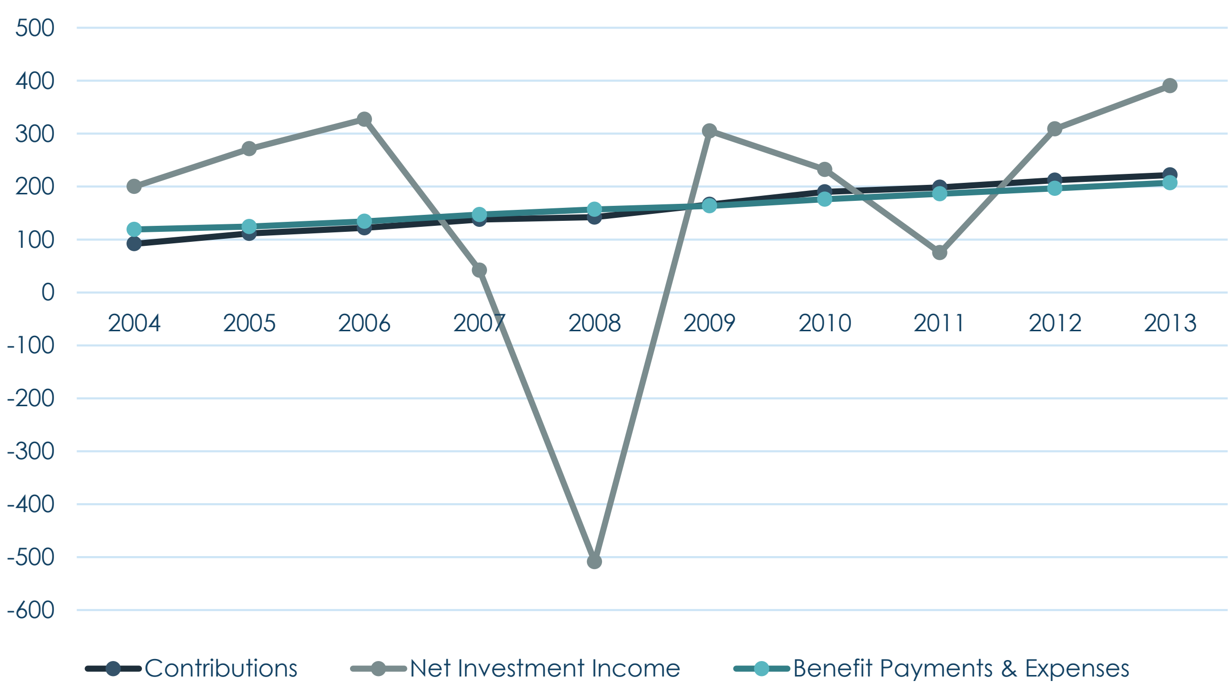
The Plan's Assets

The market value of the UAPP Fund's net assets was $3,357 million at the end of 2013. This is an increase of $405 million from the $2,952 million market value of the Fund at the end of 2012. The increase is mainly due to the gross investment return of 13.10% in 2013. The Plan's investment income net of investment costs was $390.4 million and the total contributions to the Plan exceeded benefit payments and administrative expenses by $14.7 million.

As indicated in Chart One, the growth in the Plan's assets has been largely dependent on the net investment income which is volatile given the nature of the capital markets in which pension funds are invested. Contributions have steadily increased over time due to inflationary pressures on the salary base and increases in contribution rates. Benefit payments have grown with increases in the number of retired members.

$ Millions	**December 31, 2013**			**December 31, 2012**		
	Pre-92 Service	Post-91 Service	Total Service	Pre-92 Service	Post-91 Service	Total Service
Fair Value of Net Assets	826.0	2,531.2	3,357.2	819.5	2,132.5	2,952.0
Actuarial Adjustment	(52.5)	(133.1)	(185.6)	(20.1)	(41.7)	(61.8)
Actuarial Value of Net Assets	773.5	2,398.1	3,171.6	799.4	2,090.8	2,890.2
Accrued Pension Liability	1,626.1	2,713.3	4,339.4	1,566.7	2,429.8	3,996.5
Actuarial Surplus (Deficiency)	(852.6)	(315.2)	(1,167.8)	(767.3)	(339.0)	(1,106.3)
Funded Ratio	47.6%	88.4%	73.1%	51.0%	86.0%	72.3%

Fund Growth ($ millions) Chart One



Due to the volatility of market returns, actuarial standards and pension legislation permit the smoothing of market values over a period of time when calculating the Financial Position of the Plan. Per the methodology summarized in Note 14 of the Financial Statements, the year-end market values of the fund over the prior 3 years are projected to the end of the current year using the assumed valuation rate of return (currently 6.25% per annum). Limits are placed on the actuarial value calculation such that it does not vary from the market value by more than 10% in either direction. Generally, the Plan will experience a smoothing reserve (i.e. actuarial value of assets will be less than the market value of assets) following periods in which the investment return exceeded expectations and a smoothing deficit (i.e. actuarial value of assets will be greater than the market value of assets) following periods in which the investment return was less than expected. Since the investment return in 2013 is higher than the actuarially-assumed return of 6.25%, a smoothing reserve of $185.6 million has been established to offset future lower-than-expected returns. As noted in Chart Two, even though the smoothing reserve has fluctuated from $185.6 million to -$199 million, the average has been $37.9 million over the last 10 years.

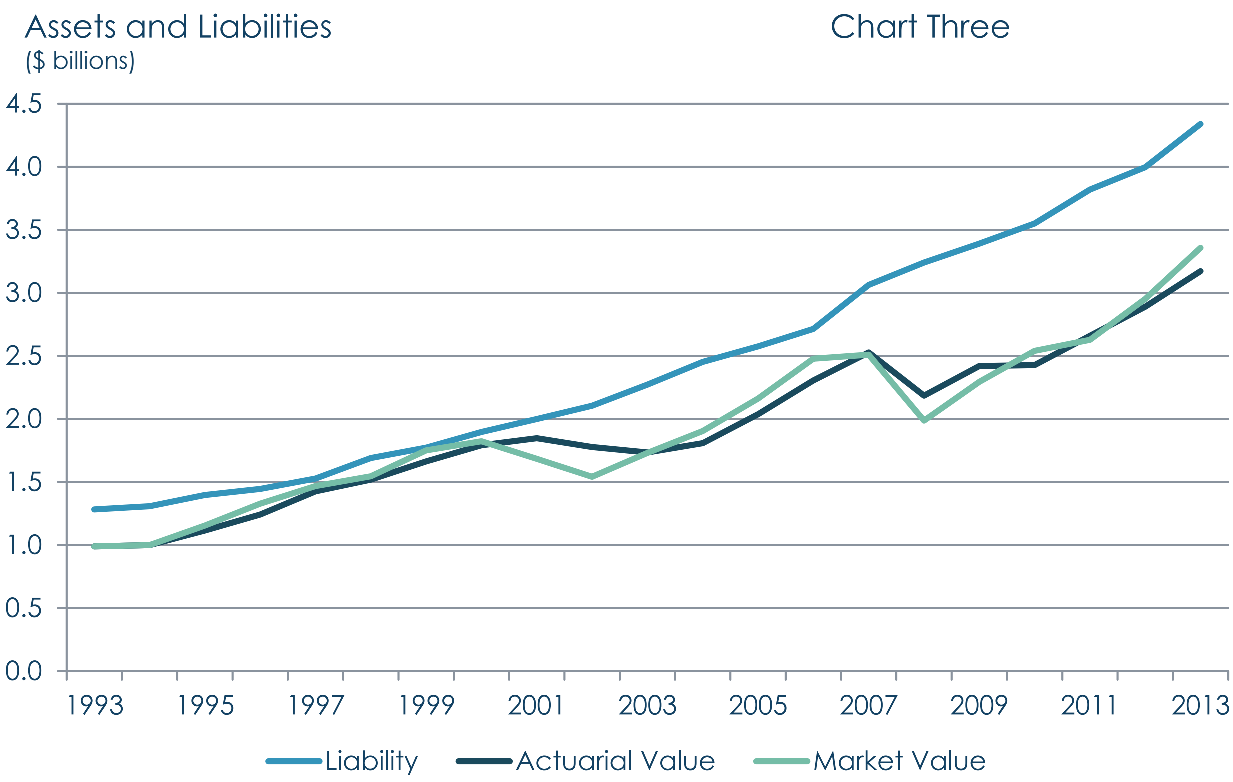
Smoothing Reserve

(Actuarial Adjustment) *($ millions)*

Chart Two

The Plan's Liabilities

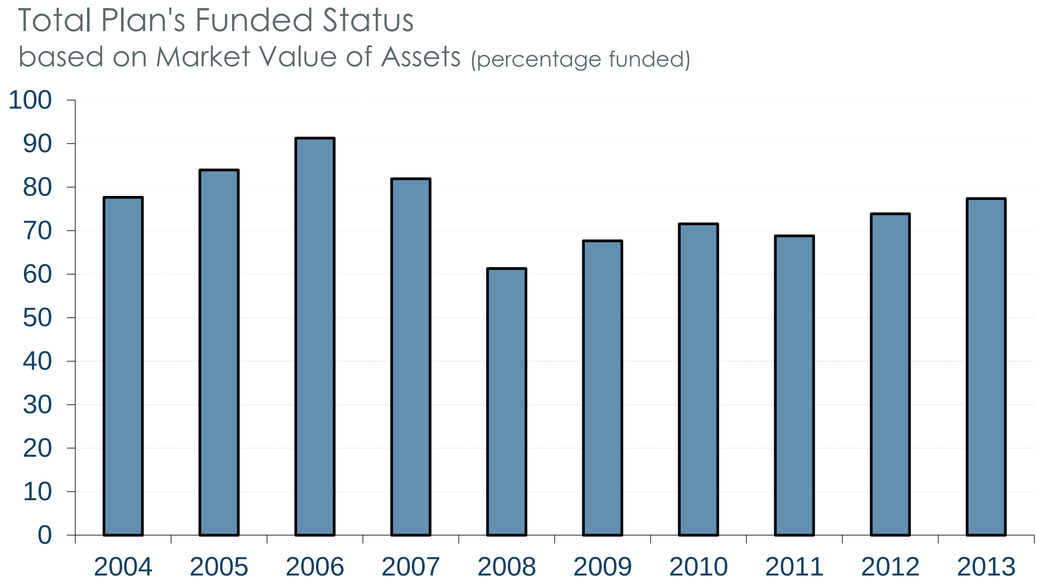
The Plan's accrued liabilities as of December 31, 2013 are estimated to be $4,339.4 million, a growth of 8.6% over the $3,996.5 million liability as of December 31, 2012. A significant factor in the liability growth is the adoption of more conservative actuarial assumptions. Of this year's total, $1,626.1 million is for pre-1992 service and $2,713.3 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

The 2013 rate of return on the market value of assets (13.1%) exceeded the assumed growth in the liability (6.25%). Therefore, the Plan's funded ratio on a market-value basis in 2013 increased to 77.4% from 73.9% in 2012. The funded ratio on an actuarial value basis was 73.1% since the actuarial value of assets was $185.6 million lower than the market value.

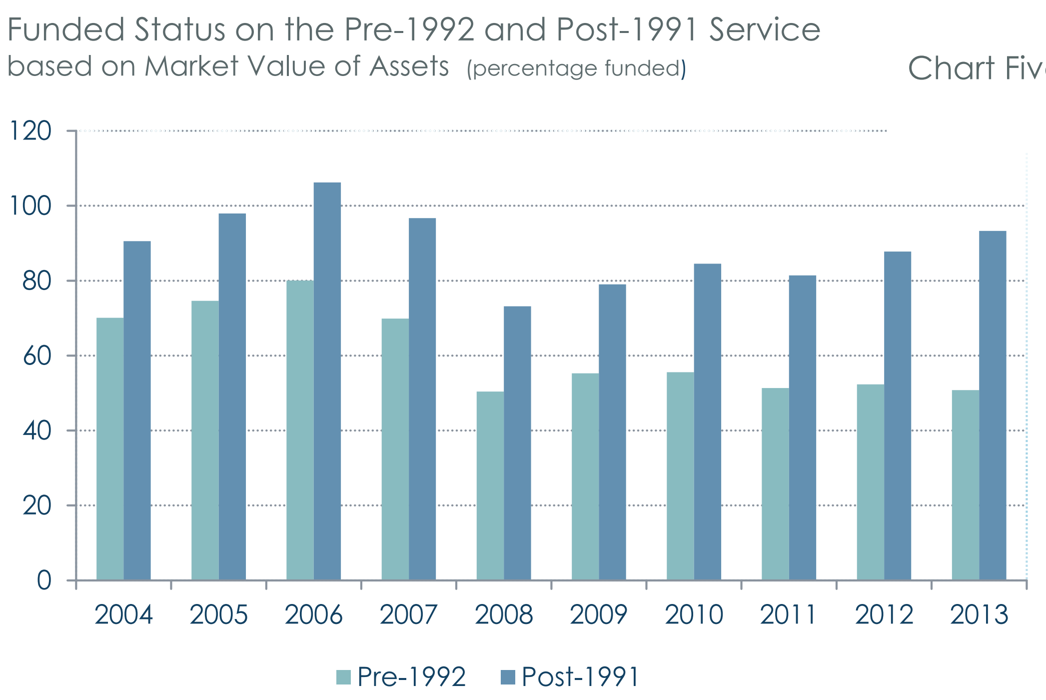
Chart Four



On the actuarial value basis, the funded ratio for pre-1992 service is 47.6% while the funded ratio for post-1991 service is 88.4%. The unfunded liability for pre-1992 service is accounted for separately from the rest of the Plan because, under the rules established by the Alberta Government, the deficit is being funded 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 in funding 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. The funded ratio for pre-1992 service has eroded from 51.0% at the end of 2012 to 47.6% at the end of 2013 and should continue to erode due mainly to the long amortization period for the elimination of the unfunded liability.

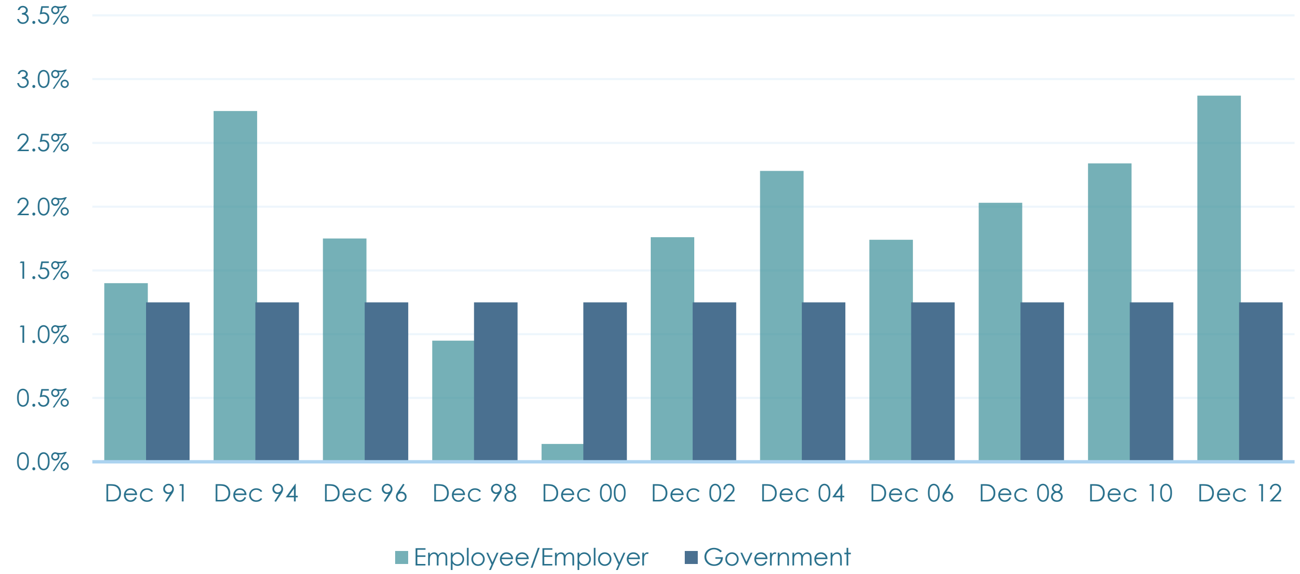
The Alberta Government's share of the contributions towards the pre-1992 unfunded liability was approximately 50% when the cost-sharing was first established in the early 1990s. It now stands at approximately 30% of the

Chart Five



total contributions towards the unfunded liability. The unfunded liability for post-1991 service has been fully funded in the past and is expected to be fully funded in the future. The funded ratio for post-1991 service is significantly impacted by investment returns. Any unfunded liability related to this service is amortized over 15 years in accordance with pension legislation and contributions are shared between employers and employees.

Contribution Rates towards Pre-1992 Unfunded Liability Chart Six
(percentage of salary)



Looking Forward

The UAPP is a 'final-average-salary' defined benefit plan with a guaranteed cost-of-living allowance equal to 60% of Alberta inflation after retirement. The Plan's estimated liability is a function of benefits promised by the Plan and the economic and demographic assumptions employed in the actuarial valuation. Economic assumptions estimate the future course of inflation, salary increases, pension limit changes, etc. and the return the Plan's assets can reasonably be expected to earn in the future (the latter is also called the "discount rate"). The demographic assumptions deal with such things as retirement and termination rates at different ages, life expectancy, proportion of members with a spouse, spousal age difference, etc. Since the demographic characteristics of a group generally change slowly, the assumptions related to these factors are easier to foresee and tend to move in a steadier fashion from one valuation to the next. On the other hand, the economic and financial conditions and, hence, the associated assumptions (e.g., discount rate) can be subject to greater volatility over short periods of time and their future course is much harder to foresee with certainty.

However, of all the assumptions employed in an actuarial valuation, the most powerful one is the discount rate, the assumed rate of return or the rate used to discount future benefit payments in order to estimate the present value of the liabilities. The assumed discount rate includes views regarding interest rates, equity risk premiums and other capital market expectations. The first block for building the discount rate assumption is the prevailing long bond rates. The long bond rates have come down from over 8% in the mid-1990s to around 3% in recent years. As these rates remain low, discount rates used in estimating the present value of liabilities will remain under pressure. The current actuarial valuation uses a discount rate of 6.25%, down from 6.4% at the previous valuation. A 1% reduction in the discount rate, keeping other assumptions constant, would increase the annual current service cost by 4% and increase the estimate of the Plan's accrued liability by $642.1 million or 14.8%. The Board reviews the assumptions closely at every actuarial valuation and adjusts them as necessary. By ensuring that the assumptions are reviewed regularly and adjusted to reflect the actual experience of the Plan, the risk 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 a reasonable cost. The UAPP continues to face many challenges in fulfilling this goal. The low interest rate environment, reduced membership 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 investment returns to defray the costs of the benefits. Both the funding position and the future contribution requirements are significantly impacted by the investment returns earned each year. Given that the assumed discount rate of 6.25% used by the Plan is substantially higher than the current long bond rates, the Plan has to take market risks with an expectation of higher returns relative to bonds in order to keep the long-term costs of the Plan reasonable. The UAPP holds a highly-diversified portfolio of equities, bonds and other assets such as real estate, infrastructure and timberlands in an attempt to generate optimal long-term returns within prudent risk levels. The equity component is further diversified across world markets. The implementation during 2013 of the multi-manager investment approach provides additional opportunities for diversification. The performance of the investment managers will continually be reviewed to ensure they continue to meet the requirements of the Plan. 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.

The Board will continue to monitor both the investments and the funding position of the Plan in order to review the Plan's risk tolerance and balance the investment return opportunities with the level of market risks assumed. Opportunities to further diversify the investment approach and add incremental return without significantly increasing risk levels will continue to be sought, to assist in securing the benefits for the members.

Comments/Suggestions

If you recently used the services of any group (such as Buck Consultants, Human Resources Department at your institution, or the 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.

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 Current

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.

Reminder About Contribution Rate Changes

As noted on the Fall 2013 Communique, contribution rates are scheduled to increase effective July 1, 2014. The total contribution rate increase is 1.38% of salary and will be shared equally between employees and employers. For specific contribution rates by employer, please refer to the Fall 2013 Communique on our website.

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. The Retirement Planner can be accessed through the link on our homepage at www.uapp.ca. Your annual 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.